Department of the Treasury

The Budget in Brief

FY 2007

U.S. Department of the Treasury
FY 2007 Budget in Brief

Summary of FY 2007 President's Budget

Appropriated Accounts – Bureau Program Detail

Non-Appropriated Accounts – Bureau Program Detail

Treasury International Programs

Supplemental Information

The information presented in this FY 2007 Budget in Brief is accurate and complete as of February 6, 2006.
Any updated information will be reflected in the budget available on the Treasury Department website, www.treas.gov.

FY 2007 President's Budget by Function

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
	Enacted	Enacted	President's Budget	Increase/ Decrease	% Change
Management & Financial	**$574,411**	**$597,759**	**$601,946**	**$4,187**	**0.7%**
Departmental Offices Salaries and Expenses	178,411	194,626	223,874	29,248	15.0%
Expanded Access*	(4,000)	0	0	0	0
Treas Building & Annex Repair & Restoration	12,217	9,900	0	(9,900)	-100.0%
Dept-wide Systems & Capital Invest. Program	32,002	24,168	34,032	9,864	40.8%
Air Transportation Stabilization Program	1,984	2,723	0	(2,723)	-100.0%
Financial Crimes Enforcement Network	71,922	72,894	89,794	16,900	23.2%
Alcohol & Tobacco Tax and Trade Bureau **	82,336	90,215	92,604	2,389	2.6%
Office of Inspector General	16,368	16,830	17,352	522	3.1%
Treasury IG for Tax Administration	128,093	131,953	136,469	4,516	3.4%
Community Development Financial Institutions Fund	55,078	54,450	7,821	(46,629)	-85.6%
Tax Administration ***	**$10,236,087**	**$10,573,706**	**$10,591,837**	**$18,131**	**0.2%**
IRS Processing, Assistance and Management	4,056,857	4,095,212	4,045,122	(50,090)	-1.2%
IRS Tax Law Enforcement	4,363,539	4,678,498	4,762,327	83,829	1.8%
IRS Information Systems	1,577,768	1,582,977	1,602,232	19,255	1.2%
IRS Business Systems Modernization	203,360	197,010	167,310	(29,700)	-15.1%
IRS HITCA	34,562	20,008	14,846	(5,162)	-25.8%
Fiscal Service Operations	**$402,848**	**$409,035**	**$411,443**	**$2,408**	**0.6%**
Financial Management Service	229,083	233,881	233,654	(227)	-0.1%
Bureau of the Public Debt	173,765	175,154	177,789	2,635	1.5%
Total, Treasury Appropriations Committee	$11,213,346	$11,580,500	$11,605,226	$24,726	0.2%
Treasury International Programs	**$1,337,247**	**$1,361,385**	**$1,535,467**	**$174,082**	**12.8%**
International Financial Institutions	1,219,199	1,277,235	1,328,968	51,733	4.1%
Technical Assistance	18,848	19,800	23,700	3,900	19.7%
Debt Restructuring	99,200	64,350	182,799	118,449	184.1%
Total	$12,550,593	$12,941,885	$13,140,693	$198,808	1.5%

* Unobligated balances prior to FY 2005.

** TTB President's Budget does not include user fee proposal of $28,640 thousand. Net request is $63,964 thousand including user fee proposal.

*** The IRS FY 2006 enacted level includes a1% across the board rescission and excludes rescission of unobligated balances ($20 Million from PAM and $9 Million from HITCA). In FY 2007, the IRS request is supplemented by $135 million in new user fees for a total operating level of $10,726,8 37 thousand.

Overview

The United States Department of Treasury's budget priorities reflect the Department's dedication to promoting economic opportunity, strengthening national security and exercising fiscal discipline while steadily improving the Department's operations to ensure it remains a world-class organization.

The FY 2007 performance budget identifies the resources required to support Treasury's role as the steward of U.S. economic and financial systems, and as an influential participant in the international economy. Treasury's FY 2007 performance budget emphasizes initiatives that directly support its five strategic goals:

- Promote Prosperous U.S. and World Economies
- Promote Stable U.S. and World Economies
- Preserve the Integrity of Financial Systems
- Manage the U.S. Government's Finances Effectively
- Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

While promoting financial and economic growth at home and abroad, Treasury performs a critical and far-reaching role in homeland security. The Department battles national security threats by coordinating financial intelligence, targeting and sanctioning supporters of terrorism and proliferators of WMD, improving the safeguards of our financial systems, and promoting international relationships that attack the financial underpinnings of terrorist and other criminal networks.

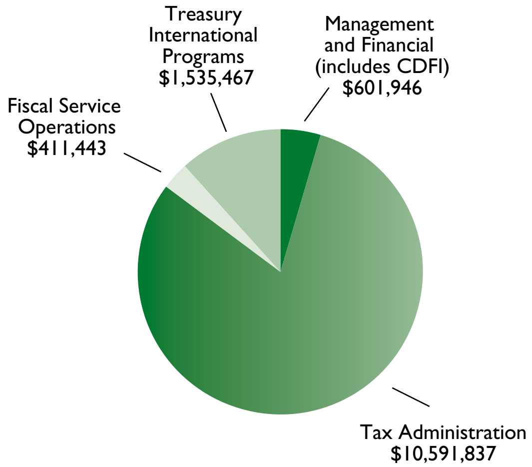
The Department administers America's tax laws and collects revenues that fund most government operations and public services.

FY 2007 President's Budget by Strategic Goal

(Dollars in Thousands)

Treasury Goal/Objective	Promote Prosperous U.S./World Economies (E1)		Promote Stable U.S./ World Economies (E2)		Promote Integrity of Financial Systems (F3)		Manage U.S. Gov Finances Effectively (F4)		Management Excellence & Accountability (M5)		Total	
	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $	Direct $	Reimb. $
Management & Financial	**$63,952**	**$3,281**	**$77,221**	**$4,144**	**$174,930**	**$6,145**	**$66,077**	**$3,927**	**$219,766**	**$9,086**	**$601,946**	**$26,583**
Departmental Offices Salaries and Expenses	56,131	3,281	29,993	3,277	85,136	4,604	20,701	3,094	31,913	5,544	223,874	19,800
Dept-wide Systems & Capital Invest. Program	0	0	0	0	0	0	0	0	34,032	0	34,032	0
Financial Crimes Enforcement Network	0	0	0	0	89,794	1,541	0	0	0	0	89,794	1,541
Alcohol & Tobacco Tax and Trade Bureau	0	0	47,228	867	0	0	45,376	833	0	0	92,604	1,700
Office of Inspector General	0	0	0	0	0	0	0	0	17,352	2,342	17,352	2,342
Treasury IG for Tax Administration	0	0	0	0	0	0	0	0	136,469	1,200	136,469	1,200
Community Development Financial Institutions Fund	7,821	0	0	0	0	0	0	0	0	0	7,821	0
Tax Administration	**$0**	**$0**	**$0**	**$0**	**$213,722**	**$15,099**	**$10,378,115**	**$267,171**	**$0**	**$0**	**$10,591,837**	**$282,270**
IRS Processing, Assistance and Management	0	0	0	0	0	0	4,045,122	101,702	0	0	4,045,122	101,702
IRS Tax Law Enforcement	0	0	0	0	213,722	15,099	4,548,605	84,571	0	0	4,762,327	99,6710
IRS Information Systems	0	0	0	0	0	0	1,602,232	80,898	0	0	1,602,232	80,898
Business Systems Modernization	0	0	0	0	0	0	167,310	0	0	0	167,310	0
Health Insurance Tax Credit Administration	0	0	0	0	0	0	14,846	0	0	0	14,846	0
Fiscal Service Operations	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$411,443**	**$213,201**	**$0**	**$0**	**$411,443**	**$213,201**
Financial Management Service	0	0	0	0	0	0	233,654	196,282	0	0	233,654	196,282
Bureau of the Public Debt	0	0	0	0	0	0	177,789	16,919	0	0	177,789	16,919
Total, Treasury Appropriations Committee	$63,952	$3,281	$77,221	$4,144	$388,652	$21,244	$10,855,635	$484,300	$219,766	$9,086	$11,605,226	$522,054
Treasury International Programs	1,535,467	0	0	0	0	0	0	0	0	0	1,535,467	0
Total, Appropriated Level	$1,599,419	$3,281	$77,221	$4,144	$388,652	$21,244	$10,855,635	$484,300	$219,766	$9,086	$13,140,693	$522,0554
Non Appropriated Bureaus	**$0**	**$117,166**	**$0**	**$0**	**$0**	**$3,226,883**	**$0**	**$0**	**$0**	**$983,342**	**$0**	**$4,327,391**
Treasury Franchise Fund	0	0	0	0	0	0	0	0	0	983,342	0	983,342
U.S. Mint	0	0	0	0	0	1,961,915	0	0	0	0	0	1,961,915
Bureau of Engraving and Printing	0	0	0	0	0	556,000	0	0	0	0	0	556,000
Office of the Comptroller of the Currency	0	95,077	0	0	0	510,169	0	0	0	0	0	605,246
Office of Thrift Supervision	0	22,089	0	0	0	198,799	0	0	0	0	0	220,888
Subtotal, Direct $	**$1,599,419**		**$77,221**		**$388,652**		**$10,855,635**		**$219,766**		**$13,140,693**	**$0**
Subtotal, Reimbursable $		**$120,447**		**$4,144**		**$3,248,127**		**$484,300**		**$0**	**$0**	**$3,857,018**
Total, Treasury Level	$1,719,866		$81,365		$3,636,779		$11,339,935		$219,766		$16,997,7110	

FY 2007 Budget Request by Function



FY 2007 Budget Request

The Department of Treasury's FY 2007 budget request of $11.61 billion focuses resources on key programs necessary to fight the war on terror and to promote economic growth. The request is $24.7 million above the FY 2006 level, reflecting Treasury's commitment to the fiscal restraint necessary to achieve the President's goal of reducing the nation's deficit in half by FY 2009. While the majority of the Department's budget is funded each fiscal year through the Department of the Treasury Appropriations Act, $1.5 billion for the Department's international programs is funded through the Foreign Operations, Export Financing, and Related Programs Appropriations Act.

Promoting Economic Growth and Security

The Secretary of the Treasury is the Administration's principal economic spokesman. Treasury's Departmental Offices, including the Offices of International Affairs, Tax Policy, Economic Policy, Domestic Finance and Financial Education, support the Secretary in this role through the provision of technical analysis, economic forecasting, and policy guidance on issues ranging from changes in tax policy to responding to international financial crises.

Treasury's FY 2007 budget request provides the Office of Tax Policy with an additional $.5 million, the necessary resources to enable the Department to build effective models for the dynamic analysis of revenue proposals. Better models that accurately capture the full effect of tax policies on economic growth will lead to improved information for decision makers.

Treasury supports the President's domestic economic priorities of promoting financial literacy and stimulating economic growth through a variety of programs. The MyMoney.gov website and a toll-free hotline give all Americans access to basic financial literacy tools. Treasury also directed more than 100 financial education events in the last 12 months.

Treasury administers the New Markets Tax Credit program, which stimulates growth in economically distressed communities within the U.S. By providing tax credits to private investors in exchange for investments in Community Development Entities, the program harnesses the power of the private sector to lift Americans out of poverty.

The FY 2007 budget request funds Treasury's efforts to promote international economic growth through financial diplomacy. Treasury stimulates international economic growth and job creation by working to open trade and investment, encouraging growth in developing countries, and promoting responsible policies regarding international debt, finance, and economics. Treasury supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to export subsidies. These agreements open markets, level the playing field for U.S. exporters, and provide effective subsidy reductions that save the U.S. taxpayer millions annually. Cumulative budget savings from these arrangements are estimated at over $10 billion since 1991.

Treasury, through the Office of International Affairs, monitors the economies of more than 160 countries worldwide to ensure stability and transparency in the global marketplace and works with more than 20 International Financial Institutions and organizations to target development assistance. Treasury's efforts include the development and negotiation of the Multilateral Debt Relief Initiative, endorsed by President Bush and other G8 leaders, providing 100 percent debt relief for Highly Indebted Poor Countries. Treasury's efforts also include continuing dialogue and cooperation with Chinese leaders to achieve the goal of greater Chinese exchange rate flexibility.

The $9.4 million requested to increase Treasury's overseas presence will enable the Department to more effectively meet its international mission in the global economy. While supporting the war on terror, attaches will also develop close relationships with international financial institutions and acquire 'on the ground' knowledge of the financial markets.

Strengthening National Security

The Office of Terrorism and Financial Intelligence (TFI) supports Treasury's national security efforts by safeguarding the U.S. financial systems against illicit use. TFI provides financial intelligence analysis, develops and implements anti-money laundering measures, administers the Bank Secrecy Act, conducts criminal investigations and enforces sanctions.

Financial intelligence exposes the infrastructure of terrorist and criminal organizations. It provides a roadmap to those who facilitate criminal activity, such as broker-dealers, bankers, lawyers, and accountants. These investigations lead to the recovery and forfeiture of illegally obtained assets and create broad deterrence against criminal activity. Treasury plays a unique role of linking law enforcement and intelligence communities with financial institutions and regulators. To support these efforts, Treasury requests an increase of $12.5 million for the Financial Crimes Enforcement Network to enhance its regulatory outreach and strengthen analytical capabilities, upgrade the BSA Direct reporting and retrieval component, and, pending the Treasury Secretary's approval of the feasibility study, begin development of a cross-border wire transfer reporting system.

Treasury exercises a full range of intelligence, regulatory, policy, and enforcement tools in tracking and disrupting terrorists' support networks, proliferators of weapons of mass destruction (WMD), rogue regimes and international narco-traffickers, both as a vital source of intelligence and as a means of degrading the terrorists' ability to function. Treasury's actions include:

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

The FY 2007 President's Budget requests an increase of $7.8 million to enable Treasury to continue to enhance its abilities to identify, disrupt, and dismantle the financial infrastructure of networks of terrorists, proliferators of WMD, narco-traffickers, criminals, and other threats. Treasury will also improve its analytical capabilities, to provide actionable intelligence and to target, designate and implement sanctions against the financiers of WMD proliferation.

This budget request funds Treasury's national and homeland security mission at a level that provides increasingly effective support to the war on terror. This support will be further enhanced by the increased international presence funded in this request. Treasury attachés located at critical embassies throughout the world will enable close liaison with the international financial institutions and foreign government to promote the national and economic security interests of the U.S.

Collecting Taxes

Collecting taxes in a fair and consistent manner is a core mission of the Treasury. This past year, Treasury collected $2.267 trillion in federal tax revenue from individual and corporate income taxes, a 12.3 percent increase over the previous year. An additional $14.71 billion in excise taxes was collected from producers and sellers of alcohol, tobacco, firearms, and ammunition.

Treasury's priorities in tax administration are enforcing the nation's tax laws fairly and efficiently while balancing service and education to promote voluntary compliance and reduce taxpayer burden. Treasury's enforcement efforts resulted in the record level of $47.3 billion in enforcement revenue.

Reducing the tax gap – which is the difference between what taxpayers should pay and what they actually pay on a timely basis – is at the heart of Treasury's tax enforcement programs. This budget request includes proposed changes in the tax law that will improve the ability of the Internal Revenue Service to identify underreporting and collect unpaid taxes, while minimizing the burden imposed on compliant taxpayers. These proposals include:

- Clarify the circumstances in which employee leasing companies and their clients can be held jointly liable for federal employment taxes.
- Increase information reporting on payment card transactions.
- Expand information reporting to certain payments made by Federal, state and local governments to procure property and services.
- Amend Collection Due Process procedures for employment tax liabilities.
- Expand to non-income tax returns the requirement that paid return preparers identify themselves on such returns and expand the related penalty provision.

Maintaining an appropriate balance between enforcement and taxpayer service is critical to fair administration of the tax code. Treasury approaches this challenge by expanding outreach efforts to bring more taxpayers into the system, increasing voluntary compliance levels and tax revenue, and improving service to compliant taxpayers. In FY 2007, Treasury will focus its taxpayer service efforts on providing service through more efficient automated methods.

Treasury also dedicates resources to educating taxpayers and stakeholders on the benefits of electronic filing. These efforts resulted in an electronic filing rate for individuals in 2005 above 50 percent for the first time, significant progress toward Treasury's goal of receiving 80 percent of returns via e-file by 2007. Higher electronic filing rates greatly reduce the resources necessary to process tax returns.

The FY 2007 budget request includes funding necessary to continue to meet the challenge of balancing both the enforcement and taxpayer service elements in tax collection. Treasury requests an increase of $137 million for tax law enforcement activities.

Treasury regulates the manufacture and sale of alcohol, tobacco, firearms and ammunition, and collects excise taxes on the sale of these products. The Alcohol and Tobacco Tax and Trade Bureau collected $14.7 billion in excise taxes and processed over 400,000 tax returns in 2005, at a cost of only one dollar for every $367 collected. The Bureau has audited 113 of the 200 largest taxpayers, and will complete audits of the remaining 87 taxpayers in 2007 and 2008. These 200 taxpayers account for 98 percent of all excise taxes paid. Through 2005, these audits have resulted in the collection of an additional $4.3 million of revenue and $10.2 million in tax penalties and interest.

Managing the Government's Finances

In the face of the fiscal pressures generated by the war on terror and the response to natural disasters, sound management of the government's finances is more important than ever. The FY 2007 budget request provides the funds necessary for Treasury to meet its responsibilities as the federal government's financial manager.

Treasury's management of the federal government's finances includes making payments, collecting revenue, issuing debt and preparing public financial statements. Treasury oversees a daily cash flow in excess of $50 billion and disburses 85 percent of all federal payments. The Department is working to improve its payments and collections processes by moving toward an all-electronic Treasury. In FY 2005, Treasury issued 725 million electronic payments including income tax refunds, Social Security benefits, and veterans' benefits. Another step toward an all electronic Treasury is the Department's Go Direct Campaign. This campaign encourages Social Security and Supplemental Security Income recipients to switch to direct deposit. Direct Deposit represents a cost savings to the taxpayer of 75 cents per transaction. The percentage of Treasury's electronic collections increased 10.2 percent in FY 2005 from the previous year.

Treasury manages more than $7.9 trillion of public debt. The public debt includes marketable securities, savings bonds and other instruments held by state and local governments, federal agencies, foreign governments, corporations, and individuals. To improve debt management and offer better customer service, Treasury offers Treasury Direct, an electronic, web-based system that electronically issues securities to retail customers and enables investors to manage their accounts on-line. A major initiative this past year encouraged investors to convert paper savings bonds into electronic form making their investments easier to manage and to avoid potential loss or theft of the paper bonds. More than 700 million paper savings bonds are currently outstanding and could eventually be converted.

Treasury assisted the victims of hurricane Katrina by providing financial relief to disaster victims. Treasury issued 1,267,000 FEMA disaster assistance payments valued at $2.6 billion. Treasury also established a debit card program that issued 11,374 FEMA Assistance Cards valued at $22.7 million to evacuees in three Texas cities.

Treasury's 2007 budget request includes an increase of $2.4 million necessary to manage the government's finances more effectively and efficiently. The activities included in this funding are:

- Improving the efficiency of the securities services to retail customers,
- Integrating e-commerce technologies to streamline collections and payments processes to move toward an all-electronic Treasury,
- Improving forecasting accuracy to reduce borrowing cost and increase return on investments,
- Enhancing business processes and systems, including producing daily financial statements, to support public investors in Treasury securities and government agencies, and
- Strengthening accounting operations through the continued rollout of the Government-wide accounting system, and implementation of FedDebt and Debt Check

Strengthening Financial Institutions

Treasury, through the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS), maintains the integrity of the financial system of the United States by chartering, regulating, and supervising national banks and savings associations. In FY 2005, OCC and OTS oversaw financial assets held by these financial institutions totaling $7.3 trillion.

The U.S. Mint (Mint) and the Bureau of Engraving and Printing (BEP) are responsible for producing the nation's coins and currency. In FY 2005, the Mint and BEP produced 14.2 billion coins and 8.6 billion paper currency notes, respectively. Also during 2005, these agencies introduced new designs for both coins and currency. The Mint issued five new quarters from the 50 State Quarters® program and the two new nickels as part of the Westward Journey Nickel Series™. BEP introduced a new $10 currency note, representing the third denomination in a new currency series that incorporates state-of-the-art anti-counterfeiting technology.

The Mint has streamlined processes and leveraged technology to produce the nation's coin and currency at significant cost savings. The Mint was able to increase margins by shipping more coins, improving time to market and reducing manufacturing and selling, general and administrative costs. Because of improved operating results and profits, the Mint returned $775 million to the Treasury General Fund in FY 2005.

Funding for OCC, OTS, Mint, and BEP is not included in the Department's annual budget request, because they have non-appropriated funding sources. OCC's operations are funded primarily by semi-annual assessments levied on national banks. Revenue from licensing, other fees, and investments in U.S. Treasury securities provides the remaining revenue. OTS's operations are funded from assessments on thrifts and savings and loan holding companies; examination, application, and security filing fees; interest on investments in U.S. Government obligations; and rent and other sources. The Mint's operations are financed by proceeds from the sales of circulating coins to the Federal Reserve Bank System and numismatic items to the public. BEP operations are financed primarily by the printing of currency for the Federal Reserve Bank System. Other BEP revenues are derived from the printing of securities for the Public Debt and commissions, certificates, invitations for various government agencies, and space rental fees.

Managing Treasury Effectively

Treasury is committed to using the resources provided by taxpayers in the most efficient manner possible. Funding requested in Treasury's Departmental Offices and Department-wide Systems and Capital Investments Program (DSCIP) seeks to build a strong management infrastructure, including critical national security investments such as the Treasury Foreign Intelligence Network. These investments ensure that Treasury remains a world-class organization that meets the President's standard of a citizen-centered, results-oriented government.

In FY 2006, Treasury plans to complete a comprehensive investment in the repair and restoration of its historic facilities, including the Treasury building located at 1500 Pennsylvania Avenue, NW. To protect and maintain this investment, the FY 2007 budget request includes $1 million in the Departmental Offices budget for ongoing facilities repair and restoration projects.

In FY 2007, Treasury requests $1.8 million to fund Department-wide performance management training. This training will provide Treasury leadership with the tools to link accomplishments in achieving the goals of the Department to individual performance.

The DSCIP account funds technology investments to modernize business processes throughout Treasury, helping the Department improve efficiency. In FY 2007, Treasury requests $34 million for ongoing modernization and critical information technology infrastructure projects, and to invest in other new technologies that will improve efficiency and service to the American people. The budget request includes:

- Upgrading and enhancing the Treasury Foreign Intelligence Network (TFIN) and the Treasury Secure Data Network (TSDN). TFIN and TSDN are classified systems that are critical to support Treasury's expanding financial intelligence mission and leadership role in the financial war on terror,
- Continuing modernization of the DO IT infrastructure which will provide enhanced

functionality, performance, and security for DO customers,

- Continuing to improve Treasury's Federal Information Security Management Act (FISMA) performance and strengthen the Department's overall security posture, and
- Completing required milestones as part of Treasury's Presidential E-Government Implementation Plan.

This budget request also includes funding for Treasury's Inspectors General. The Office of the Inspector General and the Treasury Inspector General for Tax Administration play an important oversight role in the overall management of the Department and the fair administration of the nation's tax laws.

President's Management Agenda (PMA)

Treasury is meeting the President's challenge to improve the management of the Department's people and resources. On the most recent PMA scorecard, the Department achieved a Green progress score in five out of six initiative areas, indicating that plans are in place and implementation is progressing to accomplish the PMA objectives. The PMA originally identified five key government-wide areas. In FY 2005, the Administration added an initiative on eliminating improper payments that applies to a more limited number of agencies including Treasury.

Human Capital Treasury received a Green status rating in Human Capital for the first quarter of FY 2006. The Office of Personnel Management and Office of Management and Budget recognized Treasury Human Capital for its accountability system, and how Treasury uses it to gather and analyze data and lead policy and program improvements.

Competitive Sourcing Treasury's Competitive Sourcing score remained Green for both status and progress in the first quarter of FY 2006. The Department maintained its green status by completing studies on time, establishing the process, procedures, and framework for Most Efficient Organization (MEO) use of sub-contracts, and managing and monitoring post-implementation of competitive sourcing studies

President's Management Agenda

	Status		Q1 FY 2006	
Initiative	FY 2004	FY 2005	Status	Progress
Human Capital	Y	Y	G	G
Competitive Sourcing	Y	G	G	G
Financial Performance	R	R	R	G
E-Government	R	Y	Y	G
Budget-Performance Integration	Y	Y	Y	G
Improper Payments	n/a	R	R	Y

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

Improved Financial Performance Treasury's score for Financial Performance was red in FY 2005 but Green for progress. Treasury continues to implement corrective actions to resolve material weaknesses. Treasury has an established schedule of planned actions in place to address its material weaknesses.

Expanded E-Government Progress in Treasury's process and policy initiatives allowed it to move to Yellow in status and Green in progress for E-government in the first quarter of FY 2006. The Department continues to stress performance in complying with the Federal Information Security Management Act, continue to integrate and utilize the Treasury Enterprise Architecture and, most importantly, standardize implementation of Earned Value Management analysis within the IT capital planning process.

Budget and Performance Integration Treasury's Budget and Performance Integration initiative is yellow in status and green in progress. Treasury will get to Green during FY 2006 by developing marginal cost measures for the remaining four core mission areas of Treasury and resolving past PART evaluations that were scored "Results Not Demonstrated." Treasury's efforts to achieve a Green status score will be supported by the comprehensive performance framework implemented this year. The framework will guide future budget and performance integration efforts. Treasury will also implement marginal cost metrics for the remaining mission areas.

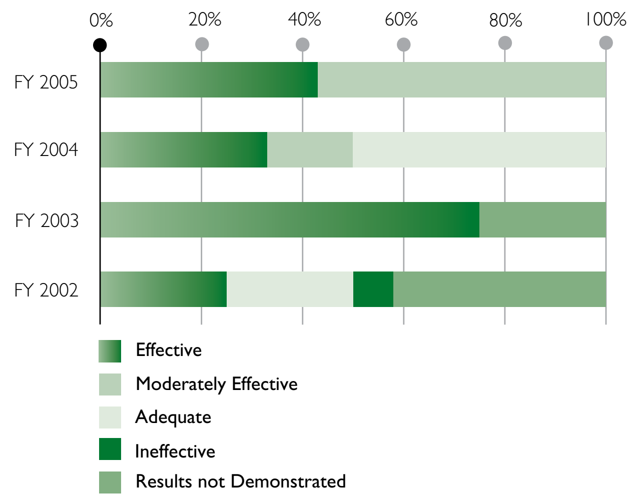
Eliminating Improper Payments Treasury's score is Red in status and Yellow in progress. This PMA initiative is tied to the Improper Payments Information Act of 2002. Treasury is committed to ensuring accurate and appropriate federal payments. Accordingly, Treasury sets performance targets to track progress on eliminating improper payments. Treasury is working with the Office of Management and Budget to develop a risk assessment plan to identify vulnerable programs and create measurement systems and corrective action plans that include aggressive, yet feasible, reduction targets across the Department.

Program Rating and Assessment Tool (PART) Summary

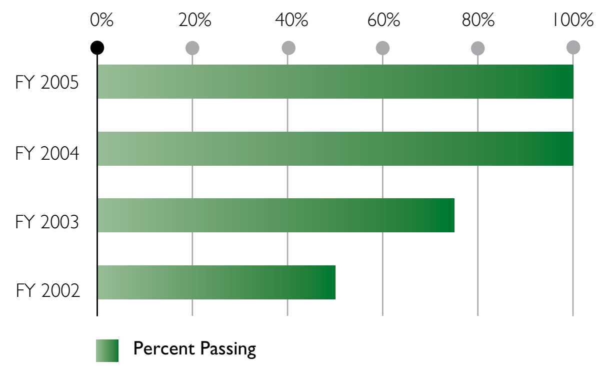
Program evaluation is a core management tool used by Treasury to allocate resources and promote efficiency and effectiveness. In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with OMB to evaluate 20 percent of its programs each year through the PART process. All programs that undergo a PART evaluation receive weighted scores in four categories: program purpose and design, strategic planning, program management, and program results and accountability.

While some results are still pending, Treasury expects a 36 percent increase in its score compared to last year's aggregate result. Treasury's improved PART scores in 2005 were a result of: (1) significant improvements in goals and measures; (2) training that included an exchange of lessons learned across bureaus; and (3) solid evidentiary procedures. All seven PART programs evaluated in 2005 (for the 2007 budget year) received effective or moderately effective ratings, demonstrating Treasury's commitment to focusing on program results. Treasury's progress in improved program performance is indicated in the two charts below.

PART Scoring History



Percentage Treasury Programs Passing PART Evaluations (adequate or better score)



Conclusion

Treasury's FY 2007 budget request reflects the Department's commitment to fiscal discipline and sound management while supporting the Administration's security, economic, and financial policy goals.

The tables that follow show a summary of program changes for FY 2007, a summary of budget increases and decreases for FY 2007, a fiscal year comparison for FTEs, and total funding levels for the FY 2007 budget.

Programs evaluated for the FY 2006 budget cycle include:

Program	Bureau	Rating
IRS Advocate	IRS	Moderately Effective
IRS Service	IRS	Adequate
Financial and Technical Assistance	CDFI	Adequate
FMS Collections	FMS	Effective
Mint Numismatic	Mint	Effective
New Markets Tax Credits	CDFI	Adequate

Programs evaluated for the FY 2007 budget cycle include:

Program	Bureau	Rating
FinCEN BSA Collection & Dissemination	FinCEN	Moderately Effective
FMS Payments	FMS	Effective
IRS Exam	IRS	Moderately Effective
IRS Criminal Investigations	IRS	Moderately Effective
Submission Processing – Re-do	IRS	Moderately Effective
Mint Protection	Mint	Effective
TTB Collect the Revenue	TTB	Effective

Fiscal Year Comparison of Full-Time Equivalent (FTE) Staffing

(Direct and Reimbursable)

	FY 2005 Actual			FY 2006 Estimated			FY 2007 President's Budget		
Appropriation	**Direct**	**Reimb.**	**Total**	**Direct**	**Reimb.**	**Total**	**Direct**	**Reimb.**	**Total**
Departmental Offices Salaries and Expenses	858	283	1,141	1,004	316	1,320	1,058	320	1,378
Treas Building & Annex Repair & Restoration	7	0	7	9	0	9	0	0	0
Air Transportation Stabilization Program	3	0	3	6	0	6	0	0	0
Financial Crimes Enforcement Network	267	1	268	330	1	331	352	1	353
Alcohol & Tobacco Tax and Trade Bureau	510	13	523	544	15	559	544	15	559
Office of Inspector General	101	6	107	115	5	120	115	5	120
Treasury IG for Tax Administration	846	9	855	850	3	853	850	3	853
Internal Revenue Service	94,282	1,017	95,299	95,386	1,350	96,736	92,992	1,503	94,495
Financial Management Service	1,645	356	2,001	1,818	320	2,138	1,761	370	2,131
Bureau of the Public Debt	1,206	14	1,220	1,390	64	1,454	1,390	64	1,454
Community Development Financial Institutions Fund	50	0	50	68	0	68	35	0	35
Subtotal, Treasury Appropriated Level	**99,775**	**1,699**	**101,474**	**101,520**	**2,074**	**103,594**	**99,097**	**2,281**	**101,378**
Treasury Franchise Fund	0	686	686	0	762	762	0	820	820
U.S. Mint	0	2,015	2,015	0	2,003	2,003	0	1,902	1,902
Bureau of Engraving and Printing	0	2,282	2,282	0	2,300	2,300	0	2,300	2,300
Office of the Comptroller of the Currency	0	2,686	2,686	0	2,886	2,886	0	2,886	2,886
Office of Thrift Supervision	0	885	885	0	965	965	0	965	965
Sallie Mae Assessments	3	0	3	0	0	0	0	0	0
Terrorism Insurance Program	9	0	9	10	0	10	10	0	10
Total	99,787	10,253	110,040	101,530	10,990	112,520	99,107	11,154	110,261

Summary of FY 2007 Program Changes

(Dollars in Thousands)

		Amount	Direct FTEs
FY 2006 Consolidated Appropriations (P.L. 109-115)		**$11,700,474**	**103,151**
	Rescission (P.L. 109-148)	(116,974)	(612)
FY 2006 Enacted		**$11,583,500**	**102,539**
Maintaining Current Levels			
	Annualization of FY 2006 Initiatives	5,009	31
	Non-Pay Inflation	68,575	
	Pay Annualization	66,659	
	Proposed Pay Raise	162,299	
Total Maintaining Current Levels		**$302,542**	**31**
Base Realignment			
IRS	FTE Adjustment	0	(1,019)
Total Base Realignment		**$0**	**(1,019)**
Non-Recurring Costs			
DO	Currency Manipulation	(990)	
DO	Public key Infrastructure	(248)	
DO	e-Cavern	(1,485)	
TBARR	TBARR Completed	(8,900)	(9)
ATSP	ATSP Completion	(2,723)	(6)
DSCIP	DSCIP Base	(24,168)	
FMS	FY 2005 Accounting Architecture Investments	(840)	
FMS	FY 2006 Mail Presort Equipment	(379)	
BPD	Miscellaneous Printing	(1,370)	
BPD	Litigation Support	(3,743)	
Total Non-Recurring Costs		**($44,846)**	**(15)**
Base Reinvestments			
IRS	Increase Returns Processing Efficiencies	12,237	11
BPD	BPD Base Reinvestments	5,113	
FinCEN	Enhancements to Strengthen Critical Operations	3,211	23
FinCEN	Strengthen Regulatory Compliance and Oversight	2,538	19
TTB	BPD Administrative Resource Center Cost Increases	340	
TTB	Permit Applications	308	
TTB	Working Capital Fund for TCS and DTS (Telecommunications)	503	
TTB	Wine, Distilled Spirits, Tobacco/Tax Processing	425	
Total Base Reinvestments		**$24,675**	**53**
Transfers			
IRS	Transfer to TIGTA	(941)	
DO	Transfer into DO S&E to Re-estab Repair & Improvements (R&I) Account	1,000	
DO	Transfer in for Secretary's Security Detail	4,200	
T-BARR	Transfer out to DO S&E for Repairs and Improvements Account	(1,000)	
TIGTA	Transfer from IRS for WCF	941	
Total Transfers		**$4,200**	
Program Reductions			
IRS	Business Systems Modernization Program Reduction	(29,700)	
BPD	Adoption of Revised Customer Service Standards	(2,027)	
FinCEN	Realignments to Enhance Critical Operations	(3,211)	(19)

		Amount	Direct FTEs
FinCEN	Realignments to Strengthen Regulatory Compliance Oversight	(2,538)	(19)
TTB	Tax Services-SOT Suspension/Quarterly Tax Filings	(1,600)	
CDFI	Transfer program	(46,843)	(33)
Total Program Reductions		**($85,919)**	**(71)**
Program Cost Savings			
IRS	Competitive Sourcing Savings	(17,000)	
IRS	E-File Savings	(6,760)	(174)
IRS	Improvement Project Savings	(8,216)	(135)
IRS	Program Efficiencies	(84,120)	(2,096)
IRS	HITCA Program Efficiencies	(5,500)	
FMS	Debt Fee Revenue	(5,311)	(57)
FMS	Realize Mail Presort Eficiencies	(384)	
DO	Accross the Board Program Reduction	(269)	
DO	Savings from FY 2005 Closure of Overseas Posts	(293)	
Total Program Cost Savings		**($127,853)**	**(2,462)**
FY 2007 Base		$11,656,300	99,056
Program Adjustments			
IRS	Consolidate Philadelphia Campus	20,900	
FMS	Federal Accounting Standards Advisory Board (FASAB) Increases	44	
DO	Economic Sanctions Against Weapons of Mass Destruction (WMD) Proliferation	946	5
DO	Economic Sanctions Against Terrorist Networks	1,483	8
DO	Support of OFAC	492	3
DO	Support of TFI	542	3
DO	Expanded Treasury Presence Overseas	9,352	10
DO	Additional Secure Workspace	1,000	
DO	Intelligence Analysts	1,261	7
DO	Iraq Threat Finance Cell (ITFC)	2,050	2
DO	Dynamic Analysis Division	513	3
DO	Treasury-wide Performance Management Training	1,838	
DSCIP	Back-up Disaster Recovery Capacity	1,656	
DSCIP	OFAC Enterprise Content Management (ECM)	627	
DSCIP	Treasury Foreign Intelligence Network (TFIN)	21,200	
DSCIP	Treasury Secure Data Network (TSDN)	4,003	
DSCIP	Critical Infrastructure Protection (Financial Institutions)	2,093	
DSCIP	Cyber Security	2,244	
DSCIP	E-Government Initiatives	2,209	
FinCEN	Cross-Border Initiative	10,000	
FinCEN	Enhance BSA Direct	2,473	
Total Program Increases		**$86,926**	**41**
FY 2007 Operating Level		$11,743,226	99,097
Offsetting Fees			
IRS	User Fees	(135,000)	
BPD	User Fees	(3,000)	
Total Offsetting Fees		**($138,000)**	
FY 2007 President's Budget Request		$11,605,226	99,097

Summary of FY 2007 Increases and Decreases

(Dollars in Thousands)

	DO*	ATSP	FINCEN	TTB**	OIG	TIGTA	IRS	FMS	BPD	CDFI	Total
FY 2006 Consolidated Appropriations (P.L. 109-115)	**$231,004**	**$2,750**	**$73,630**	**$91,126**	**$17,000**	**$133,286**	**$10,680,511**	**$236,243**	**$179,923**	**$55,000**	**$11,700,473**
Rescission (P.L. 109-148)	(2,310)	(27)	(736)	(911)	(170)	(1,333)	(106,805)	(2,362)	(1,769)	(550)	(116,973)
FY 2006 Enacted	**$228,694**	**$2,723**	**$72,894**	**$90,215**	**$16,830**	**$131,953**	**$10,573,706**	**$233,881**	**$178,154**	**$54,450**	**$11,583,500**
Pay Inflation Adjustments	3,266	0	1,064	1,504	412	2,965	211,813	4,679	3,117	138	228,958
Non-Pay Inflation Adjustments	2,078	0	865	909	110	610	60,418	1,964	1,545	76	68,575
Annualization of FY 2006 Initiatives	2,511	0	2,498	0	0	0	0	0	0	0	5,009
Maintaining Current Levels	$7,855	$0	$4,427	$2,413	$522	$3,575	$272,231	$6,643	$4,662	$214	$302,542
Non-Recurring Costs	(35,791)	2,723	0	0	0	0	0	(1,219)	(5,113)	0	(44,486)
Base Reinvestment	0	0	5,749	1,576	0	0	12,237	0	5,113	0	24,675
Transfers	4,200	0	0	0	0	941	(941)	0	0	0	4,200
Program Reductions	(0)	(0)	(5,749)	(1,600)	0	0	(29,700)	0	(2,027)	(46,843)	(85,919)
Program Cost Savings	(562)	0	0	0	0	0	(121,596)	(5,695)	0	0	(127,853)
Adjustments to FY 2006 Enacted	($32,153)	($2,723)	$0	($24)	$0	$941	($140,000)	($6,914)	($2,027)	($46,843)	($229,743)
FY 2007 Base	**$204,397**	**$0**	**$77,321**	**$92,604**	**$17,352**	**$136,469**	**$10,705,937**	**$233,610**	**$180,789**	**$7,821**	**$11,656,300**
Program Increases	53,509	0	12,473	0	0	0	20,900	44	0	0	86,926
FY 2007 Operating Level	**$257,906**	**$0**	**$89,794**	**$92,604**	**$17,352**	**$136,469**	**$10,726,837**	**$233,654**	**$180,789**	**$7,821**	**$11,743,226**
Offsetting Fees	0	0	0	0	0	0	(135,000)	0	(3,000)	0	(138,000)
FY 2007 President's Budget	$257,906	$0	$89,794	$92,604	$17,352	$136,469	$10,591,837	$233,654	$177,789	$7,821	$11,605,226

* Includes S&E, DSCIP, TBARR

**TTB President's Budget does not include user fee proposal of $28,640 thousand. Net request is $63,964 thousand including user fee proposal.

Total Funding Levels for the FY 2007 President's Budget

(Dollars in Millions)

	FY 2005	FY 2006	FY 2007		
	Enacted	Estimate	Estimate	Change	% Change
Annual Appropriations	**$11,217**	**$11,580**	**$11,605**	**$25**	**0.2%**
Interest Payments:					
Interest on Public Debt	352,350	398,744	440,412	41,668	10.4%
Refunding Internal Revenue Collections, Interest	6,112	3,662	3,877	215	5.9%
Interest on Uninvested Funds	7	8	8	0	0.0%
Interest Paid To Credit Financing Accounts	4,418	4,610	4,968	358	7.8%
Restitution of Foregone Interest	142	0	0	0	0.0%
Fed. Interest Liabilities to States	0	1	2	1	100.0%
Subtotal, Interest Payments	$363,029	$407,025	$449,267	$42,242	10.4%
Trust Funds and Other Funds:					
Federal Financing Bank	-454	0	0	0	0.0%
Payment to Resolution Funding Corp	2,130	2,104	2,140	36	1.7%
Check Forgery Insurance Fund	0	3	3	0	0.0%
Payment to Terrestrial Wildlife Habitat Restoration Trust Fund	5	5	5	0	0.0%
Community Development Financial Institutions Program Account	1	0	0	0	0.0%
Air Transportation Stabilization Program Account	337	0	0	0	0.0%
Subtotal, Trust Funds and Other	$2,019	$2,112	$2,148	$36	1.7%
Permanent Authority Appropriations:					
Pres. Election Campaign Fund	53	55	55	0	0.0%
Biomass Energy Development	-1	-8	-5	3	-37.5%
Government Losses in Shipment	4	2	0	-2	-100.0%
Terrorist Insurance Program	5	0	6	6	100.0%
Continued Dumping and Subsidy Offset	237	249	1,928	1,679	674.3%
Treasury Forfeiture Fund	321	251	251	0	0.0%
Debt Collection Special Fund	49	40	60	20	50.0%
Claims, Judgments & Relief Acts	973	904	873	-31	-3.4%
Federal Reserve Bank Reimbursement by –					
FMS	258	220	245	25	11.4%
BPD	131	100	123	23	23.0%
Financial Agent Services	365	322	311	-11	-3.4%
Internal Revenue Collections for Puerto Rico	421	441	457	16	3.6%
IRS New and Existing Fees	119	100	238	138	138.0%
IRS Informant Payments	7	4	4	0	0.0%
Private Collection Agent Program	0	3	54	51	1700.0%
Payment where Child Credit exceeds liab. for tax	14,624	14,113	13,538	-575	-4.1%
Payment where EIC exceeds liability for tax	34,559	35,098	35,457	359	1.0%
Payment where Health Care Credit exceeds liab. for tax	90	94	829	735	781.9%
Subtotal, Permanent Auth. Approp	$52,215	$51,988	$54,424	$2,436	4.7%
Offsetting Collections	**-18,285**	**-18,804**	**-21,649**	**-2,845**	**15.1%**
Subtotal, Department of the Treasury	**$410,195**	**$453,901**	**$495,795**	**$41,894**	**9.2%**
International Assistance Programs	1,373	1,449	1,536	87	6.0%
Total, Department of the Treasury	**$411,568**	**$455,350**	**$497,331**	**$41,981**	**9.2%**

Departmental Offices

Mission:

To promote the conditions for prosperity and stability in the United States and to encourage prosperity and stability in the rest of the world.

Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 Change	FY 2007 % Change
Salaries and Expenses	**$178,411**	**$194,626**	**$223,874**	**$29,248**	**15.0%**
Executive Direction	14,430	16,329	17,501	1,172	7.2%
Economic Policies and Programs	31,203	31,691	41,947	10,256	32.4%
Financial Policies and Programs	25,231	26,308	25,336	(972)	-3.7%
Terrorism and Financial Intelligence	34,796	39,540	45,401	5,861	14.8%
Treasury-wide Management and Programs	16,245	16,674	20,372	3,698	22.2%
Administration Programs	56,506	63,094	73,317	10,223	16.2%
Currency Manipulation	0	990	0	(990)	-100%
Treasury Bldg & Annex Repair and Restoration	**$12,217**	**$9,900**	**$0**	**($9,900)**	**-100%**
Expanded Access	(4,000)	0	0	0	0%
Air Transportation Stabilization Program	**$1,984**	**$2,722**	**$0**	**($2,722)**	**-100%**
Subtotal, Departmental Offices	**$188,613**	**$207,248**	**$223,874**	**$16,626**	**8.0%**
Offsetting Collections - Reimbursables	$15,731	$19,800	$19,800	$0	0%
Total Program Operating Level	**$204,344**	**$227,048**	**$243,674**	**$16,626**	**7.3%**

Overview

Departmental Offices (DO) supports the Secretary of the Treasury's predominant role in the development and implementation of the Administration's agenda for domestic and international economic growth and the communication of that agenda. DO is at the forefront of the Administration's efforts to:

- Reduce taxes, simplify the tax code, and promote economic growth policies which reduce the federal deficit and create jobs,
- Carry out complex borrowing actions to meet government obligations at the lowest cost and manage the entire federal government's finances,
- Promote the Administration's global economic growth agenda of flexible currencies, open capital markets, and structural reforms with our trading partners,
- Reform and reduce taxpayer exposure under our nation's pension system and the treatment of Government Sponsored Enterprises, and
- Sever financial support for terrorists, proliferators, and counterfeiters, using its unique authorities under the USA PATRIOT ACT, the Bank Secrecy Act, and other laws.

As the headquarters for the Department of the Treasury, DO provides leadership in economic and financial policy, financial crimes, and general management. In its leadership of U.S. international economic and financial policy, DO works with other federal agencies to represent the interests of the United States in international trade and work toward international debt relief and the reform of international financial institutions. In FY 2005, Treasury provided leadership in domestic and international economic policy by:

- Encouraging China to move toward a more market-oriented exchange rate for its currency and implement reforms in its financial sector,

- Developing a central budget and revitalized banking system within the Iraq Coalition Provision Authority,

- Securing extensive debt relief for a number of countries through partnering with the Paris Club, International Monetary Fund and G7,

- Co-leading the development of financial services provisions and participating in the development of the investment provisions of the Central American Free Trade Agreement, and

- Launching the MyMoney.gov website and 1-888-My Money hotline and directed over 100 financial education events, promoting basic financial literacy.

DO contributes to U.S. national security by analyzing financial intelligence, investigating and designating suspected terrorist financiers, and targeting the financial underpinnings of terrorism and the proliferation of weapons of mass destruction with economic sanctions. By maintaining the international relationships necessary to undermine and attack these networks, Treasury safeguards the financial systems of the United States and its partners.

In FY 2005, Treasury made significant progress toward dismantling the financial networks that support terrorism and international financial crime. Among its most important accomplishments, DO implemented Executive Order 13382, signed on June 28, 2005, which authorized Treasury to block assets of, and prohibit U.S. persons from dealing with, proliferators of weapons of mass destruction, including their support networks. Results of the work of Office of Foreign Assets Control (OFAC) and the Office of Intelligence and Analysis (OIA) in the fight against terrorism and the spread of weapons of mass destruction and OFAC's counter narcotics effort in FY 2005 include:

- Evidentiary packages resulted in the President designating eight entities in North Korea, Iran and Syria for sanctions, with further designations anticipated in FY 2006,

- Individuals and entities supporting terrorist organizations, such as al Qaida and affiliated organizations, were designated and financially isolated impeding their operations, and

- OFAC designations contributed to the disruption of the business and financial networks of Colombia's drug trafficking Cali Cartel leaders Miguel and Gilberto Rodriguez Oreguela.

The Department of the Treasury is the federal government's financial manager. Treasury's management of the federal government's finances includes making payments, collecting revenue, issuing debt and preparing public financial statements. In FY 2005:

- Treasury improved forecasting and reporting, and produced an improved U.S. corporate bond yield curve. As a result, a more accurate measure of funding requirements for corporate defined-benefit pension plans covered by the Pension Benefit Guarantee Corporation will be provided.

- Average same-day cash balance projections improved more than 15 percent from FY 2004.

- Treasury met and exceeded its FY 2005 performance target for one-month-ahead forecast of budget receipts and released the FY 2004 U.S. Government Consolidated Financial Statement 2 1/2 months before the statutory due date of March 31.

DO manages Treasury's more than 100,000 employees and an $11.6 billion budget. In FY 2005, DO's management achievements included:

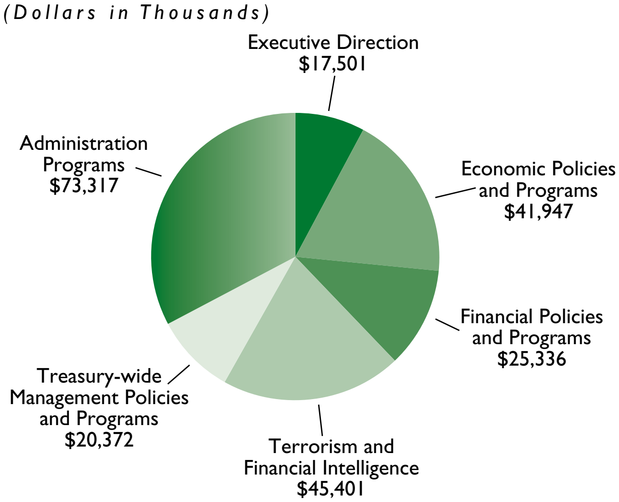
- Earning a "Green" score for progress for three of the last four quarters on the President's Management Agenda (PMA) scorecard for the E-Government initiative, institutionalization of information technology governance entities and processes, and implementing an SES performance management system,

- Continuing to close the monthly accounting books within the Department's three-day close requirement, and accelerating year-end closing to meet the government-wide November 15th requirement, and
- Reducing the Treasury Department's open material weaknesses from 32 to seven over the last five years.

The total resources requested to support Treasury's Departmental Offices activities in FY 2007 are $223,874,000. This request reflects an increase of $29,248,000 to fund enhancements to DO's overseas presence, implement the Dynamic Analysis Division within the Office of Tax Policy, support the Department's expanded national security mission, and make investments in the management of the Department. This request also includes a transfer in of $4,200,000 to reimburse the United States Secret Service for the Treasury Secretary's security detail.

DO S&E Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

Treasury demonstrated a high level of success across all aspects of its diverse mission in FY 2005. The Department's Economic Policies and Programs achieved significant progress in furthering trade liberalization and took steps to help improve the efficacy of International Monetary Fund programs by enhancing their transparency and evaluation capabilities. The Department expanded its outreach to charitable organizations and governments around the globe regarding anti-money laundering efforts and established standards for combating terrorist financing. Treasury continued to provide efficient and effective management of the U.S. Government's finances, while steadily improving the Department's management and operations to ensure it remains a world-class organization. Departmental Offices met all but two of its performance targets for FY 2005, and established important baseline targets for new measures moving forward for each of four budget activities.

Economic Policies and Programs

In FY 2005, the Office of International Affairs (IA) successfully expanded the Treasury's goal of increasing world economic growth and job creation by maintaining intellectual leadership in the field of international finance and development.

Treasury continues to work with foreign governments to encourage movement towards flexible exchange rate regimes. In FY 2005, Treasury successfully negotiated agreements to implement increased flexibility in the Chinese and Malaysian exchange rate regimes, although it fell short of its performance target of three regimes becoming more flexible. The Chinese have clearly stated their intent to move to a flexible exchange rate and are taking steps to establish the necessary financial infrastructure to do so, which includes developing foreign exchange trading, hedging instruments, and internal controls on foreign exchange exposure and supervision of foreign exchange risk. Also integral to reform efforts is the restructuring of China's state-owned banks and resolving the stockpile of non-performing loans.

Treasury played a leading role in the negotiation of a number of new Free Trade Agreements (FTA) and Bilateral Investment Treaties (BIT), most notably Treasury's role as co-lead in the financial services provisions and participation in the investment provisions of the Central American Free Trade Agreement passed by Congress in FY 2005.

Treasury implemented a periodic review process for International Monetary Fund (IMF) programs, allowing Treasury to more effectively influence the terms of new country programs prior to implementation. The Department has established a target of providing an information memorandum to the Under Secretary for at least 90 percent of new IMF country programs at least one week ahead of Board date.

Financial Policies and Programs

The Office of Domestic Finance (ODF) issued the FY 2005 Consolidated Financial Statement on December 15, 2005. Treasury plans to continue to meet this early delivery deadline in FY 2006 and FY 2007.

The ODF met its target for the annual forecast of variance between estimated and actual receipts in FY 2005. To continue to meet the target in the future, ODF must focus on two areas. First, beginning in FY 2006, on a monthly basis, the current receipts forecast will be compared with key macro-economic indicators from colleagues in the Office of Macroeconomic Analysis, Office of Economic Policy. The Revenue Forecasting Work Group, a group of representatives from the Office of Tax Analysis, the Office of Economic Policy, and the Office of the Fiscal Assistant Secretary, will meet at least twice quarterly to identify recent trends in tax receipts based on monthly budget reporting and daily cash flows and to identify changes in key macro-economic indicators, which could result in a re-estimate of the major budget receipt categories (e.g., withheld income and FICA taxes, corporation taxes, and individual tax refunds).

The government-wide financial statement prepared by Treasury received a disclaimer of audit opinion for FY 2005. The same result is expected for FY 2006. Achieving a qualified opinion is influenced significantly by the Defense Department's ability to receive at least a qualified opinion, which is not expected until FY 2007.

Terrorism and Financial Intelligence

When the Office of Terrorism and Financial Intelligence (TFI) was established, Treasury reallocated resources from other programs to support the start-up of the Office. To complement the Treasury Strategic Plan and include the new office into the overall financial crimes mission, new performance goals and objectives were established with FY 2005 as the baseline.

Performance will be measured by the increase in the number of outreach engagements with charitable and international financial communities and the number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40+9 recommendations to combat money laundering tand terrorist financing.

The Office of Terrorist Financing and Financial Crimes (TFFC) conducts outreach engagements, which allow it to assess first-hand practices to combat financing of terrorism and money laundering by governments and private institutions within the United States and abroad and engage with these entities to ensure that they safeguard themselves and the financial system against illicit activity. With consistent follow up, this outreach has proven to be one of Treasury's most effective tools for changing behavior, raising awareness, and improving capacity among foreign governments as well as domestic and foreign institutions with gaps in their Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) programs. As TFFC's Office for Global Affairs and Office for Strategic Policy mature, TFFC expects to build upon and expand the active engagement that it has pursued in the past.

Assessing countries for compliance with the FATF 40+9 recommendations expands the influence and impact of these critical AML/CFT standards. Preparation for and the response to these detailed assessments promotes compliance with international best practices. Incorporating these assessments into World Bank and International Monetary Fund reviews has only heightened their impact.

These assessments also allow Treasury to identify vulnerabilities and gaps in a country's AML/CFT regime and engage it to address those vulnerabilities and highlight possible technical assistance needs. The current aggressive rate of assessments allows for evaluations of nearly one-quarter of the world's countries every year.

The Office of Intelligence and Analysis (OIA), which was established in April 2004, was created to improve the Treasury Department's intelligence capabilities, particularly in combating terrorist financing. While OIA is still a fairly new entity, it took a number of significant steps in 2005 towards building the robust intelligence and analytic program necessary to fulfill its critical mission. In FY 2007, OIA will continue to build on the framework established in FY 2005 and 2006 by further developing its analytic expertise and production on the financial and other support networks for terrorist and WMD proliferators; improving its understanding of Iraq insurgency financing through its participation in the Baghdad-

DO Performance by Budget Activity

		FY 2003	FY 2004	FY 2005		FY 2006	FY 2007
Budget Activity	**Performance Measure**	**Actual**	**Actual**	**Actual**	**Target Met?**	**Target**	**Target**
Economic Policies and Programs	Encourage movement towards flexible exchange rate regimes (Oe)	n/a	n/a	2	✘	4	0
	Number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaty (BIT) negotiations underway or completed (Oe)	n/a	n/a	7	✓	9	7
	Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs (Oe)	n/a	n/a	78	✘	90	90
Terrorism and Financial Intelligence	Increase the number of outreach engagements with the charitable and international financial communities (Ot)	n/a	n/a	95	✓	105	120
	Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40+9 recommendations (Ot)	n/a	n/a	40	✓	45	45
Financial Policies & Progams	Release federal government-wide financial statements on time (Oe)	Met	Met	Met	✓	Met	Met
	Variance between estimated and actual receipts (annual forecast) ($) (E)	n/a	3.8	5	✓	5	5
	Audit opinion received on government-wide financial statements (Oe)	Met	Met	Met	✓	Met	Met
Treasury-wide Management & Programs	Bureau performance plans for supervisors, managers, and SES members contain elements that link to the bureau mission (Oe)	n/a	77	100	✓	100	100
	Management cost per Treasury employee ($) (E)	n/a	n/a	39.33	✓	40.27	38.2
	Number of open material weaknesses (Oe)	9	8	7	✘	5	2

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

based Iraq Threat Finance Cell; and bolstering its capability to produce strategic research papers on high priority issues, such as terrorist and WMD proliferation financing.

Treasury-Wide Management Policies and Programs

DO continues to improve efficiency and results in its management of the Department. In FY 2005, a baseline management cost per employee was established of $39,330. In FY 2007, DO's target is to reduce the management cost per employee to $38,200.

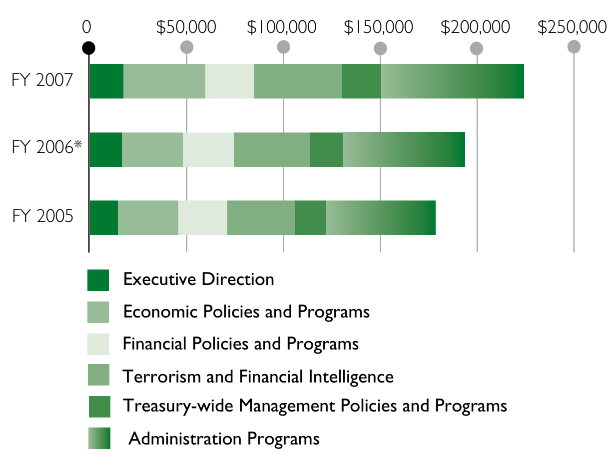
The number of Treasury open material weaknesses has been reduced from eight in FY 2004 to seven in FY 2005. Treasury has set a goal of reducing material weaknesses to five in FY 2006 and two in FY 2007.

Source of Funds

The Departmental Offices' request of $243,674,000 includes $223,874,000 from appropriations and $19,800,000 from offsetting collections to continue support of the policy and oversight activities of the Secretary and his staff. The resources requested are critical to the successful implementation and management of Treasury's domestic and international economic, financial, tax, and financial crimes policies.

DO Funding History

(Dollars in Thousands)



*FY 2006 total does not include $990,000 for Currency Manipulation.

Budget Activities

Salaries and Expenses

Executive Direction Programs ($17,501,000 in direct appropriations, and $590,000 from reimbursements) Provides direction and policy formulation to the Department and Departmental Offices, and interacts with Congress and the public on Departmental policy matters.

Economic Policies and Programs ($41,947,000 in direct appropriations, and $3,839,000 from reimburements) Monitors domestic and international economic developments, and collects and analyzes international financial data, including foreign credits and credit guarantees. Assists in determining appropriate economic policies, and formulates and executes U.S. economic and financial policies for both the U.S. and global economies.

Financial Policies and Programs ($25,336,000 in direct appropriations, and $4,665,000 from reimbursements) Monitors and provides advice and assistance to the Secretary in the areas of tax policy and domestic finance.

Terrorism and Financial Intelligence ($45,401,000 in direct appropriations, and $3,242,000 from reimbursements) Develops and implements strategies to counter money laundering and terrorist financing.

Treasury-wide Management Policies and Programs ($20,372,000 in direct appropriations, and $4,681,000 from reimbursements) Develops and implements policies related to the internal management of the Department and its bureaus, including human capital, information technology, financial administration, and management and budget issues.

Administration Programs ($73,317,000 in direct appropriations, and $2,783,000 from reimbursements) Provides operational support and shared services to all offices within Departmental Offices. This includes accounting and budget, human capital, information technology, procurement, facilities support, and travel services.

DO FY 2007 Budget Highlights

(Dollars in Thousands)

Appropriation	Salaries & Expenses	Treasury Bldg & Annex Repair & Restoration	Air Transportation Stabilization Program
FY 2005 Enacted	**$178,412**	**$12,217**	**$1,984**
FY 2006 Appropriation (P.L. 109-115)	196,592	10,000	2,750
Rescission (P.L. 109 - 148)	(1,966)	(100)	(28)
FY 2006 Enacted	**$194,626**	**$9,900**	**$2,722**
Current Services			
Adjustments to Maintain Current Levels	$5,344	$0	$0
Pay Raise	2,320		
Non-Pay Inflation Adjustment	1,663		
Pay Annualization of FY 2006 Pay Raise	946		
Capital Security Cost Sharing -- Charge from Dept. of State	415		
Transfers	$5,200	($1,000)	$0
Transfer in to Fund Secretary's Security Detail	4,200		
Transfer between TBARR and S&E to re-establish Repair and Improvements Account	1,000	(1,000)	
Non-Recurring Costs	($2,723)	($8,900)	($2,722)
Non-Recur of Air Transportation Stabilization Program			(2,722)
Non-Recur of TBARR		(8,900)	
Non-Recur of Currency Manipulation	(990)		
Non-Recur of e-Cavern	(1,485)		
Non-Recur of Public Key Infrastructure	(248)		
Program Cost Savings	($562)	$0	$0
FY 2007 savings from FY 2005 closure of 3 overseas posts	(293)		
FY 2007 Management Savings	(269)		
Annualizations of FY 2006 Initiatives	$2,511	$0	$0
Annualization of FY 2006 TFFC FTE	587		
Annualization of FY 2006 Cuba Sanctions FTE	81		
Annualization of FY 2006 OIA FTE	1,843		
Subtotal, Base Adjustments	**$9,771**	**($9,900)**	**($2,722)**
Current Services Level	**$204,397**	**$0**	**$0**
Program Adjustments (not in priority order)			
Program Increases	$19,477	$0	$0
Expanded Treasury Presence Overseas	9,352		
Dynamic Analysis Division	513		
Intelligence Analysts	1,261		
Iraq Threat Finance Cell	2,050		
Additional Secure Workspace	1,000		
Economic Sanctions Against Terrorist Networks	1,483		
Economic Sanctions Against Weapons of Mass Destruction	946		
General Counsel Support of TFI	542		
General Counsel Support of the Office of Foreign Assets Control	492		
Treasury-wide Performance Management Training	1,838		
FY 2007 President's Budget Request	**$223,874**	**$0**	**$0**

Treasury Building and Annex Repair and Restoration

Additional funding is not requested in FY 2007 for the Treasury Building and Annex Repair and Restoration (TBARR) account. The FY 2006 enacted TBARR appropriation of $9,900,000 will be used to complete the project and re-occupy all of the Main Treasury building.

Air Transportation Stabilization Program

Additional funding is not requested in FY 2007 for the Air Transportation Stabilization Program. FY 2006 funding will be used to complete the mission of the Board.

FY 2007 Budget Adjustments

FY 2006 Enacted

The FY 2006 Departmental Offices appropriation is $194,626,000 to fund Salaries and Expenses.

Current Services

Adjustments to Maintain Current Levels +$5,344,000/0 FTE Funds are requested for: the FY 2007 cost of the January 2006 pay increase of $946,000; the proposed January 2007 pay raise and benefits of $2,320,000; non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of $1,663,000; and overseas Capital Security Cost Sharing assessed by the Department of State of $415,000.

Transfers +$5,200,000/0 FTE The FY 2007 budget request includes two transfer in. The United States Secret Service provides protection to the Secretary of the Treasury. A transfer of $4,200,000 is requested to reimburse the Secret Service for this security detail. A transfer of $1,000,000 and 0 FTE is requested to re-establish the Repair and Improvements (R&I) account. A recurring baseline requirement for major repairs and improvements is needed for to the Main Treasury (Historic Landmark) and Annex (Historic Register) infrastructure.

Non-Recurring Costs -$2,723,000/0 FTE FY 2007 savings achieved from non-recurring costs associated with the FY 2006 DO S&E appropriation bill (-$990,00 and 0 FTE for Currency Manipulation, -$1,485,000 and 0 FTE for e-Cavern, and -$248,000 and 0 FTE for Public Key Infrastructure.)

Program Cost Savings -$562,000/0 FTE This includes a savings of -$293,000 from the closure in FY 2005 of three International Affairs overseas offices and -$269,000 from management cost savings.

Annualization of FY 2006 Initiatives +$2,511,000/13 FTE (Office of Terrorism and Financial Intelligence) Funds are requested for completing the full-year cost and FTE realization of positions from enacted FY 2006 initiatives.

Program Increases

Expanded Treasury Presence Overseas +$9,352,000/+10 FTE (Office of International Affairs) Treasury attachés will work in tandem with the Office of International Affairs (IA) and the Office of Terrorism and Financial Intelligence (TFI) to build relationships with foreign officials and work with local U.S. industry and agency representatives to advance U.S. interests. They will also provide much needed intelligence and expertise to U.S. officials in Washington formulating policy on international economics, trade, finance, and terrorist finance. This initiative includes a request of $1 million for travel of Washington, D.C. based staff to attend meetings with foreign and domestic counterparts and to allow desk officers to travel on official business to access the regions they cover.

Dynamic Analysis Division +$513,000/+3 FTE The Office of Tax Policy presently has only limited capability to produce dynamic analysis for a narrow range of tax policy changes. Dynamic analysis recognizes the full range of behavioral responses to tax changes, including how tax changes affect the size of the economy. This type of analysis emphasizes the economic benefits of tax changes and will assist in measuring progress toward achieving the Department's objective of increasing and promoting economic growth. Dynamic analysis will also make available to decision makers estimates of the full effect of tax policy changes, including their macroeconomic impacts, to inform tax policy determinations. Resources are requested to add a Dynamic Analysis Division (six additional positions: an SES division director and five staff economists) to facilitate production of these estimates for proposed federal tax legislation.

Intelligence Analysts +$1,261,000/+7 FTE (Office of Intelligence and Analysis) Thirteen additional analyst positions are requested to effectively address transnational terrorist and illicit finance issues, such as terrorist finance, decentralization and proliferation of terrorist groups, counter-proliferation, and critical infrastructure protection. These resources will provide the ability to engage in analyst exchanges with other national security and intelligence community agencies in accordance with the Intelligence Reform and Terrorism Prevention Act of 2005. This request includes $200,000 required by the Office of the Director of National Intelligence for training, travel, and professional development of intelligence analysts to enhance analytical capability.

Iraq Threat Finance Cell +$2,050,000/+2 FTE (Office of Intelligence and Analysis) Treasury and the Department of Defense are co-chairing the Iraq Threat Finance Cell in support of the Global War on Terrorism. This unit's mission is to enhance the collection, analysis, and dissemination of intelligence to combat the Iraqi insurgency. Enhanced intelligence efforts against financiers, facilitators, and financial networks supporting the Iraqi insurgency is required to support and strengthen U.S., Iraqi and Coalition efforts to disrupt and eliminate financial and other material support to the insurgency.

Additional Secure Workspace +$1,000,000/0 FTE (Office of Intelligence and Analysis) The addition of staff in the Office of Terrorism and Financial Intelligence has led to a need for additional secure workspace where classified work can be performed.

Economic Sanctions Against Terrorist Networks +$1,483,000/+8 FTE (Office of Foreign Assets Control) Specially Designated Global Terrorists and their support networks continuously seek new ways of evading U.S. and international sanctions by changing the names and locations of support organizations and financing methods. This creates an additional challenge for OFAC in its responsibility to administer and enforce economic sanctions. Fifteen additional positions are requested for OFAC to monitor and update existing designations to capture these evasions and track the development of new support structures and funding sources.

Economic Sanctions Against Weapons of Mass Destruction Proliferation +$946,000/+5 FTE (Office of Foreign Assets Control) Ten additional positions are requested to continue to implement and administer the new Weapons of Mass Destruction (WMD) Executive Order.

General Counsel Support of TFI +$542,000/+3 FTE (Office of the General Counsel) Five attorneys and one support person are requested to address the growing workload and to enable the Assistant General Counsel for Enforcement & Intelligence to provide adequate counsel to Treasury and other government officials on all aspects of the operations of the Office of Terrorism and Financial Intelligence. Increased legal support is critical to the Department's essential and growing terrorist financing, money laundering, and WMD proliferation programs, and to assist with a wide range of intelligence and information-sharing initiatives that are critical to the success of those programs.

General Counsel Support of the Office of Foreign Assets Control +$492,000/+3 FTE (Office of the General Counsel) A component of the General Counsel's Office provides essential legal support to the Office of Foreign Assets Control (OFAC) in combating terrorism, narco-trafficking, and weapons proliferation and in implementing other important economic sanctions programs. Five additional positions are requested to meet OFAC's growing need for highly specialized legal services. The component's staffing has remained constant over the past three years, while its workload has expanded significantly as the workload of OFAC, its principal client, has grown and as the President has established many new sanctions programs and expanded several others.

Treasury-wide Performance Management Training +$1,838,000/0 FTE (Office of Workforce Strategies and Solutions) Treasury-wide performance management training will provide managers with the tools to link agency mission accomplishment to individual positions.

Department-wide Systems and Capital Investment Program

Mission:

To modernize business processes and increase efficiencies throughout the Department of Treasury through technology investments.

Program Summary

(Dollars in Thousands)

Appropriations	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 Change	FY 2007 % Change
Department-wide Systems & Capital Invest. Program	$32,002	$24,168	$34,032	$9,864	40.8%
Treasury Foreign Intelligence Network (TFIN)	0	5,940	21,200	15,260	256.9%
Treasury Secure Data Network (TSDN)	0	2,772	4,003	1,231	44.4%
OFAC Enterprise Content Management	0	0	627	627	0.0%
Critical Infrastructure Protection (Fin. Inst.)	5,754	5,742	2,093	(3,649)	-63.5%
Treasury Back-up Disaster Recovery Capacity	1,732	1,729	1,656	(73)	-4.2%
Cyber Security	2,540	2,281	2,244	(37)	-1.6%
E-Government Initiatives	2,740	2,734	2,209	(525)	-19.2%
Integrated Wireless Network	1,488	1,485	0	(1,485)	-100.0%
Enterprise Architecture	397	396	0	(396)	-100.0%
HR Connect	15,367	0	0	0	0.0%
Appliance-Based Computer Security	1,488	0	0	0	0.0%
Certificate-Based Internet Security	496	0	0	0	0.0%
Defense Messaging System	0	495	0	(495)	-100.0%
Documents Management	0	594	0	(594)	-100.0%
Subtotal, Dept.-wide System & Capital Investments Program	$32,002	$24,168	$34,032	$9,864	40.8%
Total Operating Level	$32,002	$24,168	$34,032	$9,864	40.8%

Overview

The Department-wide Systems and Capital Investments Program (DSCIP) account is authorized to be used by or on behalf of Treasury bureaus, at the Secretary's discretion, to modernize business processes and increase efficiency through technology investments. Continuing investments include the Treasury Foreign Intelligence Network, Treasury Secure Data Network, Critical Infrastructure Protection, Back-up Disaster Recovery Capacity, Cyber Security, and various E-Government initiatives.

Treasury has made significant progress in key initiatives under the DSCIP program. In FY 2005, Treasury:

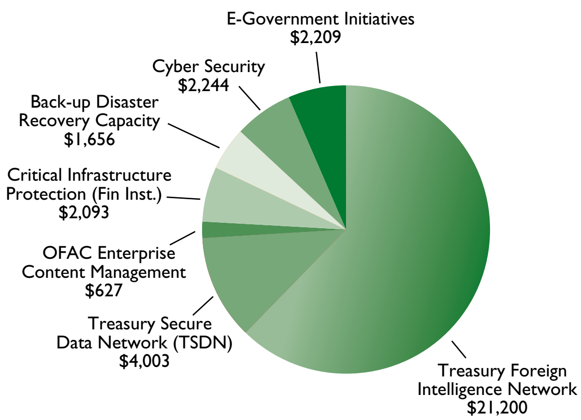
- Completed investments in HR Connect,
- Completed assessment and evaluation of the Department's critical cyber and physical assets and key resources, and
- Improved Federal Information Security Management Act (FISMA) performance.

In FY 2006, Treasury will invest in the Treasury Foreign Intelligence Network, Treasury Secure Data Network, Defense Messaging System and Documents Management, while continuing investments in Critical Infrastructure Protection (CIP), E-Government, Treasury Back-up Disaster Recovery, Integrated Wireless Network, Cyber Security and Enterprise Architecture. These capital investment projects, critical to Treasury's ability to efficiently carry out its mission, will continue in FY 2007. Funding is requested in FY 2007 to plan for the development of an Enterprise Content Management system for the Office of Foreign Assets Control, as part of the overall Department effort to develop Treasury-wide document management systems.

The FY 2007 request for Department-wide Systems and Capital Investment Program is $34,032,000, an increase of $9,864,000 above the FY 2006 enacted level.

DSCIP Funding by Program

(Dollars in Thousands)



Performance Highlights

Treasury has made significant progress on key initiatives managed through the DSCIP program. Highlights of these accomplishments include:

Critical Infrastructure Protection (CIP): Homeland Security Presidential Directive 7 (HSPD-7) requires that federal agencies identify, prioritize and determine the interdependencies of critical assets in order to provide an appropriate level of cyber and physical asset protection. Treasury completed the Project Matrix Refresh effort, an assessment and evaluation of the Department's critical cyber and physical assets and key resources. This initiative, one of the Department's "Proud To Be" milestones under the President's Management Agenda, assists Treasury in its emergency preparedness efforts and disaster recovery planning. Completion of Project Matrix Refresh also enables the Department of Homeland Security to address assets and key resources across the federal government that impact U.S. national security.

Presidential E-Government Initiatives: Treasury is fully participating in 17 of the 25 E-Government initiatives and four of the six E-Government Lines of Business. Treasury worked diligently with the Managing Partners of the Presidential E-Government Initiatives and completed all required Memoranda of Understanding with other federal agencies by March 30, 2005. By facilitating discussions between Departmental E-Government representatives and the Federal Managing Partners, Treasury-wide coordination has improved and transition activities have begun to identify and eliminate duplicative systems.

Cyber Security: Improvements have been made in Treasury's Federal Information Security Management Act (FISMA) performance. For example, gains have been made in the number of Treasury systems certified and accredited.

In FY 2005, the Office of Domestic Finance contributed to the Department's strategic objectives to increase resiliency and protection of the financial system by:

- Increasing the number of protective response planning exercises for critical institutions,
- Continuing to test crisis response of Federal financial regulators,
- Working with the Financial Services Information Sharing and Analysis Center to ensure it has accurate and useful information and that it continues to build membership,
- Working with other sectors on which financial services is interdependent to address vulnerabilities, as well as improving the tools and processes used to communicate with the public and private sectors,
- Monitoring the finalization of rules and implementation of procedures required under

DSCIP Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met?	FY 2006 Target	FY 2007 Target
Department-wide Systems and Capital Investments Program	Inrease the quality of information sharing of U.S. financial information between the Federal government and the U.S. financial services sector institutions. (%) (Ot)	67	309	20	✓	10	0
	Increase the reliance of Treasury programs to ensure the effective operation of the U.S. financial system. (% growth) (Ot)	n/a	n/a	n/a	n/a	6	6
	Support and encourage the formation of regional coalitions. (Ot)	n/a	n/a	n/a	n/a	2	2
	Treasury Secure Data Network (TSDN) is within 10 percent of cost and schedule. (%) (E)	n/a	n/a	n/a	n/a	10	10
	Treasury Foreign Intelligence Network (TFIN) is within 10 percent of cost and schedule. (%) (E)	n/a	n/a	n/a	n/a	10	10
	Office of Foreign Assests Control (OFAC) Enterprise Content Management is within 10 percent of cost and schedule. (%) (E)	n/a	n/a	n/a	n/a	10	10

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

the Fair and Accurate Credit Transactions Act to ensure consistency with the intent of the statute, and

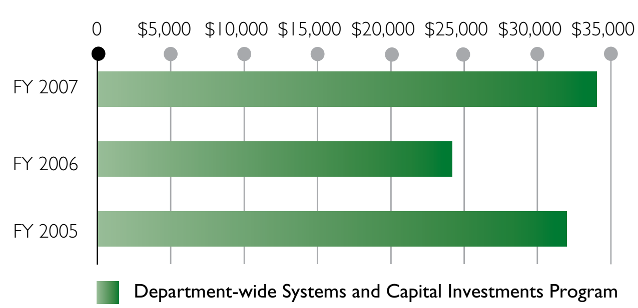
- Discharging Treasury's obligations under Homeland Security Presidential Directive 7.

Source of Funds

The DSCIP request of $34,032,000 is from direct appropriations.

DSCIP Funding History

(Dollars in Thousands)



FY 2007 Budget Adjustments

FY 2006 Current Estimate

The FY 2006 current estimate of DSCIP appropriations is a total of $24,168,000 to fund the following investments: Treasury Foreign Intelligence Network (TFIN), Treasury Secure Data Network (TSDN) the Critical Infrastructure Program, E-Government Initiatives, Treasury Back-up Disaster Recovery Capacity, Integrated Wireless Network, Cyber Security, Enterprise Architecture, Defense Messaging System, and Documents Management.

Planned Investments

Treasury Foreign Intelligence Network (TFIN) +21,200,000/0 FTE The Office of Terrorism and Financial Intelligence is responsible for coordinating bureau and policy office intelligence related to terrorist financing and other national security threats related to financial crime. As Treasury's role in supporting the intelligence community and national security directives continues to grow, so does the urgent requirement for a robust, reliable, and secure classified network. TFIN is a Top Secret/Sensitive Compartmented

Information (TS/SCI) system critical to the support of Treasury's national security mission. Current TFIN network equipment and software is unstable and soon will no longer receive technical support from the manufacturer. It has become increasingly difficult for Treasury to exchange information with the intelligence community and other necessary entities.

A system upgrade is needed to address network stability and ensure adequate cyber security capabilities. These enhancements are necessary to bring the operating system and related security measures into line with the rest of the intelligence community. TFIN is the Department's top priority. The FY 2007 request will complete the redesign and modernization of TFIN in FY 2007 and the installation of full back up and recovery capability for TFIN in the second quarter of FY 2008. A redesigned TFIN will fully leverage new technologies and capabilities and include replacement of core servers, terminals, and funding for maintenance. Enhancements include replacement of the secure messaging system, connection to the Defense Messaging System, and an intelligence community–compatible analytical toolset for use by analysts and the watch office.

Treasury Secure Data Network (TSDN) +$4,003,000 /0 FTE The Treasury Secure Data Network (TSDN) is the computer and network infrastructure that enables the communication and distribution of classified information to over 400 Departmental users. TSDN also provides Treasury users with access to the Secret Internet Protocol Router Network and the Department of Defense classified communications network, which is vital to ensure that the Office of Terrorism and Financial Intelligence, as well as IRS-Criminal Investigations, can communicate effectively with colleagues in the law enforcement and intelligence communities. Currently, most national security cable traffic, classified data, and policy information must be compiled and formulated on stand-alone personal computers and hand-carried to recipients. Full implementation of TSDN will provide staff with the capability to sort and distribute such information electronically and perform retrospective searches across multiple years of data. In addition, the current system will soon be out-of-date and no longer supported by the manufacturer. Treasury's increasing role in national security drives the greater demand for TSDN seats and services.

Office of Foreign Assets Control (OFAC) Enterprise Content Management +$627,000/0 FTE Productivity and response time improvements are critical to OFAC's continued success. An analysis of unclassified mission critical OFAC functions determined that OFAC needs an Enterprise Content Management (ECM) case-centric solution to replace its dependence on a document-centric process. Currently case folders are used in virtually every aspect of OFAC's operations, including processing licenses, investigating potential violations, and administering penalties. These folders organize all relevant documents, including correspondence, routing memos, case notes, and checklists. OFAC also needs an automated document or records management system for routing or searching for documents. An ECM solution will allow OFAC to better meet its commitments, manage its records, respond to inquiries from citizens, including Freedom of Information Act requests, and better serve its business and government customers. The FY 2007 request will fund the planning phase for ECM. OFAC will work with the Office of the Chief Information Officer to ensure that OFAC's planning is coordinated with the Department's efforts to plan for document management systems Treasury-wide.

Critical Infrastructure Protection (Financial Institutions) +$2,093,000/0 FTE Treasury has the lead role in the Homeland Security Presidential Directive 7 (HSPD-7) that protects the U.S. banking and finance sector's critical infrastructure. This funding is requested to decrease the financial sector's susceptibility to terrorist events and natural disasters. An example of HSPD-7 and CIP efforts is the response mechanisms that helped restore financial services in the aftermath of Hurricane Katrina. Response was much quicker in areas impacted by the storms, as regulatory obstacles like the waiving of certain rules were removed, allowing financial institutions to co-locate in undamaged buildings. Treasury also informed the financial institutions about federal relief payments, policies on the cashing of checks issued by the government, and restoration plans for electricity and telecommunications.

Back-up Disaster Recovery Capacity +$1,656,000/0 FTE Treasury must maintain and enhance the Department's disaster recovery capabilities. These critical efforts protect many of Treasury's technology systems and provide for the continuity of operations for key Treasury officials and functions in the event of a disaster. This provides for ongoing support for existing servers, software for DO critical services such as email, shared drive and mainframe applications, email archiving and internet access.

Cyber Security +$2,244,000/0 FTE This program ensures Department-wide compliance with Federal and Treasury security policy, and in particular, with the Federal Information Security Management Act (FISMA). Funding is requested to protect Treasury's security posture by providing adequate policy and compliance reviews, and to improve the Department's FISMA performance and overall cyber security posture. In October 2005, Treasury's Office of Inspector General (OIG) found that Treasury was in substantial non-compliance with FISMA. According to the Congressional scorecard, the Department currently has a grade of "D." Under current conditions, Treasury's risk for catastrophic network intrusion, including exposure of sensitive, collateral classified and intelligence information processed by Treasury systems, could increase. This funding also supports the majority of compliance and oversight activities required by various laws and directives that are enforced by the OIG, Government Accountability Office, and Office of Management and Budget. Funding is requested to prevent non-compliance with the law and regulatory requirements in many potential areas.

E-Government Initiatives +$2,209,000/0 FTE The Office of the Chief of Information Officer (OCIO) oversees the Department's participation in the Government-wide E-Government initiatives. As provided by the E-Government Act of 2002 and the President's Management Agenda, Treasury receives services from the shared solutions developed within a number of the E-Government Initiatives and Lines of Business. Treasury is currently a partner in 17 of these initiatives and four Lines of Business. OCIO ensures the execution of Memoranda of Understanding with the Managing Partner agencies and commits Treasury to fulfilling its contribution to the initiatives as agreed to with the Managing Partner agencies.

The Financial Crimes Enforcement Network

Mission:

To safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.

Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 Change	FY 2007 % Change
Salaries and Expenses	$71,922	$72,894	$89,794	$16,900	23.2%
BSA Administration & Analysis	63,635	64,458	81,143	16,685	25.9%
Regulatory Support Programs, including MSB	8,287	8,436	8,651	215	2.5%
Subtotal, Financial Crimes Enforcement Network	$71,922	$72,894	$89,794	$16,900	23.2%
Offsetting Collections - Reimbursables	1,541	3,541	1,541	(2,000)	-56.5%
Total Program Operating Level	$73,463	$76,435	$91,335	$14,900	19.5%

Overview

The Financial Crimes Enforcement Network (FinCEN), a bureau which reports to the Under Secretary, Office of Terrorism and Financial Intelligence, is the largest overt collector of financial intelligence in the United States. This is accomplished through the administration of the Bank Secrecy Act; supporting law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence; building global cooperation with counterpart financial intelligence units; and networking people, ideas, and information.

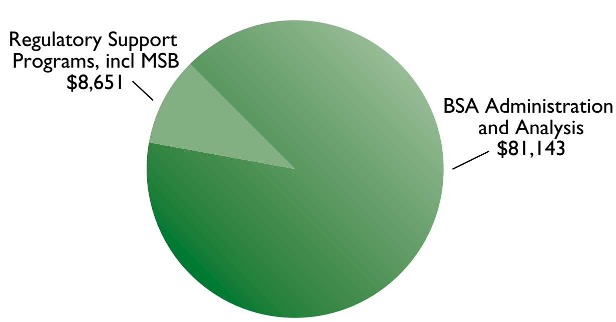
In FY 2005, FinCEN accomplished the following:

- Established and executed information sharing agreements with 41 federal and state regulatory agencies, which enables better understanding of industry compliance with the Bank Secrecy Act, and improves interagency cooperation in the areas of anti-money laundering and Bank Secrecy Act compliance,
- Hosted the 13th Egmont Plenary in June 2005, where membership in this global organization grew to more than 100 financial intelligence units,
- Managed development of the BSA Direct data warehouse, which will improve and streamline our customers' ability to accesss, and analyze data collected under the Bank Secrecy Act, and
- Initiated a feasibility study to outline options for collecting crossborder wire transfer data, which will be completed in FY 2006.

In FY 2007, FinCEN will continue to enhance its regulatory outreach and strengthen analytical capabilities, upgrade the BSA Direct reporting and retrieval component, and, pending the Treasury Secretary's approval of the feasiblity study, begin development of a cross-border wire transfer reporting system. To accomplish these priorities, FinCEN requests $89,794,000 in direct appropriations to support 352 FTE supplemented by $1,541,000 in reimbursable resources for a total operating level of $91,335,000.

FinCEN Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

To accomplish its strategic goals, FinCEN established priorities for FY 2007. First, FinCEN will strengthen efforts to oversee the effective and uniform application of the Bank Secrecy Act (BSA), aimed at reducing vulnerability of financial institutions to abuse by terrorists and other criminals. Second, in coordination with Treasury's Office of Intelligence and Analysis, FinCEN will enhance analysis of Bank Secrecy Act data and other relevant information to combat terrorism, money laundering, and other financial crime. Third, FinCEN will intensify international anti-money laundering collaboration through the global network of financial intelligence units, playing a leadership role in the Egmont process. Finally, FinCEN will continue to enhance technology to improve the collection and access to the Bank Secrecy Act data through integration of all processes into BSA Direct.

FinCEN will continue to work closely with its regulatory partners both domestically and internationally to expand and establish information sharing processes. In FY 2005, FinCEN made significant progress in expanding information sharing among its regulatory partners and international financial intelligence units. These accomplishments include the establishment of a BSA compliance office, issuance of revised BSA examination guidelines, participation in Financial Action Task Force (FATF) bodies for the Middle East, North Africa and Eurasia, and expansion of the Egmont Secure Web to an additional nine financial intelligence units. In addition, FinCEN assessed a civil money penalty against AmSouth Bank in the amount of $10 million and Arab Bank for $24 million.

In FY 2007, FinCEN will continue to expand coordination between federal and state regulatory agencies and financial service providers. FinCEN will establish Memoranda of Understanding to exchange compliance data with an additional seven regulatory agencies, bringing to 48 the number of agencies which have agreed to share Bank Secrecy Act compliance data. FinCEN will also participate in conferences and other outreach activities to educate industries newly covered by the Bank Secrecy Act reporting regulations, process enforcement matters within one year, and issue regulatory guidance to financial institutions subject to the Bank Secrecy Act.

FinCEN analysts conduct research and analysis of BSA and other data to uncover money laundering, illicit finance and terrorist financing. In FY 2005, FinCEN increased production of complex analytic work from 1.6 percent in FY 2004 to 10 percent. In FY 2007, FinCEN will increase its production of complex analysis products to 50 percent, reduce the median time between the receipt of a financial institution hotline tip and the transmittal of information to the law enforcement and intelligence community and reduce the average financial institution compliance review time. On the international side, FinCEN will also increase the number of countries connected to the Egmont Security Web.

In addition to its regulatory and analytical roles, FinCEN collects data and shares this data with authorized law enforcement, regulatory and intelligence agencies. Agencies are provided direct access to financial data through BSA access systems. In FY 2005, FinCEN surpassed the target of 3,000 direct access users and FinCEN staff developed online training and testing modules for new users. Some of the goals for FY 2007 are to increase the number of users directly accessing the BSA data to 8,000, to achieve an 80 percent electronic filing rate, and to reduce the government's cost per electronic filing of BSA forms. In FY 2007, FinCEN will continue to integrate and modernize the various components of the BSA data collection and sharing systems. This includes upgrading the electronic filing component and expanding the access capacity to serve 400 concurrent users. The goal of this modernization effort is to improve the quality of the BSA data by preventing the omission of critical information, validating the information collected, and improving feedback on the use and utility of the data.

FinCEN Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met?	FY 2006 Target	FY 2007 Target
Investigative Analysis and BSA administration	Average time to process enforcement matters (in Years) (E)	1.3	1	1.3	✘	1	1
	Percentage of customers finding FinCEN's analytic support valuable (%) (Oe)	n/a	n/a	73	✓	75	78
	Number of vulnerable industries covered by anti-money laundering regulations (Oe)	10	10	11	✘	Discontinued	Discontinued
	Number of users directly accessing BSA data through FinCEN's Gateway Process (Oe)	1,105	2,181	3,941	✓	Discontinued	Discontinued
	Percentage of users who rate the BSA Direct system satisfactory for their work requirements (Oe)	n/a	n/a	n/a	n/a	Baseline	TBD
	Number of federal and state regulatory agencies with which FinCEN has established MOU/information sharing agreements.	n/a	n/a	41	Baseline	45	48

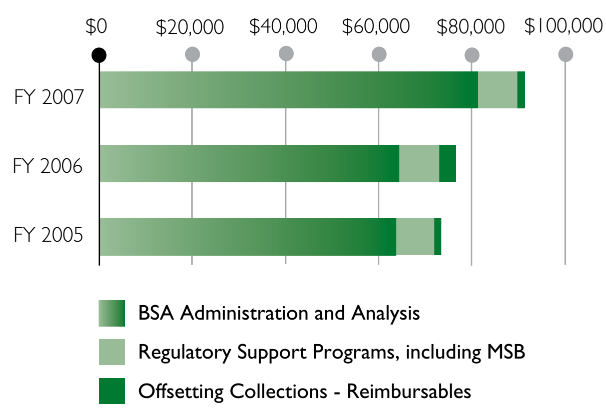
(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

Source of Funds

FinCEN requests $89,794,000 in direct appropriations to support its activities in FY 2007 and $1,541,000 from offsetting reimbursable agreements.

FinCEN Funding History

(Dollars in Thousands)



Budget Activities

Salaries and Expenses

BSA Administration and Analysis ($81,143,000 from direct appropriations and $1,541,000 from reimbursable agreements) FinCEN administers the Bank Secrecy Act through the promulgation of regulations, provides outreach and guidance to the regulated industries, initiates regulatory enforcement actions, and provides oversight of the compliance with the Bank Secrecy Act. FinCEN supports law enforcement and intelligence activities by linking the BSA data with other data to support policy decisions. FinCEN also facilitates the exchange and analysis of investigative information with foreign jurisdictions, and refers information that identifies suspicious financial activity. FinCEN is modernizing the systems that provide direct access to the BSA data to authorized law enforcement, regulatory, and intelligence agencies.

Regulatory Support Programs, including Money Services Businesses ($8,651,000 from direct appropriations) This activity supports requirements to strengthen anti-money laundering controls with the money services industry, casinos, securities broker-dealers, and other industries with new program or reporting requirements under the Bank Secrecy Act. This budget activity also supports FinCEN's efforts with the Internal Revenue Service to ensure industry compliance and support the collection of BSA data in the money services industry.

FinCEN FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
FY 2005 Enacted	$71,922
FY 2006 Appropriation (P.L. 109-115)	73,630
Rescission (P.L. 109-148)	(736)
FY 2006 Enacted	**$72,894**
Current Services	
Adjustments to Maintain Current Levels	$4,427
Annualization of FY 2006 Initiatives	2,498
Pay Annualization	229
Proposed Pay Raise	635
Non-Pay Inflation Adjustment	1,065
Program Reductions	($5,749)
Realignments to Enhance Critical Operations	(3,211)
Realignments to Strengthen Regulatory Oversight	(2,538)
Base Re-investments	5,749
Enhancements to Strengthen Critical Operations	3,211
Stregthen Regulatory Compliance and Oversight	2,538
Current Services Level	**$77,321**
Program Adjustments	
Program Increases	12,473
Enhance BSA Direct, including electronic filing	2,473
Develop BSA Direct - Crossborder Wire Transfer System	10,000
FY 2007 President's Budget Request	**$89,794**

FY 2007 Budget Adjustments

FY 2006 Enacted

Current FY 2006 estimate to fund salaries and expenses is $72,894,000. FinCEN will invest at least $500,000 of unexpended prior year funding to support the transition and modernization of BSA collection and dissemination processes or systems. Specifically, this includes a critical study of the Internal Revenue Service's BSA collection and dissemination processes. This study is crucial to planning for transition of all BSA process from the Internal Revenue Service to the Financial Crimes Enforcement Network. Other related modernization and transition costs may be identified as FinCEN continues to roll out BSA Direct systems.

Current Services

Adjustments to Maintain Current Levels +1,929,000/0 FTE FinCEN requests $229,000 to fund the FY 2007 cost of the January 2006 pay increase; $635,000 to fund the proposed January 2007 pay raise and other labor related benefits; and $1,065,000 for non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments.

Annualization of the FY 2006 Program Increases +$2,498,000/+18 FTE This provides additional funding to annualize the staffing initiative approved in FY 2006. The increased staff enables the bureau to better assess and respond to the challenges posed by terrorist financiers and operatives, money launderers, and other perpetrators of financial crime against domestic and global financial systems. This includes: 1) enhance outreach to financial institutions newly covered by Bank Secrecy Act Regulations, and strengthen oversight of examination and enforcement activities; 2) strengthen analytical support services by building a secure support structure to fully integrate all data sources; 3) expand support to international financial intelligence units to facilitate information exchange and coordination, and increase technical support and training functions associated with expanding the Egmont secure network; and 4) upgrade Bank Secrecy Act filing environment by improving marketing and outreach for electronic filing and augment analytical tools to improve search capabilities.

Program Reductions

Realignments to Enhance Critical Operations -$3,211,000/-19 FTE FinCEN continually reviews and reprioritizes its activities to meet critical mission requirements. Following a major reorganization in FY 2005, FinCEN realigned resources to better address the goals in its updated Strategic Plan. This included automating a number of data-related functions performed by contractors to facilitate information sharing under Section 314(a) of the USA PATRIOT Act, retiring internal legacy systems whose functionality will be encompassed in the new BSA Direct system, reducing the number of supervisory staff by ten to create a more proportionate organizational structure, and consolidating duties of five administrative positions to improve operational efficiency.

Realignments to Strengthen Regulatory Oversight -$2,538,000/-19 FTE As part of the reorganization completed in FY 2005, FinCEN reevaluated BSA compliance oversight activities in light of several high-profile enforcement actions. As a result of this review, FinCEN reassigned five personnel from regulatory policy to compliance oversight issues. Similarly, FinCEN also reprioritized analytical efforts by redirecting fourteen positions from law enforcement case analysis to analyze BSA data to identify potential regulatory compliance issues and analyze information obtained from the new regulatory information sharing agreements.

Base Reinvestments

Enhancements to Strengthen Critical Operations +$3,211,000/+23 FTE FinCEN redirected contract funds from the automation of 314(a) functions to create four new positions to centralize compliance assistance for 314(a) activities, enhancing our information sharing program. FinCEN also redirected five staff supporting legacy systems that will be replaced, to strengthen BSA Direct project oversight and related activities. Most significantly, FinCEN redirected 10 employees from supervisory positions to higher priority operational functions throughout the organization, strengthening functions critical to achieving the revised strategic goals. Finally, FinCEN consolidated administrative activities and redeployed four positions to support the expanding workload associated with managing BSA Direct customer profiles.

Strengthen Regulatory Compliance and Oversight +$2,538,000/+19 FTE FinCEN redirected staff to enhance compliance oversight functions both in the regulatory and analytical areas. Specifically, FinCEN redirected five regulatory policy staff to establish a dedicated staff to oversee Bank Secrecy Act compliance activities, forming the Office of Compliance. In addition, FinCEN restructured investigative and strategic analytical functions and reassigned fourteen staff to form the Office of Regulatory support. This expanded support provides dedicated analytical support to enhance oversight through Bank Secrecy Act data analysis to identify potential regulatory compliance issues and systematic data quality inconsistencies.

Program Increases

Enhance BSA Direct +$2,473,000/0 FTE To improve operations and align functional responsibilities, the Bank Secrecy Act (BSA) collection processes will transition over time from the Internal Revenue Service to the Financial Crimes Enforcement Network. In anticipation of this transition, FinCEN will enhance the BSA Direct system, including integration and enhancements to the BSA electronic filing component. These upgrades include reference number assignment, error notification or other correspondence, and improved editing of certain types of filing errors. The retrieval and sharing component that will become operational in FY 2006, will require system enhancements to accommodate anticipated growth in the user base. This increase supports growth within the user base as users are transitioned from other BSA access systems to BSA Direct.

BSA Direct - Cross-Border Wire Transfer System Initiative +$10,000,000/0 FTE The Intelligence Reform Act of 2004, Section 6302, directed the Secretary of the Treasury to report to Congress on the necessity and feasibility of implementing technological systems to receive, store, exploit, and disseminate reports of certain cross-border electronic transmittals of funds. If the Secretary determines such systems are reasonably necessary to fight financial crime and feasible, a significant portion of the system development must occur in FY 2007 to meet the statutory completion deadline of December 2007. This will also include the prescription of regulations requiring appropriate financial institutions to submit such reports to FinCEN. As background, current data systems contain approximately 175 million individual reports (about 15 million per year). The proposed investment would require the capacity to receive, store, analyze, and disseminate tens of millions of additional reports per year. To meet the high data storage and retrieval requirements associated with this report, FinCEN will expand several components of the BSA Direct System. The investment will significantly enhance our ability to support intelligence agencies and law enforcement customers in conducting complex financial investigations, enhance law enforcement's ability to punish and deter criminal activity, including terrorist financing, and improve the Department of the Treasury's ability to support future seizure and forfeiture activities.

Alcohol and Tobacco Tax and Trade Bureau

Mission:

To collect alcohol, tobacco, firearms and ammunition excise taxes, to ensure that alcohol beverages are labeled, advertised and marketed in accordance with the law, and to administer the laws and regulations in a manner that protects the revenue, protects the consumer and promotes voluntary compliance.

Program Summary by Appropriations Account

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
Appropriation	Enacted	Enacted	President's Budget	Change	% Change
Salaries and Expenses	$82,336	$90,215	$92,604	$2,389	2.6%
Collect the Revenue	45,285	49,618	45,376	(4,242)	-8.5%
Protect the Public	37,051	40,597	47,228	6,631	16.3%
Subtotal, Alcohol and Tobacco Tax and Trade Bureau *	$82,336	$90,215	$92,604	$2,389	2.6%
Offsetting Collections - Reimbursables	1,700	1,700	1,700	0	0.0%
Total Program Operating Level	$84,036	$91,915	$94,304	$2,389	2.6%

* In FY 2007 the Protect the Public regulatory activity is to be funded partially from new proposed user fees in the amount of $28,640.

Overview

The Alcohol and Tobacco Tax and Trade Bureau (TTB) serves as the nation's leader on uniquely regulated consumer products: alcohol and tobacco. TTB is charged with collecting alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly $15 billion in taxes annually, making TTB the third largest tax collection agency in the U.S. Government. Key to collecting all the revenue rightfully due are identifying any gaps in tax payment and a balanced field approach of audit and investigations that target non-compliant industry members, both of which help ensure voluntary compliance. Taxes collected by TTB are remitted to the Department of the Treasury General fund. The firearms and ammunition excise taxes are an exception, and are remitted to the Fish and Wildlife Restoration Fund.

TTB's Protect the Public strategy assures the integrity of products and industry members in the marketplace, ensures compliance with laws and regulations and provides information to the public as a means to prevent consumer deception. TTB enforces federal laws related to labeling, advertising and marketing of alcohol and tobacco products through education, inspection, laboratory testing and investigation. TTB works with industry, state governments, and other interested parties to facilitate compliance with regulatory requirements. TTB provides technical expertise, training, information and research results to industry members, government agencies and others in order to better protect and serve the public. TTB relies on innovation, partnership, and open communication to achieve this strategic goal.

In FY 2005 TTB:

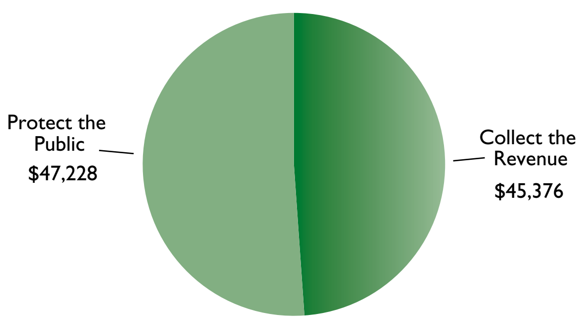
- Collected $14.7 billion in excise taxes and processed over 400,000 tax returns at the National Revenue Center,
- Processed more than 4,000 original permit applications that allow for the start up of new businesses in the alcohol and tobacco industries,

- Collected $367 in alcohol and tobacco excise taxes for every dollar spent on administration, making TTB a highly efficient operation,
- Processed over 110,000 applications for certificates of label approval that allow industry members to introduce new alcohol products into the marketplace,
- Collected $420 million in excise taxes for the government of Puerto Rico and $6 million for the Virgin Islands, and
- Processed $317 million in drawback claims for manufacturers of non-beverage alcohol products.

Total resources required to support the Bureau's activities for FY 2007 are $92,604,000 from direct appropriations, $1,700,000 from offsetting collections and reimbursable programs, and $28,640,000 from the new User Fee Proposal.

TTB Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

TTB makes integration of performance measures and budget a priority. This was evident in FY 2005 as TTB met or exceeded its performance targets for each of its measures. TTB plans to continue to improve its core business operations and provide high quality service to its industry members.

In FY 2005, TTB continued to expand its e-filing program to allow all excise taxpayers (roughly 7,300) to file and pay taxes electronically through the Pay.Gov program. There are approximately 1,000 industry members enrolled to e-file through the Pay.Gov program. The Bureau met its FY 2005 performance target of 98 percent of tax receipts collected via electronic funds transfer and plans to meet the goal again in FY 2007. Voluntary compliance is also an important element of the TTB collection strategy. TTB met its FY 2005 target to have 70 percent of the total taxpayers file payments on or before the scheduled due date. TTB plans to meet its target of 78 percent set for FY 2007.

TTB is auditing the largest 200 taxpayers who pay over 98 percent of federal excise tax collections by 2008. This multi-year effort is the driving force to measure and close the tax gap. Through 2005, TTB has audited 113 of the 200 largest taxpayers, and plans to finish the remaining taxpayers in FY 2007 and FY 2008. Audit findings have resulted in an additional $4.3 million of revenue and $10.2 million in tax penalties and interest. While the audit effort focuses on the major taxpayers, remaining taxpayers are audited based on risk and random sampling. In FY 2007, the Bureau plans to complete 90 to 100 field audits of taxpayers. The FY 2005 audit performance target was met in that TTB audited 82 percent of the excise tax revenue collected and the FY 2007 target has been set higher at 98 percent.

TTB collects federal excise taxes on certain articles produced in Puerto Rico and the Virgin Islands that are imported into the U.S. In FY 2005, TTB processed $426 million in payments to Puerto Rico and the Virgin Islands.

Under current law, persons who use non-beverage alcohol in the manufacture or production of medicines, medical preparations, food products, flavors, flavoring extracts or perfume may be eligible to claim drawback of excise tax paid on distilled spirits used in their products. During FY 2005, TTB processed $317 million in drawback claims. Claimants must submit a product formula to the TTB laboratory for analysis and approval of the non-beverage product before filing a claim.

TTB Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met	FY 2006 Target	FY 2007 Target
Collect the Revenue	Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)	n/a	n/a	82	✓	90	98
	Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)	n/a	n/a	70	✓	74	78
	Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue)(%) (Oe)	80	81.2	86.3	✓	86	88
	Percentage of total tax receipts collected electronically (%) (Oe)	98	97.3	98	✓	98	98
	Resources as a percentage of revenue (%) (E)	n/a	n/a	0.37	n/a	0.34	0.34
	Unit cost to process an excise tax return based on new legislation ($) (E)	n/a	n/a	71	n/a	Baseline	TBD
	Ratio of taxes collected vs. resources expended (Ot)	242	368	367	✓	Discon-tinued	Discon-tinued
Protect the Public	Percent of electronically filed Certificate of Label Approval applications (%) (Oe)	3	10	25	✓	27	30
	Percentage of COLA approval applications processed within 9 calender days of receipt (%) (E)	57	23	50	✓	55	57
	Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)	n/a	n/a	81	✓	80	82

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

TTB's "Collect the Revenue" budget activity received an effective rating on its Program Assessment Rating Tool (PART) evaluation. The results of the PART indicate that TTB has an effective program to collect federal excise taxes. The Bureau has developed an action plan to address PART findings and recommendations.

The tobacco and alcohol industries have the potential to participate in illicit activity, so it is crucial that organized crime and terrorists are kept out of these industries. To combat illegal activity in its regulated industries, TTB issues original and amended permits to persons for the production and operation of its regulated industries. In FY 2005, TTB issued 4,000 original and 11,000 amended permits, and conducted field inspections on 400 of these applications. The Bureau exceeded its FY 2005 performance target by completing 81 percent of the permit transactions within 60 days. TTB plans to meet its FY 2007 target of 82 percent.

The Federal Alcohol Administration Act requires importers and bottlers of beverage alcohol to obtain a certificate of label approval or certificate of exemption from label approval (COLA) for most alcoholic beverages. During FY 2005, TTB processed over 110,000 COLAs. In FY 2003, TTB launched an e-filing option for obtaining label approval. The Bureau continues to encourage its use by all industry members. The number of e-filers and the percent of the e-filed applications have risen steadily since the launch. In FY 2005, TTB exceeded the performance target of processing 30 percent of all COLAs within nine calendar days of receipt. TTB plans to meet or exceed the target of 57 percent for FY 2007. TTB also met the performance goal to receive 25 percent of all COLAs electronically, and TTB plans to meet or exceed its FY 2007 target of 30 percent.

TTB's rulemaking provides guidance to industry members to promote voluntary compliance with regulations. In FY 2007, TTB will address issues including allergen warnings, ingredient listings and "serving facts" panels in alcohol labels.

TTB provides significant support to the Office of the U.S. Trade Representative. For example, TTB provided technical, legal and regulatory advice for cross-border trade negotiations in tequila between the U.S. and Mexico. The U.S.-Mexico tequila agreement will ensure the continuation of exports of tequila from Mexico to the U.S. valued at approximately $400 million per year.

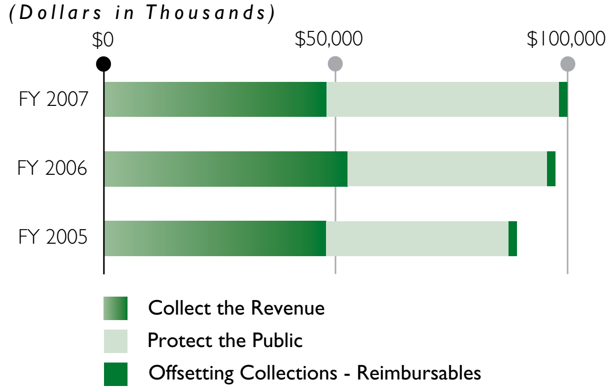
Source of Funds

The TTB request of $94,304,000 includes direct appropriations to cover the salaries and expenses account for $63,964,000, the new user fee proposal for $28,640,000, and an estimate of $1,700,000 in offsetting collections and reimbursable programs relating to necessary expenses for conducting Puerto Rican enforcement operations.

The budget proposes to establish user fees to cover the costs of TTB's regulatory functions under its "Protect the Public" line-of-business. The new user fees include administrative fees for "drawbacks" from Manufacturers of Non Beverage Products (MNBP), filing fees for Certificate of Label Approvals (COLA) for distilled spirits, wine and beer, American Viticultural Areas (AVA), proposed formulas, and new permit applications. The industry would pay for the benefits it receives from TTB's regulatory efforts. These efforts assure the public of unadulterated alcohol and tobacco products, help product sales, and promote fair competition among industry members. The President's Budget proposes authorizing legislation to collect mandatory receipts and appropriation language that would allow these receipts to be spent on the discretionary program in 2007. Under this proposal, funds will be provided from the general fund to the extent that mandatory receipts are not collected, or fall short of the estimated $28,640,000 in fee revenue.

TTB Funding History

(Dollars in Thousands)



Budget Activities

Salaries and Expenses

Collect the Revenue ($46,209,000, including $45,376,000 from direct appropriations and $833,000 in reimbursable funding) The Collect the Revenue budget activity encompasses TTB's revenue strategy and goal to provide the most effective and efficient system for the collection of revenue that is rightfully due; prevent or eliminate tax evasion and other criminal conduct; and provide high quality service while imposing the least regulatory burden. This program includes projects designed to allow taxpayers to report and pay excise taxes electronically and enable industry customers to access the Pay.Gov system.

Protect the Public ($48,095,000 including $18,588,000 from direct appropriations, $28,640,000 from user fees and $867,000 in reimbursable funding) The Protect the Public budget activity encompasses TTB's strategy and goal to ensure compliance with laws and regulations by regulated industries by providing adequate information to the public as to the identity of alcohol beverages and preventing consumer deception. Under this activity, TTB enforces compliance with federal laws related to the production and distribution of alcohol products through education, inspection, investigation, and laboratory testing. TTB provides technical expertise, training, information, and research results to industry members, government agencies and others in order to better protect the public. TTB relies on innovation, partnership and open communication to ensure the safety of the public.

TTB FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
FY 2005 Enacted	**$82,336**
FY 2006 Appropriation (P.L. 109-115)	91,126
Rescission (P.L. 109-148)	(911)
FY 2006 Enacted	**$90,215**
Current Services	
Adjustments to Maintain Current Levels	$2,413
Pay Annualization	401
Proposed Pay Raise	1,103
Non-Pay Inflation Adjustment	909
Program Reductions	($1,600)
Tax Services-SOT Suspension/Quarterly Tax Filings	(1,600)
Base Reinvestment	$1,576
BPD ARC Cost Increase	340
Permit Applications	308
WCF-IT Infrastructure Cost for TCS and DTS	503
Wine, Distilled Spirits, Tobacco/Tax Processing	425
Current Services Level	**$92,604**
Program Adjustments	
Program Increases	0
FY 2007 President's Budget*	**$92,604**

*FY 2007 President's Budget Request does not include $28,640 in new proposed user fees.

FY2007 Budget Adjustments

FY 2006 Enacted

The FY 2006 TTB appropriation after the one percent rescission (P.L. 109-148) is $90,215,000. An additional 1,700,000 is made available for operating expenses from offsetting collections and reimbursable programs.

Current Services

Adjustments to Maintain Current Levels +$2,413,000/0 FTE Funds requested for FY 2007 include the cost of the FY 2007 pay increase of $1,103,000; annualization of a FY 2006 pay raise of $401,000; and non-labor costs of $909,000.

Program Reductions

Tax Services – SOT Suspension /Quarterly Tax Filings - $1,600,000/0 FTE Recent statutory changes to the Internal Revenue Code of 1986 (IRC) affects TTB and its taxpayers in two ways. First, it suspended the Special Occupational Tax (SOT) on most alcohol taxpayers, effective July 1, 2005, and then repealed SOT for all alcohol taxpayers effective July 1, 2008. Likewise, the law amended the tax payment and return provisions of IRC section 5061 to allow taxpayers to submit their tax returns and tax payments on a quarterly basis rather than a semi-monthly basis, provided that their annual liability does not exceed $50,000. Effective January 1, 2006, eligible taxpayers may pay their taxes and submit their returns on a quarterly basis, thus reducing the regulatory filing burden on those taxpayers.

Base Reinvestments

Base Reinvestments + $1,576,000/0 FTE The Bureau realized $1.6 million in savings attributed to these legislative changes and reinvested all but $24,000 dollars into operations to support the mission. These funds were reinvested in IT infrastructure, tax processing, and other mission critical operational costs.

Legislative Proposals

The following legislative proposals are being resubmitted as part of the FY 2007 President's budget request.

Extend Pay Demonstration Program: SEC. 216. Section 122(g) (1) of Public Law 109-115 (5 U.S.C. 3104 note) is further amended by striking "8 years" and inserting "9 years".

- The Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 authorized the Secretary of the Treasury to establish in the Department of Treasury a personnel management demonstration project ("pay demonstration project") for designated critical technical positions. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. The Treasury Department authorized TTB's predecessor to establish a pay demonstration project and the Homeland Security Act of 2002, which established TTB, provided for the continuation of the pay demonstration project in TTB. The pay demonstration project has been extended several times to cover successive fiscal years to include FY 2006. This change would extend the project through FY 2007.
- User Fees: To introduce permanent legislation to allow TTB to collect user fees to cover certain costs of its regulatory functions under the "Protect the Public" line of business. The new user fees covered under this initiative would include administrative fees for "drawbacks" from Manufacturers of Non Beverage Products, filing fees for Certificate of Label Approvals for distilled spirits, wine and beer, American Viticultural Areas proposed formulas, and new permit applications. This change would generate estimated user fee collections of $28,640,000 each year and would require an amendment to the Internal Revenue Code (Title Internal Revenue Code of 1986, Title 26 U.S.C.) and the Federal Alcohol Administration Act, (Title 27 U.S.C.) and system and operational changes would be needed to implement this proposal. The President's budget proposes authorizing legislation to collect mandatory receipts. Language in the appropriations bill will allow these receipts to be spent on the discretionary program for FY 2007.

The Treasury Office of Inspector General

Mission:

To promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations, and prevent and detect fraud, waste and abuse in Treasury programs and operations.

Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 Change	FY 2007 % Change
Salaries and Expenses	**$16,368**	**$16,830**	**$17,352**	**$522**	**3.1%**
Audits	11,299	11,549	11,908	359	3.1%
Investigations	5,069	5,281	5,444	163	3.1%
Subtotal, Office of Inspector General	**$16,368**	**$16,830**	**$17,352**	**$522**	**3.1%**
Offsetting Collections - Reimbursables	2,342	2,342	2,342	0	0.0%
Total Program Operating Level	**$18,710**	**$19,172**	**$19,694**	**$522**	**2.7%**

Overview

The Treasury Office of Inspector General (OIG) conducts audits and investigations of eight Treasury bureaus and all non-IRS Treasury offices in accordance with the Inspector General Act, as amended. OIG audits and investigates Treasury programs and operations to: promote economy, efficiency, and effectiveness; prevent and detect fraud, waste and abuse; and keep the Secretary of the Treasury and the Congress informed of problems, deficiencies and corrective actions.

Since the major divestiture of OIG resources and personnel to Homeland Security in 2003, OIG has made steady improvement in the number of audits completed and the number of cases referred for criminal prosecution, civil litigation or administrative action. FY 2007 approved resources will allow OIG to maintain performance at a level consistent with FY 2006.

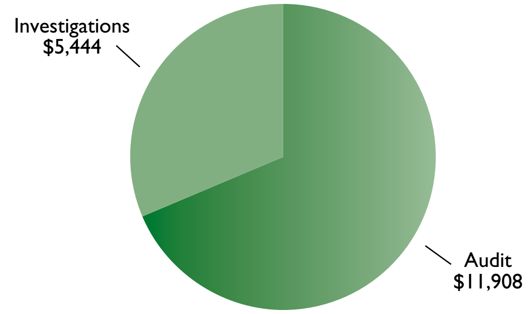
In FY 2005, OIG:

- Completed 54 audits and evaluations which identified monetary benefits (cost savings and/or funds put to better use) totaling approximately $52 million,
- Completed 100 percent of statutory audits by the required date, and
- Referred 85 cases for criminal prosecution, civil litigation, or corrective administrative action, making progress against a growing caseload backlog.

The OIG is requesting a FY 2007 resource level of $17,352,000 and 115 FTE which will permit Treasury OIG to maintain current operations, and will enable the completion of 56 audits, completion of 100 percent of mandated audits on time and referral of 85 cases for criminal prosecution, civil litigation or administrative action. The OIG also has approximately $2.3 million for reimbursable operations.

OIG Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

The Treasury OIG's Office of Audit performs audits, attestation engagements and evaluations that are mandated by law, support the President's Management Agenda, and address high risk programs and operations. The Office of Audit also responds to requests by Treasury officials and the Congress for specific work. The number of Congressionally required audits has increased in recent years.

After divestiture, OIG redirected a significant portion of its resources to auditing Treasury programs that combat terrorist financing and money laundering, including a number of important audits at the Financial Crimes Enforcement Network (FinCEN). As a result of this work, FinCEN received additional funding for its operations, including the establishment of the new Office of Compliance, to remedy issues identified by OIG. A recent audit of FinCEN's Bank Secrecy Act (BSA) program found that FinCEN was on track in implementing, and in fact should expand, its BSA e-filing system. The Under Secretary for Terrorism & Financial Crimes has requested that the Office of Audit review the responsibilities and authorities of the Office of Terrorism and Financial Intelligence (TFI).

As examples of significant results during FY 2005, the OIG Office of Audit:

- Issued the audit report on Treasury's FY 2004 consolidated financial statements by November 15th, representing the 3rd year Treasury successfully reported its financial results on an accelerated basis.

- Completed four audits related to FinCEN's administration of the Bank Secrecy Act (BSA). The audits provided recommendations to management for improving the quality of suspicious activity reports filed by financial institutions, increasing the use of FinCEN's BSA E-Filing system, and enhancing FinCEN's program to register money services businesses. Additionally, the OIG provided an early assessment of (1) FinCEN's efforts to establish an Office of Compliance and (2) the level of coorperation under recent memorandums of understanding between FinCEN and federal banking regulators to share information.

- Reported on the results of an independent review of the on-going Treasury Building and Annex Repair and Restoration (TBARR) project, a $237 million program. The review noted that Treasury exerted extraordinary effort in bringing the renovation of the Main Treasury building to its current state. However, some building code violations and other deficiences were identified which are being addressed by the Department.

For FY 2006, the Office of Audit expects to complete 56 audits and complete 100 percent of statutory audits on time. The audit priorities for FY 2006 are:

- Mandated requirements related to financial statements, information security, Treasury procurements on behalf of the Department of Defense, and as necessary, failed financial institutions resulting in material losses (more than $25 million) to the deposit insurance funds,

- Department's progress in addressing the Presidential Management Agenda (PMA) initiatives (Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government and Budget and Performance Integration), and

- Significant known and emerging areas of risk such as IT security and programs to combat terrorist financing and money laundering.

The Office of Audit will also perform a "peer review" of the Department of Education OIG under the auspices of the President's Council on Integrity and Efficiency (PCIE) Audit Committee.

In FY 2007, the Office of Audit will perform or supervise contractors to meet mandated audit requirements. The Office of Audit will also continue to work with the Department and focus a substantial amount of its self-initiated audit resources to address the major management and performance challenges identified by the Inspector General. Those challenges are (1) Corporate Management, (2) Management of Capital Investments, (3) Information Security, (4) Linking Resources to Results and (5) Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement.

The Treasury OIG Office of Investigations investigates complaints of fraud, waste and abuse in Treasury programs and operations. This includes the detection and prevention or deterrence of employee misconduct and fraud, or related financial crimes within or directed against Treasury. The Office of Investigations refers its cases to the Department of Justice and state or local prosecutors for criminal prosecution or civil litigation, or to agency leadership for corrective administrative action

The investigative caseload has remained constant even after the 2003 Homeland Security divestiture, which caused some delays in completing the more complex or high visibility investigations. Complaints of fraud, waste and abuse requiring investigative review have averaged about 7,000 per year. The Office of Investigations has improved case completion rates, and OIG investigative efforts continue to contribute to exposing and resolving fraud, waste, abuse, and criminal activities, such as:

- In March 2005, two people were sentenced as a result of investigations with FDIC and the FBI into the Sinclair National Bank failure. One person was sentenced to five years incarceration with three years supervised release and ordered to pay $4.2 million in restitution. Another person was sentenced to two years probation and fined $5,000.
- As a result of a joint investigation with the HUD OIG into fraudulent predatory lending practices, a person was indicted on 13 counts of using Fictitious Government Financial Instruments. The person used fraudulent bill of exchange instruments to purchase approximately $1.6 million in real estate from low income families.
- The Office of Investigations participated in the recovery of a missing shipment of nickels from a U.S. Mint facility valued at $180,000, that were destined for the Federal Reserve Bank in Louisiana. The contractor's tractor-trailer was eventually located, and as a result approximately $160,000 worth of nickels was recovered and five subjects were arrested.

In FY 2006, the OIG plans to refer 85 investigations for legal or administrative action with the following FY 2006 priorities:

- Investigating complaints of alleged criminal and serious misconduct,
- Investigating allegations of fraud and other crimes involving Treasury contracts, grants, guarantees, and federal funds,
- Investigating a variety of financial programs, like those where fraud and other crimes are involved in the issuance of licenses or benefits provided to citizens, and
- Proactive efforts in detecting, investigating, and deterring electronic crimes and other threats to the Department's physical and cyber critical infrastructure.

In FY 2007, the Office of Investigations plans to continue investigating all reports of fraud, waste and abuse and other criminal activity. FY 2007 resources will enable the Office of Investigations to maintain current efforts to aggresively investigate, close and refer 85 cases in a timely manner.

To more effectively use its resources the OIG closed its San Francisco field audit office in FY 2005 and reallocated those resources to Washington, D.C., where it consolidated the banking audit function. This shift in resources will increase the breadth and regularity of the OIG's banking-related work.

The OIG also maximized its efficiency, productivity, and pared down its costs in the aftermath of the 2003 Homeland Security divestiture by partnering with the Bureau of the Public Debt's Administrative Resource Center, which provides common administrative

OIG Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met	FY 2006 Target	FY 2007 Target
Audit	Number of completed audits and evaluations (Ot)	116	49	54	✓	56	56
	Percent of statutory audits completed by the required date (%) (E)	92	100	100	✓	100	100
Investigations	Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action. (Oe)	26	23	85	✓	85	85

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure)

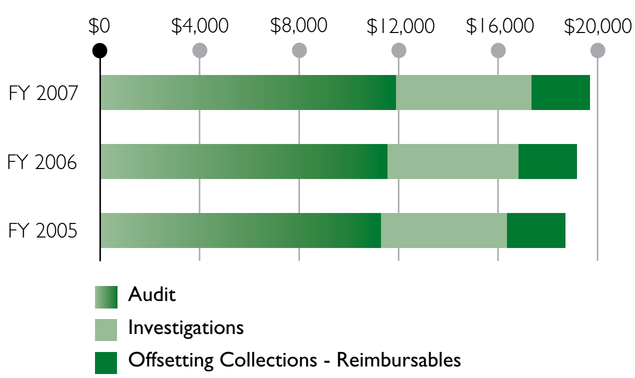
services, such as personnel and accounting services, on a fee-for-service basis. OIG plans to continue this cross-servicing arrangement in FY 2007, and has implemented a paperwork management system to reduce the amount of valuable audit and investigative talent expended on document control rather than on active audit and investigative work.

Source of Funds

OIG requests $17,352,000 from direct appropriations. OIG's budget also includes $2,342,000 from reimbursable agreements.

OIG Funding History

(Dollars in Thousands)



OIG FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
FY 2005 Enacted	**$16,368**
FY 2006 Appropriation (P.L. 109-115)	17,000
Rescission (P.L. 109-148)	(170)
FY 2006 Enacted	**$16,830**
Current Services	
Adjustments to Maintain Current Levels	$522
Pay Annualization	92
Proposed Pay Raise	315
Non-pay Inflation Adjustment	115
Current Services Level	**$17,352**
Program Adjustments	
Program Increases	$0
FY 2007 President's Budget Request	**$17,352**

Budget Activities

Salaries and Expenses

Office of Audits ($11,908,000 from direct appropriations) This office conducts audits, attestation engagements, and evaluations that are mandated by law, support the President's Management Agenda, and address high risk programs and operations.

Office of Investigations ($5,444,000 from direct appropriations) This office investigates complaints of fraud, waste and abuse in Treasury programs and operations.

Reimbursable funding ($2,342,000) This funding is for external audit-work and the Inspector General Auditor Training Institution (IGATI).

FY 2007 Budget Adjustments

FY 2006 Enacted

The FY 2006 appropriation is $16,830,000 in support of Treasury OIG's important oversight mission.

Current Services

Adjustments to Maintain Current Levels +$522,000/0 FTE January 2006 pay increase, $92,000; proposed January 2007 pay raise, $315,000; other labor related benefits; and items such as contracts, travel, and GSA rent $115,000.

The Treasury Inspector General for Tax Administration

Mission:

To provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws.

Program Summary by Appropriations Account

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
Appropriation	Enacted	Enacted	President's Budget	Change	% Change
Salaries and Expenses	$128,093	$131,953	$136,469	$4,516	3.4%
Audits	48,392	49,761	51,521	1,760	3.5%
Investigations	79,701	82,192	84,948	2,756	3.4%
Subtotal, Treasury Inspector General for Tax Administration	$128,093	$131,953	$136,469	$4,516	3.4%
Offsetting Collections - Reimbursables	2,876	1,200	1,200	0	0.0%
Total Program Operating Level	$130,969	$133,153	$137,669	$4,516	3.4%

Overview

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress to provide independent oversight of the Internal Revenue Service. TIGTA's audits and investigative services protect and promote the fair administration of the American tax system. It ensures that the IRS is accountable for more than $2 trillion in tax revenue received each year. TIGTA conducts audits that keep Congress, the Secretary of the Treasury and IRS management informed on issues, problems and deficiencies related to the administration of IRS programs and operations. Audit recommendations improve IRS systems and operations, while ensuring fair and equitable treatment of taxpayers. TIGTA's investigations ensure the integrity of IRS employees, contractors and other tax professionals; employee and infrastructure security; and protect the IRS against external attempts to corrupt tax administration. TIGTA serves taxpayers by ensuring that the tax system is overseen by an independent audit and investigative organization.

In FY 2005, TIGTA:

- Produced 180 audit reports that identified $46.7 million in potential cost savings and $83.3 billion in potential revenue enhancements,
- Developed significant audit results that refuted allegations against the IRS of political motivation in the conduct of charitable organizations during the Presidential election; identified shortcomings in the IRS' process to identify and investigate improper tax refunds to prisoners; and reported project failings in the execution of the HR Connect System,
- Addressed 8,012 complaints of alleged criminal wrongdoing or administrative misconduct, and
- Conducted investigations that led to significant prosecutions such as the indictment of six former employees of Mellon Financial Service for destroying approximately 80,000 tax return documents; and another lockbox employee who stole tax remittance checks totaling more than $2.7 million from an IRS lockbox facility.

TIGTA's FY 2007 requested funding will be used to continue to provide critical audit and investigative services, ensuring the integrity of tax administration on behalf of the nation's taxpayers. While there are a number of critical areas where TIGTA will provide oversight, highlights of four priority areas include:

1. Monitoring IRS efforts to modernize technology. The IRS must demonstrate that it can effectively manage the Business Systems Modernization program, a multi-billion dollar investment to overhaul the IRS' computer systems. TIGTA will continue to assess the IRS' efforts at managing the risks involved in this significant area.

2. Protecting tax administration from corruption. TIGTA will concentrate on promoting IRS employee integrity, protecting IRS employees and infrastructure, and defending against external attempts to corrupt tax administration.

3. Monitoring IRS efforts to improve tax compliance. IRS reports that the amount of taxes owed but not collected each year may be in excess of $300 billion. Audit and investigative work will address vulnerabilities at the IRS that contribute to this tax gap and identify opportunities for improvement.

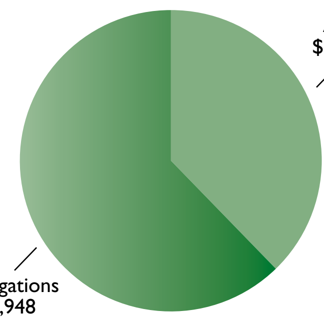
4. Monitoring IRS' use of private debt collection agencies. IRS estimates that $2.7 billion will be collected from this program in the next 10 years. The benefits for the IRS and the federal government are great, but the potential for contractors to abuse their authority is high. TIGTA will provide oversight to ensure that the IRS uses this authority effectively and that taxpayer rights are protected.

Total resources required in FY 2007 to support TIGTA's mission are $137,669,000, including $136,469,000 and 850 FTE from direct appropriations and approximately $1,200,000 from reimbursable agreements.

This request includes a funding transfer from the IRS to support shared services costs and funding to cover normal program cost increases and will be used to conduct audits and investigations that focus on IRS' high risk areas.

TIGTA Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

In FY 2007, TIGTA's audit program will strike a balance between statutory audit coverage and discretionary audit work. The statutory coverage will include audits mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98), as well as reviews that address computer security, taxpayer privacy and rights and financial matters. In addition, TIGTA will continue to monitor the IRS' modernization efforts to identify problems that the IRS may encounter as it implements new programs and information systems. Discretionary audit coverage will focus on the major management challenges facing the IRS, the IRS' response to the President's Management Agenda initiatives and the IRS' progress in achieving strategic goals and eliminating identified material weaknesses. TIGTA will also audit the IRS' evolving private debt collection initiative. In spite of the increasing complexity in audit reports, it is anticipated that auditing efforts will produce performance results at the same level or better than in FY 2005 when TIGTA issued 180 final reports, averaged 358 calendar days for report issuance, and potentially impacted 2.8 million taxpayer accounts.

TIGTA protects the ability of the IRS to collect revenue for the federal government and will continue to investigate complaints of wrongdoing that could potentially impact the integrity of tax administration. Investigations will concentrate on three core areas: (1) employee integrity; (2) employee

TIGTA Performance by Budget Activity

		FY 2003	FY 2004	FY 2005		FY 2006	FY 2007
Budget Activity	**Performance Measure**	**Actual**	**Actual**	**Actual**	**Target Met**	**Target**	**Target**
Audit	Average calendar days to issue final audit report (Ot)	317	338	358	✘	325	325
	Increase in total taxpayer accounts potentially impacted as a result of audit activities. (in Millions)(Ot)	47M	49.7M	2.8M	✘	14.5M	14.5M
Investigations	Percentage increase in positive results from investigative activities (%) (Oe)	n/a	64	82	✓	70	70

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

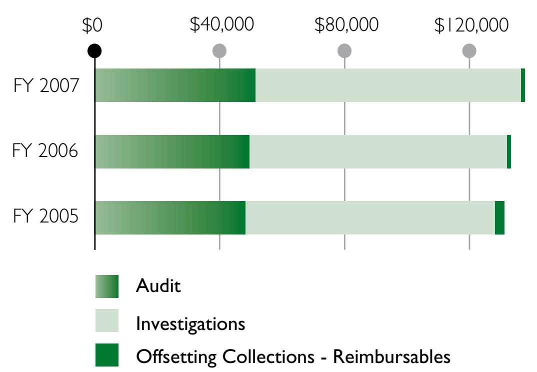
and infrastructure security; and (3) external attempts to corrupt tax administration. In FY 2005 TIGTA opened 3,513 investigations and closed 3,468, with 82 percent of its final closed cases having a positive outcome (investigative reports resulting in criminal, civil or administrative adjudication or the identification of matters of security or investigative interest). TIGTA also delivered approximately 1,400 integrity awareness presentations to approximately 46,000 attendees composed of IRS employees, tax practitioners, community groups, and others.

Source of Funds

TIGTA requests $136,469,000 from direct appropriations. TIGTA's budget also includes $1,200,000 from reimbursable agreements.

TIGTA Funding History

(Dollars in Thousands)



Budget Activities

Salaries and Expenses

Office of Audit ($51,521,000 from direct appropriations and $725,000 from reimbursements) TIGTA's Office of Audit promotes the sound administration of the nation's tax laws through comprehensive, independent performance and financial audits of IRS programs and operations. Audit emphasis is placed on the mandatory coverage imposed by the IRS Restructuring and Reform Act of 1998 (RRA 98) and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. The balance of TIGTA's audit work will focus on the IRS' progress in achieving its strategic goals, the IRS' response to the President's Management Agenda initiatives and the major management issues facing the IRS including tax compliance initiatives; use of performance and financial management information; taxpayer protection and rights; processing returns and implementing tax law changes; providing quality taxpayer service operations, and complexity of the tax law.

Office of Investigations ($84,948,000 from direct appropriations and $475,000 from reimbursements) TIGTA has the statutory responsibility to protect the integrity of tax administration and to protect the ability of the IRS to collect revenue for the Federal Government. To accomplish this, TIGTA's Office of Investigations (OI) investigates allegations of criminal violations and administrative misconduct by IRS employees, ensures IRS employee and infrastructure security and protects the IRS against external attempts to corrupt tax administration. OI accomplishes its mission by conducting professional criminal and administrative investigations that lead to criminal prosecutions for both employee and non-employee perpetrators, and administrative disciplinary actions for IRS employees. These investigations are supported by TIGTA's Forensic Laboratory that processes physical evidence for fingerprints, indications of forged or fraudulent documents, digital imaging, document chemistry, etc., and prepares presentational material for the courtroom. The Technical and Firearms Support Division supports investigations with state-of-the-art electronic equipment. The Strategic Enforcement Division administers a program to detect unauthorized invasion of taxpayers' privacy by IRS employees and it combats external attempts of computer intrusion that threaten to compromise the integrity of the IRS data infrastructure. The Criminal Intelligence Program coordinates with the FBI, CIA, DOJ and other government agencies to protect IRS personnel and facilities from external threats. OI maintains a Procurement Fraud Group that oversees the $1.6 billion Business Systems Modernization (BSM) contract and identifies fraud and procurement irregularities among the approximately 655 IRS contracts with a combined value of approximately $21.9 billion.

TIGTA FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
FY 2005 Enacted	**$128,093**
FY 2006 Appropriation (P.L. 109-115)	133,286
Rescission (P.L. 109-148)	(1,333)
FY 2006 Enacted	**$131,953**
Current Services	
Adjustments to Maintain Current Levels	$3,575
Pay Annualization	845
Proposed Pay Raise	2,120
Non-Pay Inflation Adjustment	610
Transfers from IRS	$941
Current Services Level	**$136,469**
Program Adjustments	
Program Increases	$0
FY 2007 President's Budget Request	**$136,469**

FY 2007 Budget Adjustments

FY 2006 Enacted

In FY 2006 TIGTA was appropriated $131,953,000.

Current Services

Adjustments to Maintain Current Levels +$4,516,000/0 FTE Funds are requested for the FY 2007 cost of the January 2006 pay increase of $845,000, the proposed January 2007 pay raise of $2,120,000; other labor related benefits; and non-labor related items such as contracts, travel, supplies and equipment of $610,000. Also included is a $941,000 transfer from the IRS to fund TIGTA's Working Capital Fund operating costs.

Community Development Financial Institutions Fund

Mission:

To expand the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States.

Program Summary by Appropriations Account

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
Appropriation	Enacted	Enacted	President's Budget	Change	% Change
Salaries and Expenses	$55,078	$54,450	$7,821	($46,629)	-85.6%
Community Development Financial Institutions Program	31,560	30,969	0	(30,969)	-100.0%
New Markets Tax Credit Program	6,494	4,254	4,314	60	1.4%
Bank Enterprise Awards Program	11,132	13,417	0	(13,417)	-100.0%
Native Initiatives	5,892	5,810	0	(5,810)	-100.0%
Portfolio Management	0	0	3,507	3,507	100.0%
Subtotal, The Community Development Financial Institutions Fund	$55,078	$54,450	$7,821	($46,629)	-85.6%
Total Program Operating Level	$55,078	$54,450	$7,821	($46,629)	-85.6%

Overview

The Community Development Financial Institutions Fund (CDFI) administers the New Markets Tax Credit Program (NMTC) and other grant programs.

The NMTC Program attracts private sector capital into low-income communities. Community Development Entities (CDEs) apply to the Fund for allocations of tax credits in annual competitive rounds. The CDEs in turn provide tax credits to private investors in exchange for equity investments, which are invested in low-income communities. In addition to awarding tax credits, the Fund monitors CDE compliance with the terms of their allocation agreements.

Funding is no longer requested for the Fund's three grant programs, however, funding is required to support management of the existing portfolio of grant awards, including making disbursements to awardees, and monitoring awardees to ensure compliance with the terms of their award assistance agreements.

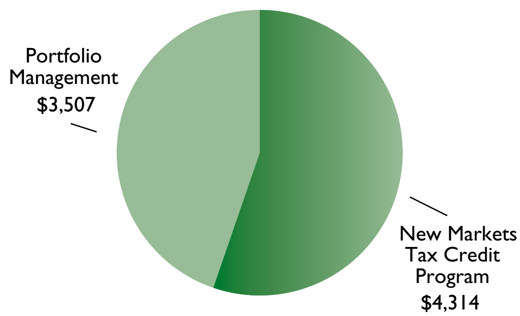
FY 2005 accomplishments include:

- NMTC and CDFI Program awardees reported creating or maintaining 23,656 full-time equivalent jobs,
- Since the program's inception, NMTC Program allocatees reported raising a total of $1.5 billion in private equity and investing $1.3 billion in low-income communities, and
- CDFI Program awardees exceeded the Fund's $500 million leverage goal for Financial Assistance (FA) awards by leveraging $1.8 billion. Overall, the leverage ratio has increased from $20:$1 to $27:$1 from the FY 2004 to FY 2005 reports.

The Fund is requesting $7,821,000 in direct appropriations.

CDFI Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

In FY 2005, the Fund did not meet performance targets relating to job creation, community development activities, and community investment.

The Fund missed its target of creating 26,995 new jobs by 3,339. The Fund believes that some, if not all, of this shortfall can be attributed to late reporting of FY 2005 performance data by awardees. To correct this problem, the Fund will work more closely with awardees to obtain performance reports in a timely manner in the future.

The Fund did not achieve its increase in community development activities measure of $134 million for Bank Enterprise Award (BEA) Program applicants. Although $103 million of community development activities by the BEA program can be verified, the shortfall of $31 million can be attributed to incomplete reporting by applicants in 2005.

NMTC allocatees did not complete the anticipated $1.4 billion in investments in low-income communities, although they came close at $1.1 billion. The Fund's FY 2005 target was based on less than one full year of historical data. The Fund now has nearly two years of data from which to project future targets. With more actual experience available, future targets should be more reliable.

CDFI Performance by Budget Activity

		FY 2003	FY 2004	FY 2005		FY 2006	FY 2007
Budget Activity	**Performance Measure**	**Actual**	**Actual**	**Actual**	**Target Met?**	**Target**	**Target**
Community Development Financial Institutions Program	Administrative costs per FA application processed ($) (E)	n/a	n/a	5130	Baseline	5130	0
	Private and non-CDFI Fund investments that CDFIs are able to leverage due to Fund financial assistance ($ in millions) (Oe)	1,623	1,300	1,800	✓	1,100	861
	FTEs created or maintained in underserved communities by CDFI Program awardees and NMTC allocatees. (Oe)	9,141	9,212	23,656	✘	29,158	34,009
Bank Enterprise Award Program	Administrative costs per BEA application processed ($) (E)	n/a	n/a	1,280	Baseline	1,280	0
	Increase in community development activities over prior year ($ in millions) (Oe)	138	307	103	✘	81	0
Native Initiatives	Administrative costs per NACA application processed ($) (E)	n/a	n/a	10,050	Baseline	10,050	0
	Increase in the total assets of Native CDFIs (%) (Oe)	n/a	39	103	✓	33	33
New Markets Tax Credit Program	Administrative costs per NMTC application processed ($) (E)	n/a	n/a	5,390	Baseline	5,390	5,390
	Investments by CDEs in low-income communities ($ in billions) (Oe)	n/a	0.1	1.1	✘	1.6	2.1

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

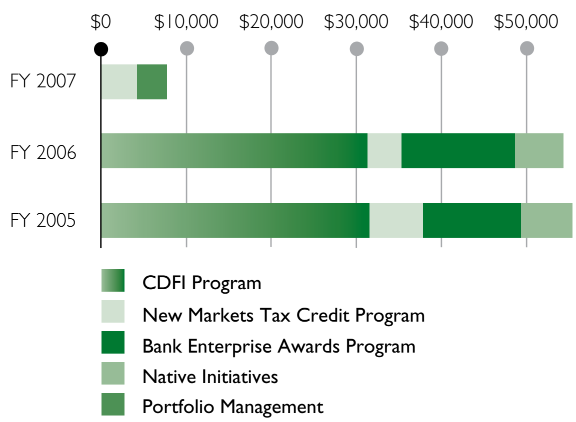
In FY 2007, the Fund projects that NMTC Program allocatees and CDFI Program awardees (that received awards in 2005 or earlier and are still required to report performance under their assistance agreements) will create or maintain 34,009 full-time equivalent jobs in economically distressed communities. This is a 60 percent increase in the number of jobs created or maintained through these programs from FY 2005. The Fund estimates that NMTC allocatees will raise $5.4 billion in private sector capital in FY 2007. The Fund also projects it will cost $5,390 to process a NMTC application, holding constant at the FY 2005 level.

Source of Funds

The Fund requests $7,821,000 in direct appropriations.

CDFI Funding History

(Dollars in Thousands)



Budget Activities

Salaries and Expenses

New Markets Tax Credit Program ($4,314,000 from direct appropriations) Funds are requested to administer the NMTC Program, including awarding tax credits to Community Development Entities (CDEs) in competitive rounds and monitoring CDE compliance with the requirements of the Program. This funding supports 19 FTEs.

Portfolio Management ($3,507,000 from direct appropriations) Although no new funding is requested for the Fund's grant programs, certain activities are required with regard to awards made through FY 2006 (the last year of program funding). These activities are related to fiscal stewardship responsibilities for assistance agreements, loans, equity investments and disbursements for all prior year awards.

CDFI FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
FY 2005 Enacted	**$55,078**
FY 2006 Appropriation (P.L. 109-115)	55,000
Rescission (P.L. 109-148)	(550)
FY 2006 Enacted	**$54,450**
Current Services	
Adjustments to Maintain Current Levels	$214
Pay Annualization	38
Proposed Pay Raise	100
Non-Pay Inflation Adjustment	76
Current Services Level	**$54,664**
Program Adjustments	
Program Reductions	
Consolidation of Programs	($46,843)
Subtotal FY 2007 Program Changes	**(46,843)**
FY 2007 President's Budget Request	**$7,821**

FY 2007 Budget Adjustments

FY 2006 Enacted

The FY 2006 current estimate for CDFI is $54,450,000 in direct appropriations, supporting 68 FTEs.

Current Services

Adjustments Necessary to Maintain Current Levels +$214,000/0 FTE Funds are requested for: the FY 2007 cost of the January 2006 pay increase of $100,000; the proposed January 2007 pay raise of $76,000; and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of $38,000.

Program Reductions

Consolidation of Programs - $46,843/-33 FTE As part of the "Strengthening America's Communities" initiative, program funding for the Fund's three grant programs is being consolidated in the Departments of Housing and Urban Development and Commerce for FY 2007. This consolidation includes a reduction of $40,838,000 in program grant funding and $6,005,000 in administrative funding.

Internal Revenue Service

Mission:

To provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Program Summary by Appropriations Account

(Dollars in Thousands)

	FY 2005	FY 2006*	FY 2007**		
Appropriations	Enacted	Enacted	President's Budget	Change	% Change
Processing, Assistance and Management	4,056,857	4,095,212	4,045,122	(50,090)	-1.2%
Pre-filing Taxpayer Assistance & Education	539,374	517,707	329,557	(188,150)	-36.3%
Filing & Account Services	1,710,368	1,679,688	1,618,784	(60,904)	-3.6%
Shared Services Support	1,210,874	1,285,181	1,504,247	219,066	17.1%
General Management & Administration	596,241	612,636	592,534	(20,102)	-3.3%
Tax Law Enforcement	4,363,539	4,678,498	4,762,327	83,829	1.8%
Compliance Services	4,104,471	4,415,064	4,496,735	81,672	1.8%
Research & Statistics of Income	94,474	95,954	97,542	1,588	1.7%
Earned Income Tax Credit	164,594	167,481	168,050	568	0.3%
Information Systems	1,577,768	1,582,977	1,602,232	19,255	1.2%
Information Systems Improvement Programs	49,002	48,960	49,302	342	0.7%
Information Services	1,528,766	1,534,017	1,552,930	18,913	1.2%
Business Systems Modernization	203,360	197,010	167,310	(29,700)	-15.1%
Health Insurance Tax Credit Administration	34,562	20,008	14,846	(5,162)	-25.8%
Subtotal, Internal Revenue Service	**$10,236,087**	**$10,573,706**	**$10,591,837**	**$18,131**	**0.2%**
Mandatory Appropriation - New User Fees	0	0	135,000	135,000	
Total Program Operating Level	**$10,236,087**	**$10,573,706**	**$10,726,837**	**$153,131**	**1.4%**
Offsetting Collections - Reimbursables	156,892	158,820	182,643	23,823	15.0%
Mandatory Appropriation - Existing User Fees	119,000	100,000	99,627	(373)	-0.4%
Total Program Operating Level (All New Resources)	**$10,511,979**	**$10,832,526**	**$11,009,107**	**$176,581**	**1.6%**

Numbers may not add due to rounding.

* The FY 2006 enacted level includes a 1% across the board rescission and excludes rescission of unobligated balances ($20 million from PAM and $9 million from HITCA).

** In FY 2007, the IRS request is supplemented by $135 million in new user fees for a total operating level of $10,726,837 thousand.

Overview

The Internal Revenue Service (IRS) administers America's tax laws and collects the revenue that funds most government operations and public services. The IRS and its employees represent the face of government to more U.S. citizens than any other agency. The IRS' taxpayer service programs provide assistance to millions of taxpayers to help them understand and meet their tax obligations. The IRS' enforcement programs are aimed at deterring taxpayers inclined to evade their responsibilities while vigorously pursuing those who violate tax laws.

The IRS budget request for FY 2007 supports the IRS' five-year strategic plan. This plan underscores the IRS' commitment to provide quality service to taxpayers while enforcing America's tax laws in a balanced manner. The IRS strategic plan goals guiding the future direction of the Service are:

- *Improve Taxpayer Service* – Improve service to taxpayers to help them understand their tax obligations,
- *Enhance Enforcement of the Tax Laws* – Ensure taxpayers meet their tax obligations so when Americans pay their taxes, they can be confident their neighbors and competitors are doing the same, and
- *Modernize the IRS Through Its People, Processes, and Technology* – Strategically manage resources, associated business processes, and technology systems to meet service and enforcement goals.

The IRS supports the Administration's goal to reduce the federal deficit by increasing tax receipts collected through taxpayer service and enforcement compliance. The FY 2007 Budget provides funding to continue the IRS' commitment to service, and sustains its efforts to enhance enforcement of the tax laws. The great majority of Americans pay their fair share of taxes, but there is still a significant tax gap – the difference between what taxpayers are supposed to pay and what they actually pay – due to non-filing, underreporting and nonpayment. Reducing the net tax gap, currently estimated at $257 to $298 billion for 2001, is a top priority. The IRS' approach to reducing the tax gap and increasing tax receipts relies on implementation of selected tax-related legislative changes, improved administrative procedures, and implementing a sound technological infrastructure designed to support taxpayer service and enforcement. The IRS also supports the Administration's deficit reduction goal by continuing to identify productivity improvements and efficiencies that will reduce the cost of collecting revenues.

The Internal Revenue Service FY 2007 budget request is $10,591,837,000 in direct appropriations, supplemented by $135,000,000 in new user fee revenue, $99,627,000 in existing user fee revenue, and $182,643,000 in reimbursable resources for a total program operating level of $11,009,107,000.

Performance Highlights

The following is a summary, outlined by the IRS' strategic goals, of significant program performance improvements:

Improve Taxpayer Service

Assisting the public to understand their tax reporting and payment obligations is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system. The IRS continues to meet this challenge by improving the quality and accuracy of responses from its call centers and expanding taxpayer service through increased electronic self-service transactions. The following information highlights the IRS' taxpayer service achievements in FY 2005:

- Survey results from the American Customer Satisfaction Index and the IRS Oversight Board Taxpayer Attitude Survey reveal that most taxpayers are satisfied with the levels of service they receive over the telephone. In FY 2005, the IRS' customer assistance call centers answered 59.1 million calls. The IRS exceeded its FY 2005 target of 82 percent toll-free telephone level-of-service and improved its toll-free tax law accuracy rate to 89 percent, an increase from 80 percent in FY 2004.
- The newly redesigned IRS website, www.irs.gov, provides 24-hour assistance, seven days a week, with improved site navigation and an enhanced search engine, increasing search result accuracy and usability. New and improved features for www.irs.gov in 2006 include 1040 Central, Free File, Alternative Minimum Tax Assistant, Earned Income Tax Credit (EITC) Assistant, "Where's My Refund?", and electronic application and receipt of Employer Identification Number.
- The IRS provided and staffed toll-free phone assistance lines for hurricane victims. The IRS also implemented numerous tax law changes to help the victims of hurricanes Katrina and Rita, businesses located in the disaster areas, and

IRS Performance by Appropriation

		FY 2003	FY 2004	FY 2005		FY 2006	FY 2007
Appropriation	**Performance Measure**	**Actual**	**Actual**	**Actual**	**Target Met?**	**Target**	**Target**
PAM	Customer Service Representative Level of Service (%) (Oe)	80.0	87.3	82.6	✓	82.0	82.0
	Customer Accuracy - Tax Law Phones (%) (Ot)	82.0	80.8	89.0	✓	90.0	90.5
	Percent of Business Returns Processed Electronically (%) Oe **	n/a	17.4	17.8	✓	18.6	20.6
	Percent of Individual Returns Processed Electronically (%) (Oe) **	40.3	46.5	51.1	✓	55.0	58.8
	Customer Contacts Resolved per Staff Year (E)	n/a	8,015	7,585	✓	7,477	7,555
	Taxpayer Self-Assistance Rate (%) (E)	51.0*	46.4*	42.4*	Baseline	45.7	47.5
TLE	Collection Coverage - units (%) (Ot) (L)^	n/a	n/a	53.0	✓	52.0	52.0
	Examination Coverage - Business (Corps >$10M) (%) (Oe) (L)	6.1	7.5	7.8	✓	7.5	8.4
	Examination Coverage-Individual (%) (Oe) ***	n/a	0.8	0.9	✓	0.9	1.0
	Automated Underreporter (AUR) Program Efficiency (E) (L)^^	n/a	1,664	1,701	n/a	1,759	1,834

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

* FY 2003-2005 data based on a methodology for calculating performance developed in FY 2005

N/A: Not Applicable (measure not in place) for this fiscal year

** Variance from PART and 80% statute goal

*** Variance from PART section (does not include AUR cases)

^ Variance from PART - Methodology change - prior performance reported as 39% under old methodology

^^ Measure shown in PART as Document Matching Cases per FTE - calculation no longer includes screen outs)

individuals donating to charities to support the victims. The IRS will continue to implement recent tax law changes designed to encourage investment in areas affected by hurricane Katrina, including the Administration's Gulf Opportunity (GO) Zone proposals for bonus depreciation and additional small business expensing.

- The number of taxpayers filing electronically continues to increase. In 2005, for the first time, more than half of all individual taxpayer returns (68 million) were filed electronically with more than five million of these taxpayers filing for free through the Free File Alliance. This is a 43 percent increase in Free File Alliance filings over the previous year. Increased electronic filing benefits the taxpayer and the IRS. The American Customer Satisfaction Index shows that e-file taxpayers are significantly more satisfied with their interaction with the IRS than are paper filers. In addition, electronic filing processes refunds more quickly and eliminates most common filing errors (math errors, number transposition, etc.).

The Service continues to leverage community partnerships to provide free tax return preparation assistance through successful programs such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). In 2005, over 62,000 trained volunteers at 14,000 locations across the country prepared more than 2.1 million tax returns, an 80 percent increase since 2001 (the year prior to the implementation of the community partnership model). In addition, the VITA and TCE volunteers e-filed more than 77 percent of these returns, an increase in volume of 130 percent over 2001.

Enhance Enforcement

The IRS made significant progress towards achieving its enforcement-related goals in FY 2005. These improvements were achieved through efforts such as streamlining and centralizing work processes, improving workload selection techniques, increasing managerial involvement in casework, and implementing initiatives to reduce cycle time by refining case selection criteria. The IRS also expanded its compliance coverage through increased efficiency in its examination program. The Service's examination coverage technique encourages examiners to pursue significant tax issues and to use their professional judgment when asking taxpayers for supplemental documentation. As a result the IRS:

- Collected more than two trillion dollars in revenue with $47.3 billion collected through enforcement activities, a 10 percent increase from FY 2004,
- Increased high-income audits (taxpayers earning $100,000 or more) by 33 percent from FY 2004,
- Increased individual audits completed by 20 percent from FY 2004,
- Increased small business audits (< $10 million) by 81 percent, and increased corporate audits (> $10 million) by 15 percent from FY 2004,
- Generated more than $4.7 billion in revenue in FY 2005 through two prominent settlement initiatives aimed at reducing examination and litigation expenses while deterring the use of abusive tax shelters,
- Increased collection case closures by 12 percent and dollars collected by 14 percent from FY 2004, and
- Increased convictions to 2,151 in 2005 (from 1,926 in 2002) through increased productivity.

In addition, the IRS leveraged its Counterterrorism Program both to support the war on terrorism and tax compliance. Almost half of Criminal Investigation Division's (CID) inventory of terrorism-related cases have a tax-related violation under investigation. In FY 2005, the Department of Justice obtained 78 indictments on CID counterterrorism cases and CID recommended 86 cases for prosecution.

Modernize the IRS through its People, Processes and Technology

The IRS must ensure its employees have the tools and skills necessary to increase organizational effectiveness and support its mission. In addition, employees need challenging work and appropriate compensation. To achieve these objectives, the IRS recently developed a new Human Capital Strategic Plan. Once finalized, the plan will communicate the direction the IRS will take to hire, train, and retain employees while ensuring retention of organizational knowledge, leadership competency and continuity.

Within the past two years, the IRS Business Systems Modernization (BSM) program has begun to improve its performance on delivering projects and releases on time, on budget, and meeting or exceeding scope expectations. After several years of not achieving project cost, scheduling, and performance goals, the IRS is realizing benefits to taxpayers and enhanced BSM program management capabilities.

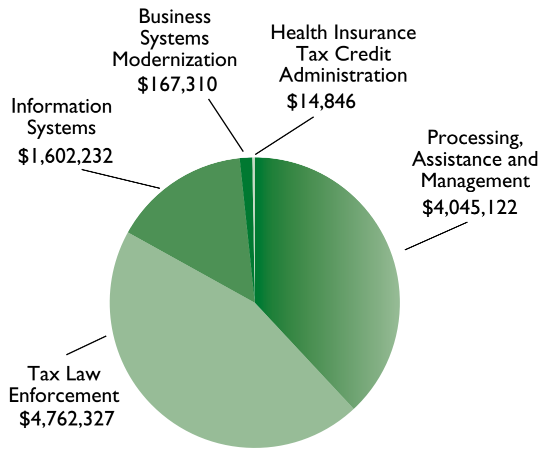
In FY 2006 and continuing in FY 2007, BSM is revising its modernization strategy to emphasize the incremental release of projects to deliver business value sooner and at a lower risk. The FY 2005 IRS modernization efforts focused on three key tax administration systems that provide additional benefits to taxpayers and IRS employees: the Customer Account Data Engine (CADE) project; Modernized e-File (MeF); and Filing and Payment Compliance (F&PC).

- CADE will ultimately replace the IRS' antiquated Master File system, which is the repository of taxpayer information. CADE allows faster refunds (processing refunds on a daily basis), improved taxpayer service, faster issue detection, more timely account settlement, and a robust foundation for integrated and flexible modernized systems. CADE posted more than 1.4 million returns and generated more than $427 million in refunds. In FY 2006, CADE will process 4 million returns (with an anticipated 33 million by the following year) and will be the single authoritative repository for account and return data for those returns.

- MeF deployed Form 7004 (filing extension for corporations) as well as Form 990PF (information returns for private foundations). This enabled the IRS to establish regulations requiring large corporations and tax-exempt organizations to file their income tax or annual information returns electronically. MeF processed Forms 1120 and 990 at higher-than-expected volumes while still achieving performance goals – a significant reduction in burden and time for corporate and tax-exempt taxpayers.
- F&PC, Release 1.1 completed the architecture engineering analysis and development needed to separate complex cases requiring direct IRS involvement from those that private collection agencies can handle. This release will provide initial capabilities for routing collection cases to private collection agencies in FY 2006.

In 2005, for the sixth consecutive year, the IRS achieved an unqualified audit opinion from the Government Accountability Office on all financial statements. This was accomplished despite the challenge of implementing the new Integrated Financial System.

IRS Funding by Appropriation



Source of Funds

The Internal Revenue Service (IRS) budget request for FY 2007 is $10,591,837,000 in direct appropriations, supplemented by $135,000,000 in new user fee revenue, for a total operating level of $10,726,837,000. This represents an increase of 1.4 percent from the FY 2006 enacted level. This Budget supports the following FY 2007 priorities:

- Maintain balance between service and enforcement,
- Maintain the tax enforcement funding increase provided in FY 2006 to improve tax compliance,
- Focus on areas in need of closer scrutiny by IRS, including tax strategies involving international elements for both corporations and high-income individuals,
- Continue the examination of tax-exempt charities used to violate federal income tax laws, and
- Focus on technology issues to ensure the IRS is utilizing technological advances to optimize both taxpayer service and enforcement programs.

The IRS' funding is appropriated among five accounts. Three are operating accounts associated with the salaries and expenses of tax administration: *Processing, Assistance and Management (PAM), Tax Law Enforcement (TLE)*, and *Information Systems (IS)*. The fourth account, *Business Systems Modernization (BSM),* funds contract costs for the development, delivery, and implementation of the IRS' modernized, major systems. The fifth account, *Health Insurance Tax Credit Administration (HITCA),* funds the costs of administering the Health Coverage Tax Credit. The IRS programs and supporting functions appropriated in the three operating accounts – PAM, TLE and IS – strategically align with either taxpayer services or tax law enforcement program. The budgets for these two strategic program areas are funded by allocating direct and overhead resources from the three operating accounts. Many of the enhancements to serivce and enforcement are dependent on information technology. The information technology resources funded in the IS account provide the infrastructure that is a critical component ensuring delivery of IRS programs. The following information summarizes the strategic alignment of the IRS' FY 2007 resources requested in the PAM, TLE, and IS operating accounts.

Strategic Alignment of Taxpayer Service and Enforcement Programs

(Dollars in Thousands)

Programs	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	% Change
Taxpayer Service	$3,605,978	$3,532,618	$3,583,336	1.4%
Direct Appropriation	$3,605,978	$3,532,618	$3,448,336	-2.4%
New User Fee Revenue			$135,000	N/A
Enforcement	$6,392,187	$6,824,070	$6,961,345	2.0%
Total Taxpayer Service & Enforcement	$9,998,165	$10,356,688	$10,544,681	1.8%

As the table above illustrates, the Administration proposes to fund taxpayer service and enforcement programs as follows:

- *Taxpayer Service* at $3,448 million in direct appropriations and $135 million from new user fee revenues, for a combined operating level of $3,583 million, a 1.4 percent increase from the FY 2006 enacted level. The IRS will maintain its commitment to provide high-quality taxpayer services through improvements to information technology and other targeted efficiencies. The growth in electronic filings also improves efficiency and accuracy, ultimately reducing tax administration costs. The IRS will continue to identify other opportunities to provide quality taxpayer service at a lower cost, such as providing and marketing expanded services to increase use of the Internet.

- *Enforcement* at $6,961 million, a 2 percent increase from the FY 2006 enacted level. The IRS continues to emphasize compliance with tax laws and the importance of enhanced enforcement to increase collections through productivity improvements, such as the implementation of legislative changes, streamlining operating procedures, and deploying improved technology. The FY 2006 Budget provided increased budget authority as part of a government-wide program integrity "cap adjustment" for IRS enforcement programs in FY 2006. This was proposed as part of the *Budget Enforcement Act (BEA)* reauthorization (not yet enacted) but provided in the 2006 Budget Resolution. The IRS FY 2007 Budget request reflects a two percent increase in enforcement funding. The Administration is again proposing to fund this increase (+$137.275 million) as a BEA program integrity cap adjustment (see Chapter 15, Budget Reform Proposals of the Analytical Perspectives volume of the FY 2007 President's Budget).

FY 2007 Budget Adjustments

FY 2006 Enacted

The FY 2006 enacted level for IRS is $10,573,706,000 in direct appropriations, supporting 95,386 FTE.

Current Services

Adjustments Necessary to Maintain Current Levels +$272,231,000/0 FTE Funds are requested for the proposed January 2007 pay raise ($149,819,000), the FY 2007 cost of the January 2006 pay increase ($61,994,000), and non-pay inflation for items such as contracts, travel, supplies, equipment, and rent adjustments ($60,418,000).

Program Reductions

Business Systems Modernization (BSM) Program Reduction -$29,700,000/0 FTE This reduced level of funding continues support for the development and deployment of the Customer Account Data Engine, the Filing and Payment Compliance project, and the Modernized e-Filing project.

Base Reinvestments

Increase Returns Processing Efficiencies +12,237,000/+11 FTE This initiative requests funding to continue consolidating the processing of Individual Master File returns into fewer submission processing sites. These resources fund the ramp down of the Philadelphia submission processing site in

IRS FY 2007 Budget Highlights

(Dollars in Thousands)

	Processing, Assistance and Management	Tax Law Enforcement	Information Systems	Business Systems Modernization	Health Insurance Tax Credit Administration	Total
FY 2005 Enacted	**$4,056,857**	**$4,363,539**	**$1,577,768**	**$203,360**	**$34,562**	**$10,236,087**
FY 2006 Appropriation (P.L. 109-115)	4,136,578	4,725,756	1,598,967	199,000	20,210	10,680,511
Rescission (P.L. 109-148)	(41,366)	(47,258)	(15,990)	(1,990)	(202)	(106,805)
FY 2006 Enacted	**$4,095,212**	**$4,678,498**	**$1,582,977**	**$197,010**	**$20,008**	**$10,573,706**
Current Services						
Adjustments to Maintain Current Levels	$104,406	$127,346	$40,141	$0	$338	$272,231
Pay Annualization	21,148	34,879	5,954		13	61,994
Proposed Pay Raise	51,090	84,284	14,388		57	149,819
Non-Pay Inflation Adjustment	32,168	8,183	19,799		268	60,418
Program Reduction	$0	$0	$0	($29,700)	$0	($29,700)
Business Systems Modernization Program Reduction				(29,700)		(29,700)
Base Reinvestment	$7,696	$4	$4,537	$0	$0	$12,237
Increase Returns Processing Efficiencies	7,696	4	4,537			12,237
Program Cost Savings	($47,792)	($40,690)	($27,613)	$0	($5,500)	($121,596)
E-File Savings	(6,640)	(56)	(63)			(6,760)
Improvement Project Savings	(7,000)	(674)	(541)			(8,215)
Competitive Sourcing Savings	(10,206)	(4,246)	(2,548)			(17,000)
Program Efficiencies	(23,946)	(35,714)	(24,461)			(84,121)
HITCA Program Efficiency					(5,500)	(5,500)
Transfers Out	($272)	($204)	($465)	$0	$0	($941)
Transfer to TIGTA	(272)	(204)	(465)	0	0	(941)
Current Services Level	**$4,159,250**	**$4,764,954**	**$1,599,577**	**$167,310**	**$14,846**	**$10,705,937**
Program Adjustments						
Program Increases	$643	$0	$20,257	$0	$0	$20,900
Consolidate Philadelphia Campus	643		20,257			20,900
FY 2007 Operating Level	**$4,159,893**	**$4,764,954**	**$1,619,834**	**$167,310**	**$14,846**	**$10,726,837**
Offsetting Collections						
New User Fees	($114,771)	($2,627)	($17,602)	$0	$0	($135,000)
FY 2007 President's Budget Request	**$4,045,122**	**$4,762,327**	**$1,602,232**	**$167,310**	**$14,846**	**$10,591,837**

FY 2007 and prepare for the ramp down of the Andover submission processing site in FY 2009. The initial ramp down of the Andover site requires funding to secure swing space, ship equipment, and begin preliminary infrastructure support. The estimated costs to ramp down the Philadelphia submission processing site include severance costs and information technology support.

Program Cost Savings

E-File Savings -$6,760,000/-174 FTE This savings results from increased electronic filing (e-file) and a reduction in Individual Master File paper returns. Estimated e-file savings are based on the projected reduction in the number of paper returns processed each year, offset by the cost of processing e-filed returns. In FY 2007, the IRS expects to process 3.6

million fewer paper filed returns than in FY 2006. The savings from reduced paper returns is 230 FTE and the corresponding cost for supporting increased e-filed returns is 56 FTE, resulting in a net savings of 174 FTE and $6.8 million.

Improvement Project Savings -$8,215,000 / -135 FTE This savings result from operational improvements generated by the Contact Recording, Queuing Management (Q-Matic), Correspondence Imaging Systems, and End-to-End Publishing improvement projects already in progress. Contact Recording will enable managers at toll-free sites and Taxpayer Assistance Centers (TACs) to improve the quality of taxpayer assistance on incoming and outgoing telephone calls/interviews. Q-Matic is an on-line system available at TACs to facilitate workload and resource distribution for improved workflow and timeliness of service. The Correspondence Imaging System will allow customer service representatives to work from a stored image to streamline case resolution. End-to-End Publishing will provide technology solutions to streamline business processes associated with publishing and distribution.

Competitive Sourcing Savings -$17,000,000/ 0 FTE The IRS expects to achieve efficiencies and savings through competitive sourcing resulting from six different projects in various phases of implementation. These projects reduce operational costs through the establishment of a most efficient organization or through private vendor efficiencies. The National Distribution Center (centralization of nationwide tax forms distribution operation) and Integrated Document Solutions Enterprise (formerly Campus Operations, which provides information systems computer operations at the 10 IRS Campus Facilities) reach full implementation in FY 2007 and achieve the last increment of savings.

Program Efficiencies -$84,121,000/-2,096 FTE The IRS continues to improve the efficiency of taxpayer service and enforcement programs. This initiative eliminates duplicative overhead in the operations support organizations, without having an adverse impact on taxpayer service and enforcement operations. Taxpayer service operations will be improved through a variety of efforts, including the judicious distribution of workload and the automation of certain taxpayer assistance functions, such as the centralized monitoring of case inventories. The IRS will enhance productivity and efficiency of its enforcement programs by consolidating, reducing and redirecting some of the resources allocated to overhead and internal support functions to front-line compliance activities. In addition, the IRS will identify processes that can be reengineered and centralized, as well as improve workload selection techniques in examination and collection.

Reduction to Health Insurance Tax Credit Administration (HITCA) Program -$5,500,000/0 FTE This funding adjustment reflects the program's effort to align fiscal year costs with contract year expenditures. In addition, HITCA is using a comprehensive plan outlining cost reduction initiatives to improve customer service and reduce information technology support to achieve these savings.

Transfers Out

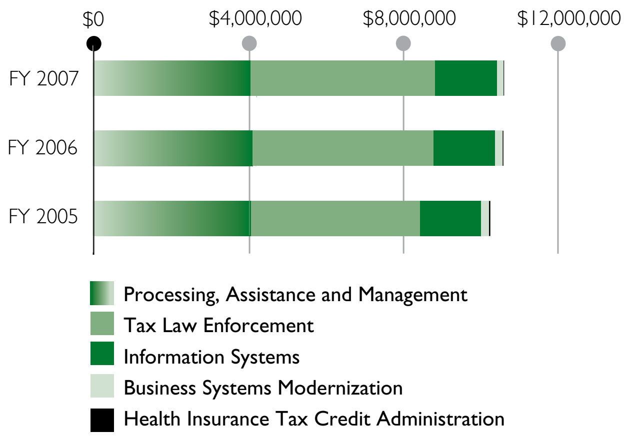
Transfer to Treasury Inspector General for Tax Administration (TIGTA) -$941,000/0 FTE This base transfer is comprised of (1) TIGTA's portion of the Working Capital Fund, which is currently paid directly by the IRS (-$926,000) and (2) printing funds currently paid directly by the IRS to the Government Printing Office for TIGTA activities (-$15,000).

Program Increases

Consolidation of Philadelphia Campus +$20,900,000 /0 FTE This initiative requests funding for the information technology related costs to relocate multiple IRS activities from the remaining nine satellite sites located throughout Philadelphia into a single facility in the United States Postal Service (USPS) main building located in Philadelphia, PA. These activities include compliance and customer account services, operations support, taxpayer advocate services, and appeals. Relocation to the USPS site presents several benefits, including rent stability, improved employee access to public transportation, and a quality work environment.

IRS Funding History

(Dollars in Thousands)



Appropriations and Budget Activities

Processing, Assistance and Management (PAM)

The FY 2007 request level is $4,045,122,000 in direct appropriation, supplemented by $114,771,000 in new user fee revenue, for a total operating level of $4,159,893,000. This is an increase of 1.6 percent from the FY 2006 enacted level. This appropriation funds the following budget activities:

Pre-Filing Taxpayer Assistance and Education ($329,557,000 from direct appropriation and $4,120,000 from new user fees) provides services to assist with tax return filing and includes interpretation of the tax laws, media, and publications. The IRS continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, expanding pre-filing agreements and rulings, and enhancing pre-filing taxpayer support through electronic media.

Filing and Account Services ($1,618,784,000 from direct appropriation and $110,651,000 from new user fees) funds taxpayer services, issuing refunds, and maintaining taxpayer accounts in addition to the processing of all paper and electronically submitted tax returns. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods. The IRS is increasing both the capacity and effectiveness of its telephone and in-person taxpayer support.

Shared Services Support ($1,504,247,000 from direct appropriation) provides administrative services to all IRS employees. Included in this activity are facilities services, rent payments, printing, postage, and security.

General Management and Administration ($592,534,000 from direct appropriation) includes resources for top-level management and IRS-wide support for strategic planning, communications and liaison, finance, human resources, legal services, and specific benefits programs.

Tax Law Enforcement (TLE)

The FY 2007 request level is $4,762,327,000 in direct appropriation, supplemented by $2,627,000 in new user fee revenue, for a total operating level of $4,764,954,000. This is an increase of 1.8 percent from the enacted level. This appropriation funds the following budget activities:

Compliance Services ($4,496,735,000 from direct appropriation and $2,627,000 from new user fees) provides services to the taxpayer after a return is filed and identifies and corrects possible errors or underpayment. These programs enforce the tax laws and compliance through examination and collection activities, criminal investigations, and appeals. Funding also provides for the Taxpayer Advocate Service.

Research and Statistics of Income ($97,542,000 from direct appropriation) provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations. It also provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address non-compliance, and for the implementation of successful treatments of taxpayer non-compliant behavior.

Earned Income Tax Credit ($168,050,000 from direct appropriation) funds customer service and public outreach programs, strengthened enforcement activities, and enhanced research efforts aimed at reducing erroneous claims and filings associated with the Earned Income Tax Credit (EITC).

Information Systems (IS)

The FY 2007 request level is $1,602,232,000 in direct appropriation, and by $17,602,000 in new user fee revenue, for a total operating level of $1,619,834,000. This is a 2.3 percent increase from the FY 2006 enacted level. This appropriation funds the following budget activities:

Information Systems Improvement Programs ($49,302,000 from direct appropriation) funds improvements or enhancements to business applications or internal management systems that conform to the modernized IRS architecture on which IRS operations depend.

Information Services ($1,552,930,000 from direct appropriation, and $17,602,000 from new user fees) provides funding for salaries, benefits, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. The IRS' business programs rely on these systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities including the public's toll-free access to tax information.

Business Systems Modernization (BSM)

The FY 2007 request level is $167,310,000, 15.1 percent less than the FY 2006 enacted level.

Business Systems Modernization ($167,310,000 from direct appropriation) provides resources for the planning and capital asset acquisition of information technology to modernize the IRS' business systems. The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations.

Health Insurance Tax Credit Administration (HITCA)

The FY 2007 request level is $14,846,000, a decrease of 25.8 percent from the FY 2006 enacted level.

Health Insurance Tax Credit Administration (HITCA) ($14,846,000 from direct appropriation) provides resources to administer a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002.

Legislative Proposals

The Administration proposes five new legislative changes to reduce the tax gap and re-proposes four legislative changes to improve tax administration efficiency. In addition, the Administration will study the standards used to distinguish between employees and independent contractors for purposes of withholding and paying federal employment taxes. The nine legislative changes are:

Closing the Tax Gap

- *Clarify the circumstances in which employee leasing companies and their clients can be held jointly liable for federal employment taxes.* This proposal would facilitate the effective use of third party employee leasing companies by small businesses to pay employment taxes. In addition to clarifying joint liability, it would also provide standards for holding employee leasing companies solely liable for such taxes, if they meet specified requirements.

- *Increase information reporting on payment card transactions.* In order to improve compliance, payment card issuers would be required to report to the IRS annually the aggregate reimbursement payments made to certain businesses in a calendar year.

- *Expand information reporting to certain payments made by federal, state and local governments to procure property and services.* This proposal would improve tax compliance of those taxpayers who do business with government agencies.

- *Amend Collection Due Process procedures for employment tax liabilities.* For Collection Due Process purposes, this proposal would align the treatment of levies to collect employment taxes with the treatment of levies to collect federal taxes from state tax refunds. The proposal would curtail delinquent employers' ability to pyramid multiple periods of unpaid employment tax liabilities. Taxpayers would retain the ability to seek managerial appeal and to participate in the formal Collection Appeals Process.

- *Expand to non-income tax returns the requirement that paid return preparers identify themselves on such returns and expand the related penalty provision.* This proposal would address the growing problem of return preparers who assist in the preparation and submission of improper excise, employment tax, and other non-income tax returns and related documents.

Improving Tax Administration

- *Implement administrative reforms to improve the efficiency of IRS operations such as:* (a) adopt measures to reduce frivolous submissions made solely to delay or impede tax administration; (b) allow the IRS to terminate installment agreements if the taxpayer is not paying as agreed; and (c) streamline jurisdiction over collection due process cases in the Tax Court.

- *Initiate cost savings measures such as*: (a) Reduce transaction costs by changing the way the Treasury Department's Financial Management Service is reimbursed for offsetting collections, and (b) expand IRS' authority to require electronic filing.

- *Authorize the IRS to access employment data in the HHS' National Directory of New Hires* for tax administration purposes, including data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources.

- *Extend IRS' authority to fund undercover operations,* which expires on December 31, 2006, to permit the IRS to fund certain necessary and reasonable expenses of undercover operations, including international and domestic money laundering and narcotics operations.

The legislative changes strategically target areas where (1) research reveals the existence of significant compliance problems, (2) improvements will burden taxpayers as little as possible, and (3) the changes support the Administration's broader focus on identifying legislative and administrative changes to reduce the tax gap. The implementation of these legislative changes positions the IRS for improved service and enforcement productivity. Additional information about these proposals is included in the FY 2007 Treasury Blue Book, which contains all of the Administration's legislative proposals.

Financial Management Service

Mission:

To provide central payment services to federal program agencies, operate the federal government's collections and deposit systems, provide government-wide accounting and reporting services, and manage the collection of delinquent debt.

Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 Change	FY 2007 % Change
Salaries and Expenses	**$229,083**	**$233,881**	**$233,654**	**($227)**	**-0.1%**
Payments	141,287	144,135	147,358	3,223	2.2%
Collections	16,693	16,931	17,396	465	2.7%
Debt Collection	9,855	10,162	5,250	(4,912)	-48.3%
Government-wide Accounting	61,248	62,653	63,650	997	1.6%
Subtotal, Financial Management Service	**$229,083**	**$233,881**	**$233,654**	**($227)**	**-0.1%**
Offsetting Collections - Reimbursables	151,135	167,770	196,282	28,512	17.0%
Total Program Operating Level	**$380,218**	**$401,651**	**$429,936**	**$28,285**	**7.0%**

Overview

The Financial Management Service (FMS) is the federal government's financial manager. FMS oversees a daily cash flow in excess of $50 billion and disburses 85 percent of the federal government's payments, including income tax refunds, Social Security benefits, veterans' benefits, and other federal payments to individuals. It administers the world's largest collection system, collecting approximately $2.7 trillion annually and provides cash management guidance to federal program agencies. FMS compiles and publishes government-wide financial information used to monitor the government's financial status and serves as the government's central debt collection agency for delinquent non-tax debt.

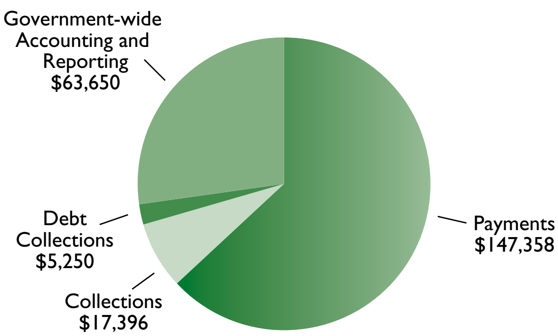
In FY 2005, FMS:

- Issued over 950 million non-defense payments worth approximately $1.5 trillion. 76 percent of these transactions were issued electronically,
- Issued over 2.5 million FEMA disaster assistance payments valued at over $5.9 billion in response to Hurricane Katrina through December 2005, established a debit card program that issued 11,374 FEMA Assistance Cards valued at $22.7 million to evacuees in three Texas cities, and provided guidance and relief to financial institutions in cashing Treasury checks for hurricane victims,
- Collected record receipts of $2.7 trillion, a 12.5 percent increase over FY 2004 collections, with a 10.2 percent increase in electronic collections,
- Collected over $3.25 billion in delinquent debt, exceeding all previous collection amounts, with almost every collection tool achieving increased collections over last year, and
- Issued all government-wide accounting reports on time and accurately, including issuing the government-wide Consolidated Financial Report which was issued 75 days after the close of the fiscal year.

Total resources required to support FMS activities for FY 2007 are $429,936,000 including $233,654,000 from appropriations and $196,282,000 from offsetting collections and reimbursable agreements.

FMS Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

FMS' top strategic goals include:

- Providing timely and accurate payment and collection services of federal funds while minimizing transaction costs by moving towards an all electronic Treasury,
- Maximizing the collection of government delinquent debt through efficient and centralized debt collection services,
- Producing accurate, reliable, and timely government-wide financial information and reports which contribute to improved financial decision making,
- Achieving a clean audit opinion on the *Financial Report of the United States Government* through FMS' internal operations and support to government agencies, and
- Establishing policies and processes that integrate e-commerce technologies into FMS' business programs and infrastructure.

FMS will improve the efficiency of its operations through increasing the use of electronic payments. After the rapid expansion of direct deposit in the 1990s, growth has leveled off to a rate of less than 1 percent a year. To increase direct deposit, FMS launched a nationwide campaign called "Go Direct" in September 2005 to encourage current check recipients to switch to direct deposit. Each check converted from paper to electronic format saves taxpayers about 75 cents and is more secure for recipients.

In FY 2007, FMS will continue to expand the use of electronic media to deliver federal payments, with a goal of issuing 79 percent of its payments electronically, a 3 percent increase over FY 2005 actuals. FMS has also set an ambitious target of 84 percent of federal receipts collected electronically in FY 2007, 5 percent over FY 2005 actual levels. Moving towards an all-electronic Treasury will help FMS meet its goals for reducing the unit cost of payments and collections.

This budget includes legislative proposals to increase and enhance debt collection opportunities. As a result of projected increased revenues, FMS is able to reduce the direct funding in the debt program by half and still achieve established performance goals.

FMS maintained its perfect record of issuing government-wide accounting reports on time and with improved accuracy and usefulness. FMS will restructure government-wide accounting processes to provide more timely, reliable and useful financial information. The new government-wide accounting system will reduce agency reporting requirements and reconciliation burdens. As part of the system redesign, FMS will provide agencies with a web-based account statement resembling a bank statement which will contain summarized Treasury fund account balance activity. A web-based system will give agencies daily access to the account statement for reconciliation and fund reclassification. This will move the government toward producing financial information on a regular, recurring basis more quickly and reliably.

Source of Funds

FMS Performance by Budget Activity

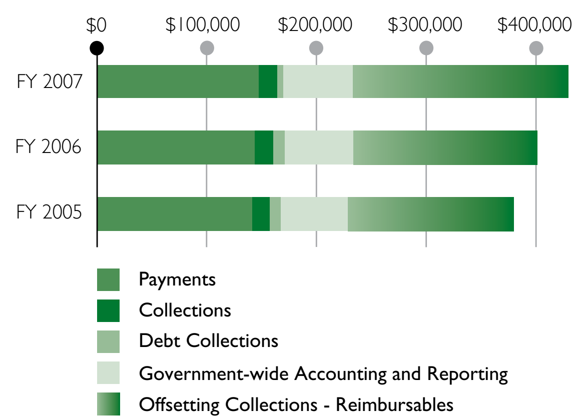
Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met?	FY 2006 Target	FY 2007 Target
Debt Collection	debt collected per $1 spent (E)	n/a	n/a	36.23	✘	36.4	36.5
	debt collected through all available tools (Ot)	3.1	3	3.25	✓	3.1	3.2
	% eligible debt referred for collection (Ot)	92	99	97	✓	93	94
Payments	% payments & information made electronically (Oe)	74	75	76	✓	78	79
	% payments accurate/on time (paper & electronic) (Oe)	100	100	100	✓	100	100
	unit cost for Federal government payments (E)	n/a	0.35	0.355	✘	0.35	0.35
Collections	unit cost per collection transaction (E)	n/a	1.4	1.2	✓	1.37	1.33
	% total receipts collected electronically (Oe)	80	81	79	✘	83	84
Government-wide Accounting	% reports issued accurately (Oe)	98	100	100	✓	100	100
	% reports issued timely (E)	100	100	100	✓	100	100
	Unit Cost to Manage $1 Million Dollars of Cash Flow (E)	n/a	n/a	n/a	n/a	n/a	$6.40

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

The FMS request of $429,936,000 includes $233,654,000 from direct appropriations and $196,282,000 from offsetting collections and reimbursable agreements to process federal payments and collections and conduct debt collection activities. FMS' offsetting collections and reimbursable activities include disbursement of federal agency payments to beneficiaries, including Social Security payments, Railroad Retirement Board payments, tax refunds and Department of Veterans Affairs benefit payments (Payments); and debt collection services for federal agencies and states through the Treasury Offset Program (Debt Collection).

FMS Funding History

(Dollars in Thousands)



Budget Activities

Salaries and Expenses

Payments ($282,389,000, including $147,358,000 from direct appropriations and $135,031,000 from offsetting collections and reimbursements) FMS develops and implements federal payment policy and procedures, issues and distributes payments, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to electronic funds transfer.

Collections ($17,396,000 from direct appropriations) FMS collects revenue needed to operate the federal government. The Collections activity includes various electronic initiatives such as Pay.gov, a government-wide web portal to collect non-tax revenue electronically; Paper Check Conversion, which converts checks into electronic debits thereby moving funds more quickly; and the Electronic Federal Tax Payment System (EFTPS), which processes approximately $1.7 to $1.8 trillion in tax collections annually.

Debt Collection ($66,501,000 including $5,250,000 from direct appropriations and $61,251,000 from offsetting collections and reimbursements) FMS recovers delinquent government debt by providing centralized debt collection, oversight and operational services to federal program agencies and states as required by the Debt Collection Improvement Act of 1996 and related legislation. FMS will also focus on incorporating all non-Treasury disbursed salary and vendor payments into FMS' offset programs for collecting delinquent debt. This activity includes FedDebt, a system which provides a single point of entry for agencies to refer their debts to FMS for collection and to access the delinquent debtor database. By FY 2007, Integrated FedDebt will combine FMS' Cross-Servicing application and the Treasury Offset Program. This will eliminate the need for separate and distinct databases and will allow FMS to streamline data, reduce redundancies and improve data integrity.

Government-wide Accounting and Reporting ($63,650,000 from direct appropriations) The function of the Government-wide Accounting and Reporting activity is to maintain the federal government's books and account for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system.

FMS FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
FY 2005 Enacted	**$229,083**
FY 2006 Appropriation (P.L. 109-115)	236,243
Rescission (P.L. 109-148)	(2,362)
FY 2006 Enacted	**$233,881**
Current Services	
Adjustments to Maintain Current Levels	$6,643
Pay Annualization	1,183
Proposed Pay Raise	3,496
Non-Pay Inflation Adjustment	1,964
Non-recurring Costs	($1,219)
Non-recur FY 2005 Accounting Architecture	(840)
Non-recur FY 2006 Mail Presort Equipment	(379)
Program Reductions	($5,695)
Debt Fee Revenue	(5,311)
Realize Mail presort efficiencies	(384)
Current Services Level	**$239,305**
Program Adjustments	
Program Increases	$44
FASAB Increase	44
FY 2007 President's Budget Request	**$233,654**

FY 2007 Budget Adjustments

FY 2006 Enacted

The FY 2006 FMS enacted appropriation is $233,881,000.

Current Services

Adjustments to Maintain Current Levels +$6,643,000/0 FTE Funds are requested for the FY 2006 cost of January pay increase of $1,183,000; the proposed January 2007 pay raise of $3,496,000; other labor related benefits; and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of $1,964,000.

Non-Recurring Costs

Non-recur FY 2005 Accounting Architecture -$840,000 /0 FTE FMS has identified funds for prior-year initiatives in the Government-wide Accounting activity that can be non-recurred.

Non-recur FY 2006 Mail Presort Equipment -$379,000 /0 FTE FMS can non-recur $379,000 from the FY 2006 Pre-Sort initiative. As a result of the purchase of this equipment, FMS is able to sort payment files according to zip codes, which qualifies the daily mail pieces for a discount postage rate.

Program Reductions

FMS reviews its operations to identify opportunities to realign resources to fund priority requirements, meet mission objectives and support Treasury's Goal of managing the government's finances effectively within its budgetary constraints. For the FY 2007 Budget Cycle, FMS identified low-value efforts, non-recurring costs, and opportunities to re-engineer business processes to seek optimal use of resources.

Debt Fee Revenue -$5,311,000/-57 FTE This budget includes legislative proposals to increase and enhance debt collection opportunities. As a result of projected increased revenues, FMS is able to reduce the amount of direct funding for the debt program.

Realize Mail Presort Efficiencies -$384,000/0 FTE FMS anticipates a postage rate savings as a result of its investment in mail pre-sort equipment in FY 2006.

Program Increases

Federal Accounting Standards Advisory Board (FASAB) Increase +$44,000/0 FTE This increase funds the rise in costs expected in FY 2007 for Treasury and OMB's payment to the FASAB.

Legislative Proposals

Allow offsets of past-due, legally enforceable state unemployment compensation debts against overpayments (26 U.S.C. 6402): This proposal is part of a recommended follow-up action to the Program Assessment Rating Tool (PART) review of the Debt Collection activity, and is included as a part of the Department of Labor's Unemployment Insurance Integrity proposal. It would allow FMS to offset federal tax refunds to collect past-due state unemployment compensation debts. Presently, FMS offsets federal tax refunds to collect delinquent debt owed to federal agencies, delinquent child support obligations, and delinquent state income tax debt. FMS would match information about state unemployment compensation debts with federal tax refunds, deduct amounts due from federal income tax refunds, and credit those amounts to the appropriate state unemployment insurance trust fund maintained by Treasury. This proposal will enable FMS to collect an estimated $482 million in the first year after enactment and approximately $3.8 billion over 10 years.

Eliminate the 10-year Limitations Period on Offset (31 U.S.C. 3716). This proposal is part of a recommended follow-up action to the Program Assessment Rating Tool (PART) review of the Debt Collection activity and would eliminate the 10-year limitation on the collection of delinquent non-tax federal debts by administrative offset. This would ensure that delinquent debts can be collected by offset without regard to any statutory, regulatory or administrative limitation on the period within which debts may be collected. The proposed change would allow for the collection by offset of other federal debts consistent with the current law for student loans. This proposal will enable FMS to collect an estimated $11 million in the first year after enactment and approximately $6 million per year thereafter.

The proposal to amended 31 U.S.C. 3333, a decades-old statute relieving Treasury from liability for payments it makes, in due course and without negligence, of U.S. Treasury checks and other items. Specifically, the proposal (1) updated the statute to include payments which Treasury makes via electronic funds transfer (EFT); and (2) provided a funding source to charge payments for which the statute relieves Treasury from liability, i.e., the Check Forgery Insurance Fund (CFIF) (31 U.S.C. 3343). In proposing the amendment, Treasury's intent was to provide a funding source for such administrative errors (both disbursing and post-presentment) made in the normal course of business during the check and EFT payment processes. While the justification accompanying the amendment contained a similar reference, the amendment itself did not specifically so state.

Bureau of the Public Debt

Mission:

To borrow the money needed to operate the federal government and to account for the resulting debt.

Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget	FY 2007 Change	FY 2007 % Change
Salaries and Expenses	**$178,165**	**$178,154**	**$180,789**	**$2,635**	**1.5%**
Wholesale Securities Services	11,905	11,812	11,986	174	1.5%
Government Agency Investment Services	13,360	13,255	13,451	196	1.5%
Retail Securities Services	147,298	147,529	149,711	2,182	1.5%
Summary Debt Accounting	5,602	5,558	5,641	83	1.5%
Subtotal, Bureau of the Public Debt	**$178,165**	**$178,154**	**$180,789**	**$2,635**	**1.5%**
User Fees	(4,400)	(3,000)	(3,000)	0	0.0%
Net Program Operating Level	**$173,765**	**$175,154**	**$177,789**	**$2,635**	**1.5%**
Offsetting Collections - Reimbursables	7,181	16,732	16,919	187	1.1%
Total Program Operating Level	**$180,946**	**$191,886**	**$194,708**	**$2,822**	**1.4%**

Overview

The Bureau of the Public Debt (BPD) conducts Treasury debt financing operations by issuing and servicing Treasury securities. Debt is held by individuals, corporations, state and local governments, federal agencies, and foreign governments.

In FY 2005, BPD:

- Conducted 220 marketable securities auctions, resulting in the issue of more than $4.6 trillion in Treasury bills, notes, and Treasury Inflation-Protected Securities (TIPS),
- Issued more than $33 trillion in non-marketable securities,
- Added marketable securities to TreasuryDirect,
- Accounted for and reported on more than $7.9 trillion in public debt, and
- Received a clean audit opinion on the *FY 2005 and FY 2004 Schedules of Federal Debt.*

BPD's top priority is to ensure that the most efficient systems are in place to conduct borrowing and deliver securities and services to investors. To that end, BPD is working to replace its automated auction system to take advantage of the benefits of current technology and continues to enhance its TreasuryDirect system. TreasuryDirect allows retail customers to purchase and manage electronic securities over the Internet. With its increased reliance on conducting business electronically, Public Debt places a high priority on adopting new technology to ensure that its systems remain secure.

Total resources to support BPD's activities in FY 2007 are $180,789,000, including $3,000,000 in user fees, plus $16,919,000 in reimbursable agreements.

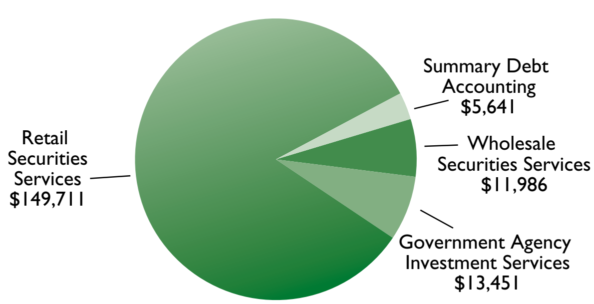
BPD Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met?	FY 2006 Target	FY 2007 Target
Wholesale Securities Svcs.	Cost per debt financing operation ($) (E)	n/a	n/a	126828	Baseline	133683	141380
	Percent of auction results released in 2 minutes +/- 30 seconds (%) (Oe)	96.5*	99.53	95	✓	95	95
Gov't Agency Investment Svcs.	Cost per federal funds investment transaction ($) (E)	n/a	n/a	88.74	Baseline	90.15	91.41
	Percentage of Government Agency customer initiated transactions conducted online (%) (Oe)	n/a	n/a	72.74	Baseline	65	75
Retail Securities Svcs.	Cost per TreasuryDirect assisted transaction ($) (E)	n/a	n/a	8.51	Baseline	7.75	7.08
	Cost per TreasuryDirect online transaction ($) (E)	n/a	n/a	3.43	Baseline	2.99	2.25
	Percentage of retail customer service transactions completed within 12** business days (%) (Oe)	99.8***	92.5	88.7	✘	90	90
Summary Debt Accounting	Cost per summary debt accounting transaction ($) (E)	n/a	n/a	12.62	Baseline	12.82	13

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure
*In 2003, performance measure was 6 minutes.
**In 2007, target decreases from 13 to 12 business days.
***In 2003, performance measure was 3 weeks.

BPD Funding by Budget Activity

(Dollars in Thousands)



Performance Highlights

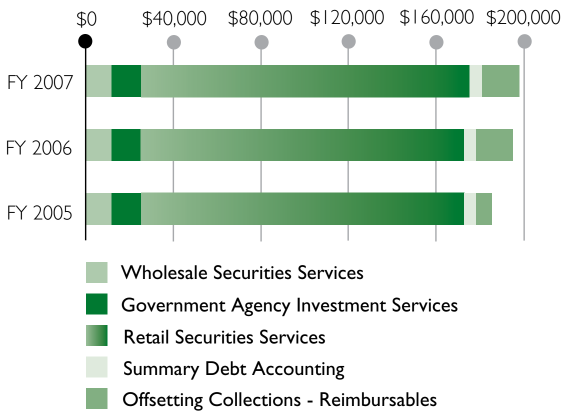
In FY 2005, BPD met its performance goal of announcing Treasury auction results within two minutes plus or minus 30 seconds of the auction close 95 percent of the time. Shorter release times minimize exposure to adverse market movements and reduce the implicit market premium lowering the cost of borrowing. BPD narrowly missed the goal of processing 90 percent of retail customer service transactions within 13 business days by 1.3 percent because of an abnormally high volume of transaction requests and a temporary workflow disruption as a result of a planned business process reengineering. BPD expects to meet its customer service goals for FY 2006 as business practices are further refined.

Source of Funds

The FY 2007 current estimate for BPD is a total of $197,708,000, including $177,789,000 from direct appropriations, $16,919,000 in reimbursements and $3,000,000 from user fees.

BPD Funding History

(Dollars in Thousands)



Budget Activities

Salaries and Expenses

Wholesale Securities Services ($12,938,000 including $11,986,000 from direct appropriations and reimbursements of $952,000) BPD announces, auctions, and issues marketable Treasury bills, notes, and TIPS. This program ensures that the government's critical financing needs are met and that an infrastructure is in place for the custody and transfer of Treasury securities in the wholesale market. This program also administers regulations to ensure the integrity and efficiency of the primary and secondary markets for Treasury securities.

Government Agency Investment Services ($16,920,000 including $13,451,000 from direct appropriations and reimbursements of $3,469,000) BPD supports federal, state, and local agency investments in non-marketable Treasury securities as well as federal agency borrowing from the Department. As of September 2005, the total holdings of all funds invested in Government Account Series securities were $3.38 trillion including $2.189 trillion for 18 funds, which are managed by BPD on behalf of the Secretary of the Treasury.

Retail Securities Services ($161,761,000 including $149,711,000 from direct appropriations including $3,000,000 in user fee collections and $12,050,000 in reimbursements) BPD serves more than 50 million retail customers who hold marketable and savings securities directly with Treasury. This program includes the issuing and servicing of marketable and savings securities in book-entry and paper form.

Summary Debt Accounting ($6,089,000 including $5,641,000 from direct appropriations andreimbursements of $448,000) BPD accounts for and reports on all financial activity related to the public debt. The program provides accounting controls for funds received from the sale of securities, funds disbursed as interest and principal payments, and for the accurate and timely reporting of the outstanding public debt.

BPD FY 2007 Budget Highlights

(Dollars in Thousands)

	Amount
FY 2005 Enacted	**$178,165**
FY 2006 Appropriation (P.L. 109-115)	$179,923
Rescission (P.L. 109-148)	(1,769)
FY 2006 Enacted	**$178,154**
Current Services	
Adjustments Maintaining Current Levels	$4,662
Non-Pay Inflation	1,545
Pay Annualization	868
Proposed Pay Raise	2,249
Non-Recurring Costs	($5,113)
Non-recur of Miscellaneous Printing, Supplies and Equipment Items	(1,370)
Non-recur of Litigation Support	(3,743)
Program Reductions	($2,027)
Revised Customer Service Practices	(2,027)
Base Reinvestments	$5,113
Base Reinvestments	5,113
Current Services Level	**$180,789**
Program Adjustments	
Program Increases	0
FY 2007 Operating Level	$180,789
User Fees	(3,000)
FY 2007 President's Budget Request	**$177,789**

FY 2007 Budget Adjustments

FY 2006 Enacted

The FY 2006 current estimate of BPD appropriations is $178,154,000, including $175,154,000 from direct appropriations and $3,000,000 from user fee collections.

Current Services

Adjustments to Maintain Current Levels $4,662,000/ 0 FTE Funds are requested for the FY 2007 cost of the January 2006 pay increase of $868,000; the proposed January 2007 pay raise of $2,249,000; other labor related benefits; and non-labor items such as contracts, travel, supplies, equipment, and GSA rent adjustments of $1,545,000.

Non-Recurring Costs

Non-Recurs Of Miscellaneous Printing, Supplies and Equipment Items -$1,370,000/0 FTE

Non-Recur Of Litigation Support -$3,743,000/0FTE

Program Reduction

Revised Customer Service Practices -2,027,000 /0 FTE BPD is able to reduce the resources used to respond to retail customer service inquiries while still exceeding a government-wide standard set by the Citizen Service Levels Interagency Committee (CSLIC). Bringing its responsiveness more in line with the CSLIC standard will allow Public Debt to forego slightly more than $2 million in overtime expenses beginning in FY 2007.

Base Reinvestments

Base Reinvestments -$5,113,000/0 FTE The identified savings of $5,113,000 was used to fund the FY 2006 rescission of $1,769,000 and reinvested in the following items: $1,256,000 for a Federal Protective Service Guard Contract, $700,000 for Homeland Security Presidential Directive–12 costs, $585,000 for Pay Raise Absorption, $482,000 for new auction system travel, and $321,000 for HR Connect.

Treasury Franchise Fund

Mission:

To offer world-class administrative solutions that provide value to federal customers while allowing them to concentrate on their core missions.

Total Operating Level

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
Budget Activity	**Obligated**	**Estimate**	**Estimate**	**Change**	**% Change**
Consolidated / Integrated Administrative Mgt.	687,936	777,112	870,365	93,253	12%
Financial Management Administrative Support	72,558	81,675	89,843	8,168	10%
Financial Systems, Consulting & Training	11,884	12,688	13,196	508	4%
Total Cost of Operations	$772,377	$871,475	$973,404	$101,929	11.7%
Total FTE Usage	668	762	820		

Overview

The Treasury Franchise Fund is a revolving fund that supplies financial and administrative services on a fee-for-service basis. The Fund transforms the administrative support arena in the federal government by energizing a shared services business model that can offer marketplace success through competition. The Fund is made up of four individual franchise businesses which are rolled into three budget activities outlined below. The Fund was made permanent in the Consolidated Appropriations Act, 2005 (Public Law 108-447) and is codified in 31 U.S.C. 322, note. The Fund was recognized as a Financial Management Center of Excellence in 2005, making it eligible to enter into competitions to provide cross-agency financial management services government-wide.

Through FY 2007 the Fund will maintain its commitment to excellence and will continue to meet or exceed all strategic goals and benchmarks. Additionally, the Fund should continue to see controlled growth from the Administrative Resource Center, Federal Consulting Group, and FedSource.

In FY 2005, the Fund:

- Provided 28 organizations with administrative accounting services,
- Provided 28 organizations with travel services,
- Provided 32 organizations with procurement services, and
- Provided 17 organizations with personnel services.

The Franchise Fund projects $983,342 in revenue during FY 2007.

Performance Highlights

Performance for each of the Fund's operating units is based on customer satisfaction and operating expenses as a percentage of revenue.

In FY 2005, the Fund met all of its performance targets. The Fund received satisfaction ratings from 81 to 96 percent for its three budget activities. The target satisfaction rate was 80 percent. The Fund's operating expenses ranged between 4 and 11 percent of its revenue . The Fund is currently streamlining and consolidating its processes and procedures to ensure lower operating costs. In FY 2005, the Franchise Fund adopted the American

Franchise Fund Performance by Budget Activity

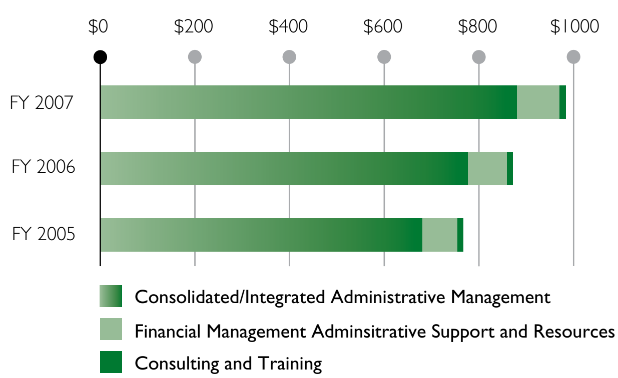
Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met?	FY 2006 Target	FY 2007 Target
Consolidated/ Integrated Administrative Management	Operating expenses as a percentage of revenue (%)(E)	n/a	4	4	✓	<=12	<=12
	Customer satisfaction approval ratings (%) (Ot)	n/a	n/a	n/a	n/a	Baselline	TBD
	Customer satisfaction approval ratings (%) (Ot)	81	87	81	✓	Discon- tinued	Discon- tinued
Financial Management Administrative Support	Operating expenses as a percentage of revenue (%) (E)	n/a	9	9	✓	<=12	<=12
	Customer satisfaction approval ratings (%) (Ot)	n/a	n/a	n/a	n/a	Baseline	TBD
	Customer satisfaction approval rating (%) (Ot)	94	85	96	✓	Discon- tinued	Discon- tinued
Financial Systems, Consulting and Training	Operating expenses as a percentage of revenue (%) (E)	n/a	14	11	✓	<=12	<=12
	Customer satisfaction approval ratings (%) (Ot)	n/a	n/a	n/a	n/a	Baseline	TBD
	Customer satisfaction approval rating (%) (Ot)	87	87	88	✓	Discon- tinued	Discon- tinued

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

Customer Satisfaction Index (ACSI) as its method for evaluating customer satisfaction. As a result, the Fund's previous Customer Satisfaction measure has been suspended and replaced with the Customer Satisfaction Index.

Franchise Fund Revenue

(Dollars in Thousands)



Program Description

Consolidated/Integrated Administrative Management ($879,523 in revenue) The Franchise Fund provides government customers with entrepreneurial business solutions for the acquisition and financial management of common administrative services and products.

Financial Management Administrative Support and Financial Systems ($90,569 in revenue) The Fund provides traditional administrative support functions with a focus on accounting, human resources, procurement and travel services. Fund is an OMB approved Center of Excellence for Financial Management.

Consulting and Training ($13,250 in revenue) The purpose of the Consulting and Training Activity is to provide solutions to facilitate transformation efforts for being a more efficient, results-oriented government. Customers are provided with facilitation services, business process redesign, strategic planning, executive coaching and team building.

United States Mint

Mission:

To apply world-class business practices in manufacturing, selling, and protecting the nation's coinage and assets.

Total Program Operating Level

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
Budget Activity	**Obligated**	**Estimate**	**Estimate**	**Change**	**% Change**
Total Cost of Operations	$1,014,143	$1,886,154	$1,930,059	$43,905	2.3%
Manufacturing and Sales	979,159	1,849,265	1,894,045	44,780	2.4%
Protection	34,984	36,889	36,013	(876)	-2.4%
Capital Investments	19,549	32,758	31,857	(901)	-2.8%
Total Cost of Operations	$1,033,692	$1,918,912	$1,961,916	$43,004	2.2%
Total FTE Usage	2,015	2,003	1,902	(101)	-5.0%

Overview

The United States Mint is the world's largest coin manufacturer, with operations in California, Colorado, Kentucky, New York, Pennsylvania and Washington, D.C.

The Mint receives no appropriated funds from Congress. Since FY 1996, operations of the Mint have been financed by proceeds from the sales of circulating coins to the Federal Reserve Bank System and numismatic items to the public. This includes funding for costs associated with the production of circulating and numismatic coins and coin-related products, and protective services for both operating expenses and capital investments. Revenues in excess of costs are returned to the United States Treasury General Fund. The United States Mint remains committed to holding down costs, streamlining operations and providing value to the American people.

In FY 2005, the Mint:

- Produced 14.2 billion coins - 700 million more than FY 2004, and
- Returned $775 million to the Treasury General Fund.

In FY 2007, the Mint plans to produce and distribute 15.7 billion coins for circulation and sell $1.4 billion in numismatic and bullion investment products. Total resources required to support Mint operations in FY 2007 are $1,930,059.

Performance Highlights

The Mint's total revenues and collections increased to $1,770.9 million in FY 2005 from $1,650.4 million in FY 2004. Total operating results and profits before protection costs increased to $823.5 million in FY 2005 from $688.1 million in FY 2004. Total margins before protection costs increased to 46.5 percent compared to 41.7 percent in the prior year despite a rise in the prices of the metals that are used in the fabrication of coins. The Mint was able to increase margins by shipping more coins, improving time to market and reducing manufacturing and selling, general and administrative costs. As a result of the improved operating results and profits, the Mint returned $775 million to the Treasury General Fund in FY 2005, compared with $665 million in FY 2004.

The Mint's strategic plan focuses on adding value, ensuring integrity and realizing world-class performance. To direct these efforts, the Mint identified key performance measures that cut across the entire organization. Two measures

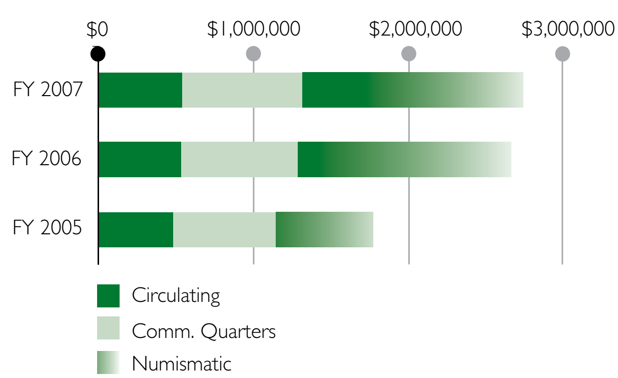
U.S. Mint Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met?	FY 2006 Target	FY 2007 Target
Manufacturing & Sales	Cost per 1000 Coin Equivalents ($)(E)	9.96	7.93	7.42	✘	6.62	6.18
	Cycle Time (E)	73	85	69	✘	67	64
	Order Fulfillment (%)(Oe)	n/a	n/a	94	n/a	95	96
Protection	Protection Cost Per Square Foot ($) (E)	n/a	32.51	32.43	✘	32	31
	Total Losses ($) (Oe)	n/a	3,109	1,135	✓	15,000	10,000

that improved in FY 2005 are cost per 1,000 coin equivalents and cycle time. The cost per 1,000 coin equivalents decreased six percent to $7.42 in FY 2005 from $7.93 in FY 2004. The Mint plans to continue to reduce conversion costs for given production volumes through further implementation of lean manufacturing techniques at the manufacturing facilities and has set a cost per 1,000 equivalent target of $6.18 in FY 2007. Cycle time improved to 69 days as of September 2005 from 85 days in September 2004. Reducing cycle time makes for a more efficient process. The Mint is currently working with the Federal Reserve Banks, the armored carrier industry, and commercial banking industry to reduce and balance coin inventories to further improve cycle time to a target of 64 days in FY 2007.

United States Mint Revenue

(Dollars in Thousands)



Program Description

Manufacturing and Sales ($1,894,045,200/1556 FTE)
The United States Mint manufactures and sells products. These products are grouped into three programs: Circulating Coinage, 50 State Quarters®, and Numismatic.

Circulating Coinage includes the penny, nickel, dime, half-dollar and dollar used to conduct trade and commerce. The focus of this program is to produce and deliver coins for circulation in a cost efficient and safe manner with state of the art manufacturing technology and equipment. The United States Mint delivers the circulating coinage to the Federal Reserve Bank System for distribution as demanded by commerce.

A significant facet of United States Mint operations is the 50 State Quarters® Program, which was launched in 1999 to commemorate and honor each of the 50 States over a ten-year period. Five new commemorative quarter-dollar coins are produced each year. Each quarter's reverse celebrates one of the 50 States with a design honoring that state's unique history, traditions, and symbols. The quarters are released in the same order that the states ratified the United States Constitution or were admitted into the Union. The planned releases for 2006 are Nevada, Nebraska, Colorado, North Dakota and South Dakota. The 2007 quarters will depict designs for Montana, Washington, Idaho, Wyoming and Utah.

The Numismatic program includes five types of coin products, which the United States Mint markets and sells to the public, including 1) Bullion Coins, 2) American Eagle Proof Coins, 3) Recurring Coin

Programs, 4) Commemorative Coins and 5) Medals. The program focuses on providing quality products and service, expanding markets and supporting the long-term value of numismatic products.

In 2007, the United States Mint will develop new coin designs as legislated in the Presidential $1 Coin Act of 2005 (Public Law 109-145). This act includes new dollar coin designs featuring the presidents of the United States and accompanying First Spouse Gold coins. Also included in the legislation are Buffalo Gold Bullion coins (to be released in 2006) bearing the original designs by James Earle Fraser that appeared on the 5-cent coin "Buffalo Nickel".

The United States Mint will introduce new 24-karat gold bullion coins in 2006, which will complement the popular 22-karat gold bullion coins. Bullion coins, also known as the American Eagle Uncirculated products, are largely bought by precious metal dealers and sold to consumers who desire precious metals as part of an investment portfolio. 24-karat (99.99 percent fineness) has become the global standard for gold investment coins. The new coins will give investors a second option backed by the United States Government in the global precious metal market.

Protection ($36,013,300/346 FTE) The United States Mint secures over $100 billion in market value of the nation's gold and silver reserves. The United States Mint Police protect assets while safeguarding United States Mint employees against potential threats at United States Mint facilities across the country. The United States Mint Police respond to possible threats by ensuring good perimeter security at all sites, increasing coordination with various federal, state and local law enforcement agencies, and ensuring that proper policies are in place and procedures followed in handling the assets used to produce and transport coinage. Plans include efforts to leverage new technology to enhance security by automating entry and exit procedures at United States Mint facilities. The United States Mint will continue to pursue innovative threat assessment strategies to effectively prevent and counteract any security threats against United States Mint operations.

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate	Increase/ Decrease
Total Circulating	**14,037**	**15,555**	**15,671**	**116**
Pennies	7,224	7,734	7,767	33
Nickels	1,417	1,887	1,837	(50)
Dimes	2,669	2,831	2,872	41
Quarters	2,655	3,028	3,115	87
Other	72	75	80	5
Numismatic	**11**	**13**	**13**	
Bullion	**9**	**11**	**11**	

The Bureau of Engraving and Printing

Mission:

To design and manufacture high quality security documents that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.

Total Operating Level

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
	Obligated	Estimate	Estimate	Change	% Change
Budget Activtiy					
Manufacturing	436,000	445,000	493,000	48,000	9.7%
Protection and Accountability of Assets	56,000	61,000	63,000	2,000	3.2%
Total Cost of Operations	**$492,000**	**$506,000**	**$556,000**	**$50,000**	**9.0%**
Total FTE Usage	**2,282**	**2,300**	**2,300**	**0**	**0%**
Capital Investments (Included in Total Cost of Operations above)	$23,000	$60,000	$50,000	($10,000)	-20.0%

Overview

The Bureau of Engraving and Printing (BEP) began printing currency in 1862. The Bureau's top priorities for FY 2006 and 2007 include the introduction of the redesigned $10 note into circulation and the redesign of the $100 note. To deter counterfeiters, Treasury redesigned the $10 note, and continued to use the latest technologies for security printing and processing. The $10 note follows the successful introductions of the redesigned $20 and $50 notes in 2003 and 2004, respectively. BEP will continue its currency redesign efforts. The Department has already begun its redesign of the $100 note and expects to introduce the redesigned note to the public in 2007. In addition, the Bureau is continuing its work with the Advanced Counterfeit Deterrent Committee to research and develop future currency designs that will enhance and protect future notes.

In FY 2005, BEP:

- Delivered 8.5 billion notes - 300 million less than FY 2004,
- Redesigned the $10 note, featured on the cover of this report, and
- Reduced the average price of currency due to reduced spoilage and improved productivity.

In addition, BEP was one of a few government entities to receive a favorable opinion on management's assertion on the effectiveness of internal controls over financial reporting.

BEP receives no appropriated funds from Congress. Operations are financed by means of a revolving fund established in 1950. This fund is reimbursed through product sales for direct and indirect costs of operations including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products.

In FY 2007, BEP expects to produce and deliver 9 billion notes to the Federal Reserve System and redesign the $100 note, as part of the current multi-year currency redesign initiative. Through this historic effort, BEP is able to embed state-of-the-art anti-counterfeiting technology, while maintaining the distinctive look of U.S. currency.

Total resources required to support BEP operations in FY 2007 are $556 million.

BEP Performance by Budget Activity

		FY 2003	FY 2004	FY 2005		FY 2006	FY 2007
Budget Activity	**Performance Measure**	**Actual**	**Actual**	**Actual**	**Target Met**	**Target**	**Target**
Manufacturing	Manufacturing costs for currency (dollar costs per thousand notes produced) ($) (E)	29.14	28.06	28.83	✓	28.5	32.5
	Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%) (Oe)	99.9	100	99.9	✓	99.9	99.9
Protection and Accountability of Assets	Currency shipment discrepancies per million notes ($) (Oe)	0	0.01	0	✓	0.01	0.01
	Security costs per 1000 notes delivered ($) (E)	n/a	5.95	5.75	✓	6.25	6

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

Performance Highlights

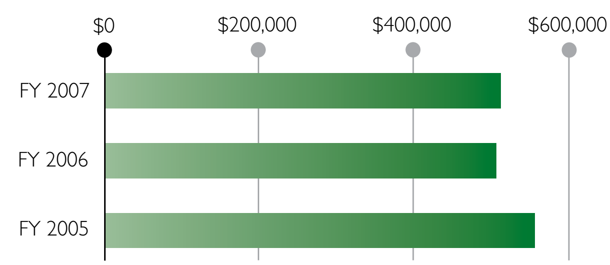
BEP streamlined its operations to produce currency at the lowest possible cost in FY 2005. Two performance measures used to assess production and delivery efficiency are the dollar costs per 1,000 notes produced and security costs per 1,000 notes delivered. The cost per 1,000 notes produced increased to $28.83 in FY 2005 from $28.06 in FY 2004 but still was under the target by $2.17. Security performance in 2005 was favorable. The security costs per 1,000 notes delivered decreased three percent to $5.75 in FY 2005 from $5.95 in FY 2004. In addition, no shipment discrepancies were reported. Discrepancies are prevented by a series of automated quality and accountability checks performed throughout the production process as well as by final verification prior to shipment to the customer.

BEP's automated equipment consistently produces high quality, counterfeit-deterrent currency. As a result, more than 99.99 percent of all notes delivered to the Federal Reserve met or exceeded their exacting quality standards.

Through monthly reporting and analysis of production and cost performance data, program managers receive timely and effective feedback that they use to continually adjust and fine-tune production processes to achieve continuous improvement.

BEP Revenue

(Dollars in Thousands)

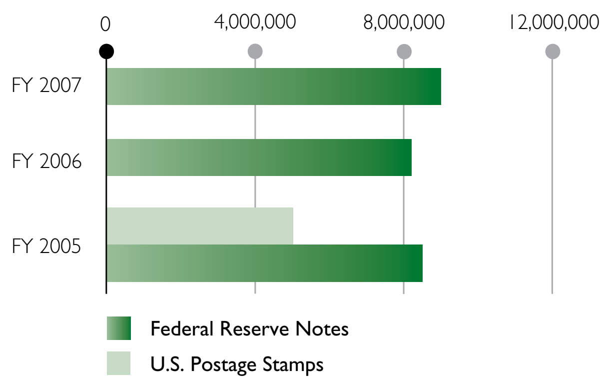


Program Description

Manufacturing ($493,000,000/1800 FTE) BEP utilizes the latest technologies for security printing and processing, including automated inspection equipment used in the production of the nation's currency. The manufacturing of state-of-the-art currency deters counterfeiting, contributes to public confidence and facilitates daily commerce. The Bureau's production equipment is operated by highly skilled craft personnel that have developed their unique skills through multi-year apprenticeship programs.

Security and Accountability of Assets ($63,000,000/500 FTE) BEP's ability to provide effective and efficient product security and accountability during the manufacture and delivery of currency notes to the Federal Reserve preserves the integrity of the nation's currency. The Bureau's annual financial statement audit represents an assessment by an independent, certified public accounting firm of the integrity of the Bureau's revolving fund and the reliability of the financial data used for managerial decision making. Successful financial reporting at the Bureau is a joint effort that requires coordination between BEP financial management, operations, and information technology personnel, as well as close coordination with the independent, certified public accounting firm contracted to perform the annual audit and the Office of Inspector General, which oversees their work. In addition, the primary mission of the Bureau's Office of Security is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, plant facilities and equipment.

BEP Total Production of Notes
(in Thousands)



Capital Investments Summary

Capital ($50,000,000) The Bureau of Engraving and Printing's capital projects are focused on improving processes, developing new counterfeit deterrent design capabilities and expanding information handling. These investments are planned to reduce costs, shorten the overall time from product concept to production and achieve greater flexibility to respond to customer demands.

Office of the Comptroller of the Currency

Mission:

To charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

Total Operating Level

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
	Obligated	Estimate	Estimate	Change	% Change
Budget Activity					
Charter	15,011	18,372	19,190	818	4.5%
Regulate	64,011	72,579	75,887	3,308	4.6%
Supervise	408,091	488,450	510,169	21,719	4.4%
Total Cost of Operations	$487,113	$579,401	$605,246	$25,845	4.5%
Total FTE Usage	2,686	2,886	2,886	0	0%
Capital Investments (Included in Total Cost of Operations above)	$10,999	$6,360	$5,068	-$1,292	-20.3%

Overview

The Office of the Comptroller of the Currency (OCC) charters, regulates and supervises national banks. OCC's mission is critical to the nation's banking system and the U.S. economy. OCC evaluates national banks using the CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) rating system and ensures compliance with banking laws, the Bank Secrecy Act, USA PATRIOT Act, and consumer protection laws. Through the large bank, community bank, mid-size bank and credit card bank programs, OCC develops a supervisory strategy for each bank based on its risk profile and condition. The strategy includes on-site examinations and off-site analyses completed during the supervisory cycle.

In FY 2005, OCC:

- Supervised 1,933 bank and 51 federal branches with assets exceeding $5.8 trillion,
- Completed 1,287 strategy certifications for examination activities,
- Conducted 427 Community Reinvestment Act examinations,
- Conducted 1,530 Bank Secrecy Act/Anti-Money Laundering/USA PATRIOT Act examinations,
- Conducted nationwide outreach to more than 24,000 participants regarding Bank Secrecy Act/Anti-Money Laundering,
- Processed over 2,100 corporate banking applications and notices with 96 percent completed within established time standards, and
- Closed more than 72,000 consumer complaints and inquiries, resulting in the reimbursement of approximately $6.3 million in disputed fees and other charges.

In FY 2006, OCC will continue to monitor financial sectors and markets. The proliferation of non-traditional home mortgage products, rapid growth of home equity lines of credit, and the acceleration of home prices require close attention. A sudden and sustained rise in interest rates, or drop in housing prices, could present potential vulnerabilities to real estate-related portfolios, as well as other consumer-lending portfolios. OCC will continue to focus on the Bank Secrecy Act and anti-money laundering regulations, as well as monitor issues related to privacy, predatory lending, and fairness in home mortgage lending practices. OCC will work to ensure that banks that rely on models to measure risk and determine minimum regulatory capital develop and implement effective control mechanisms and validation practices to govern the proper use of such models. This work will be done in accordance with any revisions to the Basel Capital Accord. OCC will work with its federal counterparts to monitor the long-term economic impact of Hurriance Katrina and take appropriate bank supervisory actions. Filling key examiner positions in the Large Bank Supervision program and the continued recruitment of entry-level examiners are also critical FY 2006 initiatives for the OCC.

In FY 2006, an estimated $579.4 million is needed to fund ongoing OCC operations and address program priorities effectively. OCC's operations are funded primarily (97 percent) by semiannual assessments levied on national banks. Interest from investments in U.S. Treasury securities and licensing and other fees combine for the remaining three percent of revenue. OCC does not receive a Congressional appropriation.

Performance Highlights

OCC met or exceeded all of its performance measures for FY 2005. As a whole, the national banking system is healthy and in compliance with consumer protection laws and other regulations. At the end of FY 2005, 99 percent of national banks were classified as well capitalized. National banks' capital has remained at this consistently high level for the past several years.

In FY 2005, 94 percent of national banks earned a composite CAMELS rating of either 1 or 2, indicating an overall safe and sound national banking system and a foundation for a strong U.S. economy. Forty-four percent of problem banks with composite CAMELS rating of three, four or five one year ago improved their ratings to either one or two this year. There has been continuous improvement by problem banks over the last three years, 40 percent improved their ratings in FY 2004 and 32 percent in FY 2003.

National banks continue to show strong compliance with consumer protection regulations as well, with 94 percent earning the highest consumer compliance rating of either one or two.

OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete corporate transactions and introduce new financial products and services. Delayed decisions can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. OCC completed 96 percent of applications and notices within the time standard, and received an overall customer satisfaction rating of 1.19 on a five-point scale (1 is the highest rating).

In FY 2006, OCC will work with national banks to ensure risks are well managed so these high levels of performance can be maintained.

In addition, OCC will continue to focus on efficient operations. In this regard, OCC will evaluate overall efficiency of the agency by monitoring costs relative to every $100,000 in bank assets regulated. OCC evaluates its programs and where appropriate, reengineers processes to achieve greater efficiencies. Lean Six Sigma principles (using statistical tools and analytical methods to focus an organization on reducing cost by eliminating defects and non-value added activities within its work flows) are followed to achieve increased efficiency and effectiveness of management support programs within the agency.

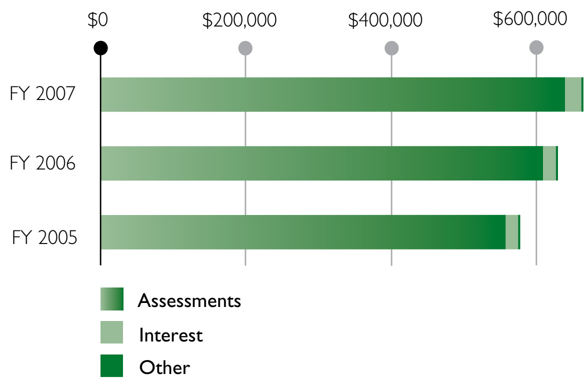
OCC Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2005 Target Met?	FY 2006 Target	FY 2007 Target
Supervise	Percentage of national banks that are well-capitalized (%) (Oe)	99	99	99	✓	95	95
	Percentage of national banks with composite CAMELS rating 1 or 2 (%) (Oe)	94	94	94	✓	90	90
	Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe)	32	40	44	✓	40	40
	Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)	96%	96	94	✓	94	94
Charter	Percentage of licensing applications and notices completed within established timeframes. (%) (Oe)	97	96	96	✓	95	95
Bureauwide	Total OCC costs relative to every $100,000 in bank assets regulated ($) (E)	n/a	n/a	n/a	n/a	Baseline	$9.45

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

OCC Revenue

(Dollars in Thousands)



Program Description

Charter ($18,372,000/87FTE) The Charter program reviews and approves new national bank charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations and subordinated debt issues.

Regulate ($72,579,000/332FTE) Through issuance and interpretation of regulations and policies, OCC establishes system-wide standards, defines acceptable banking practices, provides guidance on risks and responsibilities facing national banks and prohibits (or restricts) banking practices deemed to be imprudent or unsafe. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representing OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings, and provides analysis and legal opinions on federal preemption of state law.

Supervise ($488,450,000/2,467FTE) OCC assures that banks are operating in a safe manner, in compliance with applicable regulations, through bank examinations and enforcement activities, resolution of disputes through the National Bank Appeals process, and ongoing monitoring of banks. OCC also analyzes systemic risk and market trends in the national banking system or groups of national banks, the financial services industry, and the economic and regulatory environment.

Capital Investments Summary

Capital ($5,547,000) Two major IT investments are planned for FY 2006: the Supervisory Information System (SIS) and the Licensing Information System (LIS). These investments will improve overall program effectiveness, reduce costs and improve efficiency of OCC's work processes.

SIS is a multi-year project for the Large Bank Supervision and Mid-size/Community Bank Supervision programs that provides examiners with more efficient, risk-based supervision tools and improves documentation of ongoing supervision of complex and diverse institutions. SIS will support material enhancements of large and mid-size/community bank supervision by providing greater consistency of supervision work, improving horizontal reviews and benchmarking, and providing better management level views of workflow and examination results.

LIS will provide for comprehensive electronic data capture from the corporate licensing process, eliminating manual data entry and replacing an antiquated mainframe data retrieval system. LIS is integral to OCC's overall information technology strategy for replacing the mainframe computer system.

OCC also will continue to fund maintenance costs of its financial management system, the Management and Accountability Report Tools ($MART). There are no planned capital expenditures for this system.

Office of Thrift Supervision

Mission:

To supervise savings associations and their holding companies in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America's financial services needs.

Total Operating Level*

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
Budget Activity	**Obligated**	**Estimate**	**Estimate**	**Change**	**% Change**
Supervise	187,434	215,500	220,888	5,388	2.5%
Total Cost of Operations	$187,434	$215,500	$220,888	$5,388	2.5%
Total FTE Usage	885	965	965	0	0%

* OTS prepares its financial statements and performance plan financials in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body.

Overview

The Office of Thrift Supervision (OTS) charters, examines, supervises and regulates federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS also examines, supervises and regulates state-chartered savings associations insured by the FDIC and provides for the registration, examination and regulation of savings and loan holding companies and other affiliates.

In FY 2005, OTS:

- Regulated 866 savings associations with total assets of $1.4 trillion,
- Regulated 486 holding company enterprises with approximately $7.1 trillion in consolidated assets,
- Completed 681 comprehensive savings association examinations; 381 examinations of holding companies; and 74 examinations of companies providing data processing services to savings associations and holding companies, and
- Processed approximately 1,500 applications from savings associations and holding companies.

OTS examines savings associations every 12-18 months for safety and soundness and compliance with consumer protection laws and regulations. During these comprehensive exams, the association's ability to identify, measure, monitor, and control risk is evaluated, including the risk posed by other entities within the corporate structure. When weaknesses are identified, supervisory action is taken.

OTS strives to minimize the regulatory burden on savings associations by reducing the amount of on-site examination time, redesigning regulations to make them easier to understand, and eliminating unnecessary restrictions. It also tailors examinations to the risk profile of the institution and streamlines the examination procedures for smaller institutions.

OTS receives no appropriated funds from Congress. Income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies.

The OTS FY 2006 budget of $215.5 million directly supports OTS's strategic and performance goals that provide for proactive supervision of the industry, reduced regulatory burden, and improved credit availability.

Performance Highlights

Due to favorable economic conditions, a stable industry, and the regulatory oversight that OTS provides, the thrift industry is operating in a safe and sound manner and performing extremely well. OTS uses the CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) rating system to evaluate an institution's financial condition and sensitivity to market risk. In FY 2005, 94 percent of savings institutions achieved CAMELS ratings of one or two. The industry's capital position was also strong, with over 99 percent of the savings associations meeting well-capitalized standards.

Timely examinations are critical to ensuring the financial soundness of the industry. OTS exceeded its performance target of 90 percent and started 93 percent of its safety and soundness examinations on time. For the third consecutive year, OTS managed its operations to ensure that assessment rate increases did not exceed the rate of inflation.

OTS, in concert with federal banking regulatory agencies and Treasury's Financial Crimes Enforcement Network (FinCEN), worked to abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act (BSA), the USA PATRIOT Act, and other anti-money laundering laws. OTS and other regulatory agencies issued interagency guidance on a wide variety of specific topics, such as customer identification program requirements, the provision of services to foreign embassies and foreign political figures, and information sharing requirements under the USA PATRIOT Act. To ensure BSA examination consistency, interagency examination procedures were issued and augmented by nationwide examiner training and banker outreach efforts attended by over 2,000 interagency examiners and 10,000 representatives of the banking industry, trade associations, and other interested parties.

OTS serves on several international task forces and working groups responsible for developing and implementing the international capital framework Basel II. Domestically, OTS and the other federal banking agencies are working to implement Basel II as a modern risk-based capital framework that enhances risk management and refines capital adequacy on a basis broadly consistent with capital standards governing foreign banking organizations.

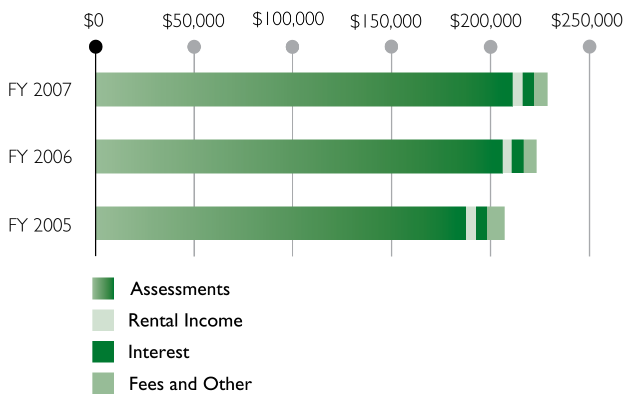
OTS Performance by Budget Activity

		FY 2003	FY 2004	FY 2005		FY 2006	FY 2007
Budget Activity	**Performance Measure**	**Actual**	**Actual**	**Actual**	**Target Met?**	**Target**	**Target**
Supervision	Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)	93	93	94	✓	90	90
	Percent of safety and soundness exams started as scheduled (%) (Ot)	92	94	93	✓	90	90
	Percent of thrifts that are well capitalized (Well capitalized thrifts have capital higher than adequately capitalized thrifts.) (%) (Oe)	99.6	99.4	99.5	✓	95	95
	Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)	94	94	94	✓	90	90
	Difference between the inflation rate and the OTS assessment rate increase (%) (E)	0	0	0	✓	0	0
	Total OTS costs relative to every $100,000 in savings association assets regulated ($) (E) *	n/a	n/a	n/a	n/a	Baseline	TBD

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

OTS Revenue*

(Dollars in Thousands)



* OTS prepares its financial statements and performance plan financials in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Advisory Board (FASAB), the private-sector standards-setting body.

Program Description

Supervision ($215,500,000)/965 FTE) Through the examination process, OTS assesses the financial condition and risk profile of savings associations, including their ownership structure, and identifies and addresses unsafe and unsound practices and violations of law and regulation. Through the off-site monitoring process, OTS monitors the financial performance of individual savings associations and the industry, enabling early identification of emerging trends or problems. When safety and soundness or compliance issues are identified, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS ensures that its staff is well trained to identify and address current and emerging risks and that examiner guidance is appropriate and current. OTS continually assesses its examination procedures to ensure that there is an adequate review of the association's controls and risk management processes.

Capital Investments Summary

OTS has no major IT investments planned for FY 2006.

Mission:

To manage the multilateral development banks to focus on raising productivity in developing countries and promoting growth, to ensure the burden of unsustainable debt does not leave less economically developed nations mired in poverty and to provide technical advice on developing market-based economies to developing countries.

Program Summary by Appropriations Account

(Dollars in Thousands)

Appropriations	FY 2005 Enacted	FY 2006 Enacted	FY 2007 President's Budget
International Financial Institutions	$1,219,199	$1,271,782	$1,328,968
Global Environment Facility	106,640	79,200	56,250
International Development Association	843,200	940,500	950,000
Multilateral Investment Guarantee Agency	0	1,287	0
Asian Development Fund	99,200	99,000	115,250
Asian Development Bank	0	0	23,750
African Development Fund	105,152	134,343	135,700
African Development Bank	4,067	3,602	5,018
European Bank for Reconstruction and Development	35,148	1,005	0
Inter-American Development Bank			
Multilateral Investment Fund	10,912	1,724	25,000
Inter-American Investment Corporation	0	1,724	0
International Fund for Agricultural Development	14,880	14,850	18,000
Arrears	[10,912]	[5,453]	[0]
Debt Restructuring	$99,200	$64,350	$182,799
Treasury Technical Assistance	$18,848	$19,800	$23,700
Total Program Level	$1,337,247	$1,355,932	$1,535,467

Overview

Treasury's FY 2007 budget request for the international assistance programs supports the G8 multilateral debt relief initiative, implementing the enhanced Heavily Indebted Poor Countries (HIPC) initiative, furthering measurable results, improving debt sustainability and increasing grants, and improving transparency and fighting corruption, key objectives of the President's agenda. Treasury's request can be divided into three categories: International Financial Institutions (IFIs); International Affairs Technical Assistance, and Debt Restructuring.

In FY 2005, Treasury International Affairs has initiated, reinforced, and extended key policy reform objectives in the international financial institutions, including securing, with the United Kingdom and other key countries, a multilateral debt relief and grants initiative for the world's poorest countries. Implemented through the International Development Association (IDA) and the African Development Fund (AfDF), this initiative will stop the destabilizing lend and forgive cycle of development assistance and free up resources for more effective poverty reduction.

Treasury International Affairs also achieved an historic Paris Club debt reduction agreement for Iraq, debt relief for tsunami-affected countries, a creative Paris Club agreement that eliminates Nigeria's debt at no cost to the U.S. taxpayer, and further implementation of the enhanced HIPC initiative including bilateral debt reduction for the Democratic Republic of the Congo.

The total FY 2007 request for Treasury's International Assistance Programs is $1,535,467,416, including contributions of $1,328,968,416 to the International Financial Institutions (IFIs), $23,700,000 for Treasury's International Technical Assistance Programs and $182,799,000 for Debt Restructuring.

Source of Funds

Treasury's international assistance programs are funded through direct appropriation in the Foreign Operations, Export Financing and Related Programs bill.

Program Description

International Financial Institutions ($1,328,968,416 from direct appropriations). International Financial Institutions (IFIs) provide loans, grants and investments in developing and transition economies and private sector enterprises in countries where risks are too high for private financing alone and where leverage is needed to encourage private financing. Bank policies and assistance programs reflect U.S. priorities in promoting growth, increasing productivity, and reducing poverty in developing countries.

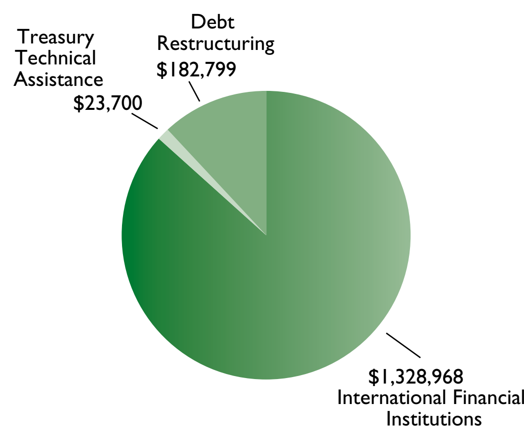
Debt Restructuring ($182,799,000 from direct appropriations). Debt Restructuring for the poorest countries provides an incentive to implement macro-economic and structural reforms necessary for economic growth and also frees up resources for poverty reduction efforts. Debt reduction under the Tropical Forest Conservation Act allows for reduction of U.S. concessional debt and redirection of payments in local currency in eligible countries to support programs to conserve tropical forests.

In FY 2007, Treasury request funds to complete HIPC debt reduction for the Democratic Republic of the Congo (DROC), and for other HIPC and poor country and Tropical Forest Conservation Act (TFCA) debt reduction programs.

International Affairs Technical Assistance ($23,700,000 from direct appropriations.) International Affairs Technical Assistance provides financial advisors to countries seeking assistance in implementing significant economic reforms, especially during critical periods of transition to market-based economies. The program supports economic policy and financial management reforms focusing on the functional areas of budget, taxation, government debt, financial institutions and financial crimes law enforcement.

International Programs Funding by Appropriation

(Dollars in Thousands)



Performance Highlights

Treasury achieved commitment to a number of key reforms in the international financial institutions that will achieve results in delivering on their mandates to promote economic growth and development and reduce poverty. These include securing a G8 multilateral debt relief initiative for the world's poorest and most heavily indebted countries that will end the destabilizing lend-and-forgive approach to development assistance and the development of more robust management and performance measurement systems for the International Development Association (IDA),

International Programs FY 2007 Budget Highlights

(Dollars in Thousands)

	International Financial Institutions	Technical Assistance	Debt Restructuring	Total
FY 2005 Enacted	$1,219,199	$18,848	$99,200	$1,337,247
FY 2006 Appropriation (P.L. 109-102)	1,290,137	20,000	65,000	1,375,137
Rescission (P.L. 109-148)	(12,901)	(200)	(650)	(2,140)
FY 2006 Enacted	$1,277,235	$19,800	$64,350	$1,361,385
Increases	51,733	3,900	118,499	174,132
FY 2007 President's Budget Request	**$1,328,968**	**$23,700**	**$182,799**	**$1,535,467**

the African Development Fund (AfDF) and other multilateral development banks (MDBs).

Through IDA-14 and AfDF-10 replenishments, results measurement will be robust, with the adoption of clear, measurable goals and targets and results-based management processes and standards. The banks will improve transparency and measures to fight fraud and corruption in countries, on MDB projects, and in the institutions themselves. IDA will conduct an independent assessment of its internal controls framework, the AfDB established a new anti-corruption and investigative unit, the IDB overhauled its procurement policies and practices to conform to best international practices, and the AsDB significantly increased its in-country governance programs. Adoption of debt sustainability frameworks in IDA, AfDF, and IFAD will provide increased grant resources to the poorest countries, taking into account their debt vulnerability.

Treasury achieved an unprecedented level of debt relief in the Paris Club for Iraq, with agreement on a staged 80 percent reduction. The United States went beyond the Paris Club framework to reduce all $4 billion in U.S. claims on Iraq.

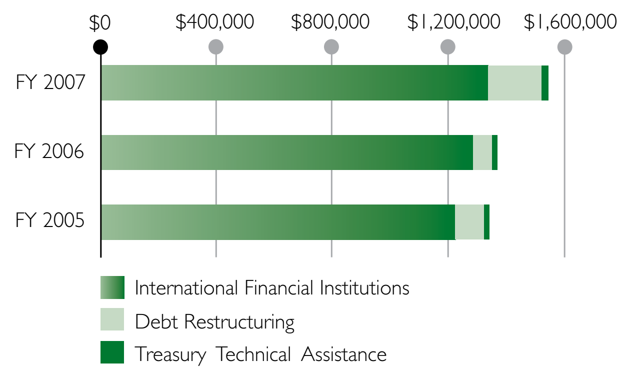
Treasury negotiated debt deferral and rescheduling agreements for Indonesia and Sri Lanka in the Paris Club, to help these countries devote more resources to recovery and reconstruction following the tsunami disaster.

Treasury achieved an innovative debt reduction and debt buyback treatment for Nigeria in the Paris Club. In the context of an agreement that eliminated all of Nigeria's debt to the Paris Club, the U.S. will receive more than $350 million in payments from Nigeria, which more than offsets the U.S. budget cost of the debt treatment.

Under the enhanced HIPC initiative, 28 countries have now demonstrated sufficient progress on economic reform and commitment to poverty reduction to reach their Decision Points. They are benefiting from debt relief that will lower their debt stocks by two-thirds, reduce debt service ratios by nearly half, and allow for increased poverty reduction expenditures in areas such as basic health, education, and rural development.

International Programs Funding History

(Dollars in Thousands)



FY 2007 Program Estimates

International Financial Institutions (IFIs) ($1,328,968,416)

International Development Association ($950,000,000)

Treasury requests $950.0 million for the second of three payments to the fourteenth replenishment of IDA (IDA-14). U.S. leadership secured a number of key objectives including a debt sustainability framework for grant eligibility that will significantly increase grant financing to approximately 30 percent of total resources; an expanded results measurement system with country outcome indicators, sector output indicators, project level indicators, and country level institutional indicators; improved transparency and anti-corruption measures and commitment to conduct an independent assessment of its internal controls framework.

Global Environment Facility ($56,250,000) Treasury requests $56.25 million for the first of four payments to the fourth replenishment (GEF-4). Progress on the GEF-3 policy reforms has been slow, and a number of reforms remain incomplete. GEF-4 replenishment negotiations are ongoing, but there is not yet a consensus on the policy reforms needed to improve project quality, portfolio management, resource allocations, transparency, anti-corruption efforts and the overall effectiveness of the GEF. The level of the request is an estimate based on progress on the negotiations to date and is contingent upon satisfactory agreement on outstanding policy issues. The final number could be higher or lower.

Multilateral Investment Fund ($25,000,000) Treasury requests $25.0 million for the first of six payments to the first replenishment of the MIF (MIF-2). The U.S pledged $150 million over six years and is the largest single shareholder; it has veto power over MIF projects. The U.S. achieved its key objectives in the replenishment negotiations including a strengthened commitment to measurable results, increasing efficiency, maintaining a focus on grants, allocating resources to maximize innovation, and reforming Inter-American Development Bank procurement guidelines.

Asian Development Fund ($115,250,000) Treasury requests $115.25 million for the second of four payments to the eighth replenishment of the AsDF (AsDF-9). In the AsDF-9 Agreement, the U.S. secured a number of important policy reforms, including: the formation of a grants window through which grants will comprise 30 percent of assistance to the poorest countries in Asia; the significant increase in the weight given to good governance and economic performance in the formula used to determine country allocations; the establishment of new offices to strengthen internal oversight and implement results measurement; and increased transparency.

African Development Bank ($5,018,416) Treasury requests $5.0 million for the eighth of eight payments to the AfDB's fifth general capital increase (GCI-5).

African Development Fund ($135,700,000) Treasury requests $135.7 million for the second of three payments to the tenth replenishment of the AfDF (AfDF-10). U.S. leadership secured key objectives, including: a substantial increase in grant funding under an agreed debt sustainability framework; enhanced effectiveness to achieve measurable results on the ground; improved transparency and increased activities to fight corruption; and greater support to post-conflict countries. The total AfDF-10 replenishment makes available approximately $1 billion per year for grant and lending operations to promote growth and development in the poorest countries in Sub-Saharan Africa.

International Fund for Agricultural Development (IFAD) ($18,000,000) Treasury requests $18.0 million for the first of three payments to the seventh replenishment of IFAD (IFAD-7). In December, 2005, negotiations were concluded on IFAD-7 and the U.S. exercised leadership to achieve key objectives, including: a time-bound and measurable plan to address key findings of the independent external evaluation that has an overall goal of increasing effectiveness of IFAD operations; improved implementation of the performance based allocation system including removing fixed regional allocations; a debt sustainability framework that will result in an increase in grant funding; and increased transparency and anti-corruption measures.

Debt Restructuring ($182,799,000)

Democratic Republic of Congo Bilateral HIPC Debt Reduction (at least $175,000,000) The cost of canceling the remainder of the DRC's bilateral debt stock with the United States is at least $237 million. Treasury intends to use $18.4 million of the remaining FY2005 funds, along with $44 million of non-TFCA FY2006 funds, toward the cost of the DRC's HIPC Completion Point treatment, leaving an unfunded balance of at least $175 million.

Other HIPC and Poorest Country Debt Reduction and Tropical Forest Conservation Act Depending upon timing and evolving Administration priorities, Treasury will use this the remainder of FY 2007 funds between HIPC related debt reduction (e.g. Liberia, Sudan) and TFCA debt swap programs.

Technical Assistance

Technical Assistance ($23,700,000) Treasury's technical assistance program provides expert financial and economic advisors to countries that are experiencing post-crisis adjustment or facing economic transition and are committed to significant financial reform. The increase over our FY 2006 submission is justified in order to ensure Treasury's ability to be a "first responder" in post-crisis situations by quickly marshaling experts for deployment overseas; to continue addressing very important issues such as money laundering, terrorist financing, and public corruption; and to act upon the many new requests for technical assistance received from countries that are of policy importance to the U.S. Government – particularly in the Greater Middle East, Sub-Saharan Africa, the Americas, and countries with significant extractive industries. Failure to achieve a substantial increase in TIATA funding will impair Treasury's efforts to play an influential role in supporting global financial reform.

Legislative Proposals

For FY 2007, the Administration is requesting authorization for the U.S. contribution to the first replenishment of the Enterprise for the Americas Multilateral Investment Fund (MIF).

Summary of FY 2007 Appropriations Language Changes

Below is a summary of changes in the appropriations language in the bills being marked up by the House and Senate. Please note that brackets indicate which material will be deleted, and italics indicate which material will be inserted.

Departmental Offices

Salaries and Expenses

(Including Transfer of Funds)

For necessary expenses of the Departmental Offices including operation and maintenance of the Treasury Building and Annex; hire of passenger motor vehicles; maintenance, repairs, and improvements of, and purchase of commercial insurance policies for, real properties leased or owned overseas, when necessary for the performance of official business, [not to exceed $3,000,000 for official travel expenses; $196,592,000] *$223,874,000*, of which not to exceed [$8,642,000] *$17,501,000* is for executive direction program activities; [not to exceed $7,852,000 is for general counsel program activities;] not to exceed [$32,011,000] *$41,947,000* is for economic policies and programs activities; not to exceed [$26,574,000] *$25,336,000* is for financial policies and programs activities; [pursuant to section 3004 (b) of the Exchange Rates and International Economic Policy Coordination Act of 1988 (22 U.S.C. 5304 (b)), not to exceed $1,000,000, to remain available until expended, is for the Secretary of the Treasury, in conjunction with the President, to implement said subsection as it pertains to governments and trade violations involving currency manipulation and other trade violations;] not to exceed [$39,939,000] *$45,401,000* is for [financial crimes policies and programs] *terrorism and financial intelligence* activities; not to exceed [$16,843,000] *$20,372,000* is for Treasury-wide management policies and programs activities; and not to exceed [$63,731,000] *$73,317,000* is for administration programs activities: [*Provided*, That of the amount appropriated for financial crimes policies and programs activities, $22,032,016 is for the Office of Foreign Assets Control and shall support no less than 125 full time equivalent positions:] *Provided* [*further*], That the Secretary of the Treasury is authorized to transfer funds appropriated for any program activity of the Departmental Offices to any other program activity of the Departmental Offices upon notification to the House and Senate Committees on Appropriations: [*Provided further*, That no appropriation for any program activity shall be increased or decreased by more than two percent by all such transfers: Provided further, That any change in funding greater than two percent shall be submitted for approval to the House and Senate Committees on Appropriations:] *Provided further*, That of the amount appropriated under this heading, not to exceed $3,000,000, to remain available until September 30, [2007] *2008*, for information technology modernization requirements; not to exceed [$100,000] *$150,000* for official reception and representation expenses; and not to exceed $258,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Secretary of the Treasury and to be accounted for solely on his certificate: *Provided further*, That of the amount appropriated under this heading, [$5,173,000] *$5,114,000 to* remain available until September 30, [2007] *2008*, is for the Treasury-wide Financial Statement Audit *and Internal Control* Program, of which such amounts as may be necessary may be transferred to accounts of the Department's offices and bureaus to conduct audits: *Provided further*, That this transfer authority shall be in addition to any other provided in this Act. (Department of the Treasury Appropriations Act, 2006.)

Department-wide Systems and Capital Investment Programs

(Including Transfer of Funds)

For development and acquisition of automatic data processing equipment, software, and services for the Department of the Treasury, [$24,412,000] *$34,032,000*, to remain available until September 30, [2008] *2009*: *Provided*, that these funds shall be transferred to accounts and in amounts as necessary to satisfy the requirements of the Department's offices, bureaus, and other organizations: *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act: *Provided further*, That none of the funds appropriated shall be used to support or supplement ''Internal Revenue Service, Information Systems'' or ''Internal Revenue Service, Business Systems Modernization.'' (Department of the Treasury Appropriations Act, 2006.)

Office of the Inspector General

Salaries and Expenses

For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended, not to exceed $2,000,000 for official travel expenses, including hire of passenger motor vehicles; and not to exceed $100,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General of the Treasury, [$17,000,000] *$17,352,000*, of which not to exceed $2,500 shall be available for official reception and representation expenses. (Department of the Treasury Appropriations Act, 2006.)

Treasury Inspector General for Tax Administration

Salaries and Expenses

For necessary expenses of the Treasury Inspector General for Tax Administration in carrying out the Inspector General Act of 1978, as amended, including purchase (not to exceed 150 for replacement only for police-type use) and hire of passenger motor vehicles (31 U.S.C. 1343(b)); services authorized by 5 U.S.C. 3109, at such rates as may be determined by the Inspector General for Tax Administration; not to exceed $6,000,000 for official travel expenses; and not to exceed $500,000 for unforeseen emergencies of a confidential nature, to be allocated and expended under the direction of the Inspector General for Tax Administration, [$133,286,000] *$136,469,000*; and of which not to exceed $1,500 shall be available for official reception and representation expenses. (Department of the Treasury Appropriations Act, 2006.)

Treasury Building and Annex Repair and Restoration

[For the repair, alteration, and improvement of the Treasury Building and Annex, $10,000,000, to remain available until September 30, 2008.] (Department of the Treasury Appropriations Act, 2006.)

Air Transportation Stabilization Program Account

[For necessary expenses to administer the Air Transportation Stabilization Board established by section 102 of the Air Transportation Safety and System Stabilization Act (Public Law 107-42), $2,750,000, to remain available until expended.] *In fiscal year 2007, the Air Transportation Stabilization Board may charge fees to a borrower for the costs to the ATSB associated with bankruptcy proceedings of the borrower. Such fees shall be collected and deposited in the Air Transportation Stabilization Board account, to be available for such costs.* (Department of the Treasury Appropriations Act, 2006.)

Community Development Financial Institutions Fund

Program Account

To carry out the Community Development Banking and Financial Institutions Act of 1994 (Public Law 103-325), including services authorized by 5 U.S.C. 3109, but at rates for individuals not to exceed the per diem rate equivalent to the rate for ES-3, [$55,000,000, to remain available until September 30, 2007, of which $4,000,000 shall be for financial assistance, technical assistance, training and outreach programs designed to benefit Native American, Native Hawaiian, and Alaskan Native communities and provided primarily through qualified community development lender organizations with experience and expertise in community development banking and lending in Indian country, Native American organizations, tribes and tribal organizations and other suitable providers, and up to $13,500,000 may] *$7,821,000, to* be used for [administrative expenses, including] administration of the New Markets Tax Credit[, up to $6,000,000 may be used for the cost of direct loans, and up to $250,000 may be used for administrative expenses to carry out the direct loan program: *Provided*, That the cost of direct loans, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended: *Provided further*, That these funds are available to subsidize gross obligations for the principal amount of direct loans not to exceed $11,000,000] *program and for management of the existing portfolio of awards to Community Development Financial Institutions and insured financial institutions.* (Department of the Treasury Appropriations Act, 2006.)

Financial Crimes Enforcement Network

Salaries and Expenses

For necessary expenses of the Financial Crimes Enforcement Network, including hire of passenger motor vehicles; travel *and training* expenses of non-Federal [law enforcement] *and foreign government* personnel to attend meetings *and training* concerned with *domestic and foreign* financial intelligence activities, law enforcement, and financial regulation; not to exceed $14,000 for official reception and representation expenses; and for assistance to Federal law enforcement agencies, with or without reimbursement, [$73,630,000] *$89,794,000* of which not to exceed [$6,944,000] *$19,740,000* shall remain available until September 30, [2008] *2009*; and of which [$8,521,000] *$8,651,000* shall remain available until September 30, [2007] *2008*: *Provided*, That funds appropriated in this account may be used to procure personal services contracts. (Department of the Treasury Appropriations Act, 2006.)

Financial Management Service

Salaries and Expenses

For necessary expenses of the Financial Management Service, [$236,243,000] *$233,654,000*, of which not to exceed $9,220,000 shall remain available until September 30, [2008] *2009*, for information systems modernization initiatives; and of which not to exceed $2,500 shall be available for official reception and representation expenses. (Department of the Treasury Appropriations Act, 2006.)

Alcohol and Tobacco Tax and Trade Bureau

Salaries and Expenses

For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [$91,126,000] *$63,964,000*; of which not to exceed $6,000 for official reception and representation expenses; not to exceed $50,000 for cooperative research and development programs for laboratory services; and provision of laboratory assistance to State and local agencies with or without reimbursement. (Department of the Treasury Appropriations Act, 2006.)

Salaries and Expenses (legislative proposal not subject to PAYGO)

In addition, $28,640,000 from the General Fund: Provided, That such amount shall be reduced by such sums as may be deposited to the Alcohol and Tobacco Regulatory Fund, so as to result in a final fiscal year 2007 appropriation from the General Fund under this paragraph estimated at $0: Provided further, That amounts from the Alcohol and Tobacco Regulatory Fund may be transferred to this account, to be merged with and available for the same purposes as this account, to remain available until expended.

United States Mint

United States Mint Public Enterprise Fund

Pursuant to section 5136 of title 31, United States Code, the United States Mint is provided funding through the United States Mint Public Enterprise Fund for costs associated with the production of circulating coins, numismatic coins, and protective services, including both operating expenses and capital investments. The aggregate amount of new liabilities and obligations incurred during fiscal year [2006] *2007* under such section 5136 for circulating coinage and protective service capital investments of the United States Mint shall not exceed [$26,768,000] *$30,200,000*. (Department of the Treasury Appropriations Act, 2006.)

Bureau of the Public Debt

Administering the Public Debt

For necessary expenses connected with any public-debt issues of the United States, [$179,923,000] *$180,789,000*, of which not to exceed $2,500 shall be available for official reception and representation expenses, and of which not to exceed $2,000,000 shall remain available until [expended] *September 30, 2009* for systems modernization: *Provided*, That the sum appropriated herein from the general fund for fiscal year [2006] *2007* shall be reduced by not more than $3,000,000 as definitive security issue fees and Treasury Direct Investor Account Maintenance fees are collected, so as to result in a final fiscal year [2006] *2007* appropriation from the general fund estimated at [$176,923,000] *$177,789,000*. In addition, $70,000 to be derived from the Oil Spill Liability Trust Fund to reimburse the Bureau for administrative and personnel expenses for financial management of the Fund, as authorized by section 1012 of Public Law 101-380. (Department of the Treasury Appropriations Act, 2006.)

Internal Revenue Service

Processing, Assistance and Management

[(Including Rescission of Funds)]

For necessary expenses of the Internal Revenue Service for pre- filing taxpayer assistance and education, filing and account services, shared services support, general management and administration; and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [$4,136,578,000] *$4,045,122,000*, of which up to $4,100,000 shall be for the Tax Counseling for the Elderly Program, of which $8,000,000 shall be available for low-income taxpayer clinic grants, [of which $1,500,000 shall be for the Internal Revenue Service Oversight Board;] and of which not to exceed $25,000 shall be for official reception and representation expenses[: *Provided*, That of unobligated amounts available under this heading from previous appropriations Acts, $20,000,000 shall be rescinded]. (Department of the Treasury Appropriations Act, 2006.)

Tax Law Enforcement

(Including Transfer of Funds)

For necessary expenses of the Internal Revenue Service for determining and establishing tax liabilities; providing litigation support; conducting criminal investigation and enforcement activities; securing unfiled tax returns; collecting unpaid accounts; conducting a document matching program; resolving taxpayer problems through prompt identification, referral and settlement; expanded customer service and public outreach programs, strengthened enforcement activities, and enhanced research efforts to reduce erroneous filings associated with the earned income tax credit; compiling statistics of income and conducting compliance research; purchase (for police-type use, not to exceed 850) and hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [$4,725,756,000] *$4,762,327,000*, of which not to exceed $1,000,000 shall remain available until September 30, [2008] *2009*, for research; and of which $55,584,000 shall be for the Interagency Crime and Drug Enforcement program[: *Provided*, That up to $10,000,000 may be transferred as necessary from this account to the IRS Processing, Assistance, and Management appropriation or the IRS Information Systems appropriation solely for the purposes of management of the Interagency Crime and Drug Enforcement Program: *Provided further*, That up to

$10,000,000 may be transferred as necessary from this account to the IRS Processing, Assistance, and Management appropriation or the IRS Information Systems appropriation solely for the purposes of management of the Earned Income Tax Credit compliance program and to reimburse the Social Security Administration for the cost of implementing section 1090 of the Taxpayer Relief Act of 1997 (Public Law 105-33): *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act]. (Department of the Treasury Appropriations Act, 2006.)

Health Insurance Tax Credit Administration

[(Including Rescission of Funds)]

For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), [$20,210,000: *Provided*, That of unobligated amounts available under this heading from previous appropriations acts, $9,000,000 shall be rescinded] *$14,846,000*. (Department of the Treasury Appropriations Act, 2006.)

Information Systems

For necessary expenses of the Internal Revenue Service for information systems and telecommunications support, including developmental information systems and operational information systems; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [$1,598,967,000] *$1,602,232,000*, of which $75,000,000 shall remain available until September 30, [2007] *2008*. (Department of the Treasury Appropriations Act, 2006.)

Business Systems Modernization

For necessary expenses of the Internal Revenue Service, [$199,000,000] *$167,310,000*, to remain available until September 30, [2008] *2009*, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including contractual costs associated with operations authorized by 5 U.S.C. 3109: *Provided*, That none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations[, and such Committees approve,] a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and Budget; (5) has been reviewed by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government. (Department of the Treasury Appropriations Act, 2006.)

Administrative Provisions – Internal Revenue Service (Including Transfer of Funds)

SEC. 201. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service or not to exceed 3 percent of appropriations under the heading ''Tax Law Enforcement'' may be transferred to any other Internal Revenue Service appropriation upon the advance [approval] *notification* of the Committees on Appropriations.

SEC. 202. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers' rights, in dealing courteously with taxpayers, and in cross-cultural relations.

SEC. 203. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.

[SEC. 204. Funds made available by this or any other Act to the Internal Revenue Service shall be available for improved facilities and increased manpower to provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make the improvement of the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary to increase phone lines and staff to improve the Internal Revenue Service 1- 800 help line service.]

[SEC. 205. None of the funds appropriated or otherwise made available in this or any other Act or source to the Internal Revenue Service may be used to reduce taxpayer services as proposed in fiscal year 2006 until the Treasury Inspector General for Tax Administration completes a study detailing the impact of such proposed reductions on taxpayer compliance and taxpayer services, and the Internal Revenue Service's plans for providing adequate alternative services, and submits such study and plans to the Committees on Appropriations of the House of Representatives and the Senate for approval: *Provided*, That no funds shall be obligated by the Internal Revenue Service for such purposes for 60 days after receipt of such study: *Provided further*, That the Internal Revenue Service shall consult with stakeholder organizations, including but not limited to, the National Taxpayer Advocate, the Internal Revenue Service Oversight Board, the Treasury Inspector General for Tax Administration, and Internal Revenue Service employees with respect to any proposed or planned efforts by the Internal Revenue Service to terminate or reduce significantly any taxpayer service activity.]

SEC. [206] *204*. Of the funds made available by this Act to the Internal Revenue Service, not less than [$6,447,000,000] *$6,824,070,000* shall be available only for tax enforcement. In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, *an additional* [$446,000,000] *$137,275,000* shall be available for [enhanced] tax enforcement.

[SEC. 207. Of the funds made available by this Act to the Internal Revenue Service, not less than $166,249,000 shall be available for operating expenses of the Taxpayer Advocate Service, of which not less than $141,311,650 shall be made available from the "Tax Law Enforcement" account.]

[SEC. 208. The Internal Revenue Service shall submit its fiscal year 2007 congressional budget justifications to the Committees on Appropriations of the House of Representatives and the Senate using the identical structure provided under this Act and only in accordance with the direction specified in the report accompanying this Act.]

[SEC. 209. Section 3 under the heading "Administrative Provisions—Internal Revenue Service" of title I of Public Law 103-329 is amended by striking the last proviso.] (Department of the Treasury Appropriations Act, 2006.)

[Section 5021, For the purposes of compliance with section 205 of Public Law 109-115, a reduction in taxpayer service shall include, but not be limited to, any reduction in available hours of telephone taxpayer assistance on a daily, weekly and monthly basis below the levels in existence during the month of October 2005.] (Emergency Supplemental Appropriations Act to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006)

Administrative Provisions – Department of the Treasury (Including Transfer of Funds)

SEC. 210. Appropriations to the Department of the Treasury in this Act shall be available for uniforms or allowances therefor, as authorized by law (5 U.S.C. 5901), including maintenance, repairs, and cleaning; purchase of insurance for official motor vehicles operated in foreign countries; purchase of motor vehicles without regard to the general purchase price limitations for vehicles purchased and used overseas for the current fiscal year; entering into contracts with the Department of State for the furnishing of health and medical services to employees and their dependents serving in foreign countries; and services authorized by 5 U.S.C. 3109.

SEC. 211. Not to exceed 2 percent of any appropriations in this Act made available to the Departmental Offices—Salaries and Expenses, Office of Inspector General, Financial Management Service, Alcohol and Tobacco Tax and Trade Bureau, Financial Crimes Enforcement Network, and Bureau of the Public Debt, may be transferred between such appropriations upon the advance [approval] *notification* of the Committees on Appropriations: *Provided*, That no transfer may increase or decrease any such appropriation by more than 2 percent.

SEC. 212. Not to exceed 2 percent of any appropriation made available in this Act to the Internal Revenue Service may be transferred to the Treasury Inspector General for Tax Administration's appropriation upon the advance [approval] *notification* of the Committees on Appropriations: *Provided*, That no transfer may increase or decrease any such appropriation by more than 2 percent.

SEC. 213. Of the funds available for the purchase of law enforcement vehicles, no funds may be obligated until the Secretary of the Treasury certifies that the purchase by the respective Treasury bureau is consistent with Departmental vehicle management principles: *Provided*, That the Secretary may delegate this authority to the Assistant Secretary for Management.

SEC. 214. None of the funds appropriated in this Act or otherwise available to the Department of the Treasury or the Bureau of Engraving and Printing may be used to redesign the $1 Federal Reserve note.

SEC. 215. The Secretary of the Treasury may transfer funds from Financial Management Services, Salaries and Expenses to Debt Collection Fund as necessary to cover the costs of debt collection: *Provided*, That such amounts shall be reimbursed to such salaries and expenses account from debt collections received in the Debt Collection Fund.

SEC. 216. Section 122(g)(1) of Public Law 105-119, as amended (5 U.S.C. 3104 note), is further amended by striking ["7 years"] *"8 years"* and inserting ["8 years"] *"9 years"*.

[SEC. 217. None of the funds appropriated or otherwise made available by this or any other Act may be used by the United States Mint to construct or operate any museum without the explicit approval of the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs.]

[SEC. 218. None of the funds appropriated or otherwise made available by this or any other Act or source to the Department of the Treasury, the Bureau of Engraving and Printing, and the United States Mint, individually or collectively, may be used to consolidate any or all functions of the Bureau of Engraving and Printing and the United States Mint without the explicit approval of the House Committee on Financial Services; the Senate Committee on Banking, Housing, and Urban Affairs; the House Committee on Appropriations; and the Senate Committee on Appropriations.]

[SEC. 219. None of the funds appropriated or otherwise made available by this or any other Act or source to the Secretary of the Treasury may be expended to develop, study, or implement any plan to reallocate the resources of, or merge the Financial Crimes Enforcement Network into the Departmental Offices—Salaries and Expenses, or any other office within the Department of the Treasury.]

SEC. 217. Section 3333(a) of Title 31, United States Code, is amended by deleting paragraph (3) and inserting in lieu thereof the following:

"(3) The amount of the relief, and the amount of any relief granted to an official or agent of the Department of the Treasury under 31 U.S.C. 3527, shall be charged to the Check Forgery Insurance Fund (31 U.S.C. 3343). A recovery or repayment of a loss for which replacement is made out of the fund shall be credited to the fund and is available for the purposes for which the fund was established." (Department of the Treasury Appropriations Act, 2006.)

Detail of Other Treasury Accounts

Total Treasury Department Budget

The Treasury Chapter of the FY 2007 President's Budget covers the following areas:

Interest Payments – $449.3 billion

These are permanent, indefinite funds for interest payments needed: to finance the public debt; by the IRS on refunds of taxes to taxpayers; and on special accounts handled through the Treasury.

Permanent Authority Appropriations and Trust Funds – $56.6 billion

These are special accounts for which the Congress has given the Department of Treasury permanent authority to expend funds as appropriations, such as: payments made when the earned income credit, child credit, and health care credit exceeds the taxpayer's tax liability; payments to the Resolution Funding Corporation; reimbursements to Federal Reserve Banks; special claims and damage payments required as a result of judgments against the U.S. government; payments to Presidential candidates and their parties in accordance with Federal Election Commission certification; and other accounts.

Offsetting Collections – -$21.6 billion

Treasury receipts from other government agencies and private sources are subtracted from the total Treasury budget as an offset.

Annual Operating Appropriation Request – $11.6 billion

These are funds for Treasury operations which require annual appropriation action by the Congress. Bureau operating budget details are provided in the "Analysis of FY 2007 President's Budget" section.

Account Details

Interest Payments

Interest on the Public Debt: The federal government's outstanding debt requirements are financed through borrowing (e.g., auctions of Treasury Bills, Notes, and Bonds). Funds paid to lenders for the use of their money is paid from the Interest on the Public Debt appropriation.

Interest on the Public Debt includes all interest paid on Treasury securities sold to the public (e.g., foreign and domestic financial institutions, individuals, insurance companies, state and local governments, etc.) and to federal government trust funds, revolving funds and deposit funds.

Interest on IRS Refunds: Under certain conditions in the tax law, the IRS must pay interest on Internal Revenue collections that must be refunded -- amended returns, delayed refunds of more than 45 days from the due date of the return, corporation losses covering prior year returns, results of tax audits, etc. The rate of interest changes every three months to reflect the prime interest rate then in effect.

Interest on Uninvested Funds: Under conditions of the law creating each trust account, interest accruing and payable from the general fund of the Treasury is appropriated to this account for payment to the proper fund receipt accounts.

Interest Paid to Credit Financing Accounts: Loan guarantee financing accounts receive various payments and fees and make payment on defaults. When cash balances result from an excess of receipts over outlays, these balances are deposited with Treasury and earn interest. This account pays such interest to credit loan guarantee financing accounts from the general fund of the Treasury in accordance with Section 505(c) of the Federal Credit Reform Act of 1990.

Restitution of Foregone Interest: In certain situations the Secretary of the Treasury pays interest to the Government Securities Investment Fund from the general fund of the Treasury when funds could not be invested as a result of a debt issuance suspension.

Federal Interest Liabilities to the States: As provided in U.S.C. 3335, U.S.C. 6503, and 31 C.F.R. 205, interest is paid to states when federal funds are not transferred timely.

Trust Funds and Other

Federal Financing Bank

The Federal Financing Bank (FFB) was created in 1973 to ensure the coordination of federal and federally assisted borrowing from the public in a manner least disruptive to private financial markets and institutions. FFB loans are now used primarily to finance direct agency activities such as construction of federal buildings by the General Services Administration, and U.S. Postal Service activities.

Payment to Resolution Funding Corporation

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 authorized the Secretary of the Treasury such sums as may be necessary to cover interest payments on obligations issued by the Resolution Funding Corporation (REFCORP). REFCORP was established under the Act to raise $31.2 billion for the Resolution Trust Corporation (RTC) in order to resolve savings institution insolvencies.

Check Forgery Insurance Fund

The Fund facilitates timely payments for replacement Treasury checks necessitated due to a claim of forgery. The fund recoups disbursements through reclamations made against banks negotiating forged checks. To reduce hardships sustained by payees of government checks that have been stolen and forged, settlement is made in advance of the receipt of funds from the endorsers of the checks. If the U.S. Treasury is unable to recover funds, the account sustains the loss.

Payment to Terrestrial Wildlife Habitat Restoration Trust Fund

Under P.L. 106-53, the Secretary of the Treasury is required to invest funds deposited in the Cheyenne River Sioux Tribe Terrestrial Wildlife Restoration Trust Fund and the Lower Brule Sioux Tribe Terrestrial Wildlife Restoration Trust Fund, until the funds are fully capitalized.

Community Development Financial Institutions Program Account

This program is authorized to make loans to Community Development Financial Institutions and insured financial institutions. The loan funding is permanent, indefinite authority from the general fund.

Air Transportation Stabilization Program Account

The Air Transportation Safety and System Stabilization Act, P.L. 107-42 established the Air Transportation Stabilization Board which may issue up to $10 billion in loan guarantees. Amounts include estimates for loan guarantees that have received either conditional or final approval.

Permanent Authority Appropriations

Presidential Election Campaign Fund

The fund supports payments to the candidates running for President during the primaries and the general election, as well as support of nominating conventions. Appropriations to the fund represent receipts from the Presidential Election check-off on taxpayers' income tax returns. Upon certification by the Federal Election Commission, payments are made for the above purposes. Major expenditures occur during the year of the Presidential election – appropriations represent collections from the check-off.

Biomass Energy Development

This account provided loan guarantees for the construction of biomass-to-ethanol facilities, as authorized under Title II of the Energy Security Act. All loans went into default, and the assets of all but one project have been liquidated.

Government Losses in Shipment

This account was created as self-insurance to cover losses in shipment of government property such as coins, currency, securities, and some other losses.

Terrorism Risk Insurance Program

The Terrorism Risk Insurance Act of 2002 establishes the Terrorism Insured Loss Shared Compensation Program in the Department of the Treasury. The Program has authority to pay the federal share of compensation for insured commercial property and casualty losses resulting from acts of terrorism. The Act provides a permanent, indefinite appropriation for the program and its administration. The program was extended by Public Law 109-144 until December 31, 2007.

Continued Dumping and Subsidy Offset

P.L. 106-387 provided for relief for certain domestic producers that may be impacted by injurious dumping and/or subsidization of imported products. Assessed duties are deposited into a special fund, and distributed to domestic producers, based on a determination that a domestic producer has been injured by these unfair trade practices.

Treasury Forfeiture Fund

Public Law 102-393 established this permanent appropriation to be used to pay or reimburse certain seizure and forfeiture costs that occur pursuant to the laws enforced by the bureaus participating in the Fund and other expenses authorized by 31 U.S.C. 9703.

Debt Collection Special Fund

FMS provides debt collection operational services to client agencies which include collection of delinquent accounts; offset of federal payments against debts owed the government, collection of unclaimed financial assets, and disposition of foreclosed property.

Claims, Judgments and Relief Acts

Appropriations are made for payment of claims and interest for damages not chargeable to appropriations of individual agencies, and for payment of private and public relief acts. Public Law 95-26 authorized a permanent, indefinite appropriation to pay certain judgments from the general fund of the Treasury.

Reimbursement to Federal Reserve Banks

Permanent, indefinite appropriations were established at the Bureau of the Public Debt and Financial Management Service to reimburse Federal Reserve Banks for their services as fiscal agents and/or depositaries for the United States for all services required or directed by the Secretary of the Treasury to be performed behalf of the Treasury or other federal agencies.

Financial Agent Services

This appropriation allows the Financial Management Service to reimburse financial institutions for services provided in their capacity as depositaries and fiscal agents for the United States. The services provided are authorized under numerous statutes, including, but not limited to, 12 U.S.C. 90 and 265. The services include the acceptance and processing of deposits of public money, as well as services essential to the disbursement of and accounting for public monies.

Duties, Taxes and Fees (Puerto Rico)

Treasury's Alcohol and Tobacco Tax and Trade Bureau collects excise taxes on articles produced in Puerto Rico. After the bureau deducts its cost of collecting these funds, the balance is refunded back to Puerto Rico. The repayment is required to be included in total Treasury expenditures.

Internal Revenue Service – New and Existing Fees

The Secretary of the Treasury may establish new fees or raise existing fees for services provided by the IRS. The fees may be spent to supplement IRS appropriations.

Internal Revenue Service – Informant Payments

The Secretary of the Treasury may make payments to individuals resulting from information given that leads to the collection of Internal Revenue taxes. The Taxpayer Bill of Rights of 1996 authorizes these payments from the proceeds of amounts (other than interest) collected as a result of the information provided.

Internal Revenue Service – Private Collection Agent Program

The American Jobs Creation Act of 2004 (Public Law 108–357) included a new tax enforcement tool. The IRS will now be able to hire private collection contractors to supplement its own collection staff's efforts to ensure that all taxpayers pay what they owe. The legislation ensures contractors respect taxpayer rights. The statute further authorizes the Secretary of the Treasury to retain and use an amount not in excess of 25 percent of the amount collected under any qualified tax collection contract for payments to private collection agents, and an amount not in excess of 25 percent of the amount collected for collection enforcement activities of the IRS.

Payment Where Child Credit Exceeds Liability for Tax

The child credit (originally authorized under the Taxpayer Relief Act of 1997) calls for an additional payment to the tax filer. This account is used only in those instances when the credit will exceed the amount of the tax liability owed through the individual income tax system.

Payment Where Earned Income Credit Exceeds Liability for Tax

The earned income credit (originally authorized under the Tax Reduction Act of 1975) calls for absolute tax credits to low income taxpayers who meet certain qualifications. This account is used only when the tax credit exceeds the taxpayer's total liability for taxes, and only by the amount that the tax liability is exceeded.

Payment Where Health Care Credit Exceeds Liability for Tax

The health care credit calls for a refundable tax credit for health insurance purchased by individuals and families who are not covered by employer-sponsored insurance nor eligible for public programs.

Offsetting Collections

In general, amounts collected by the federal government are classified in two major categories:

- *Governmental receipts* – Revenues that arise from the sovereign and regulatory powers unique to the federal government. They consist primarily of tax receipts, but also include customs duties, court fines, certain licenses, etc. All governmental receipts are deposited into receipt accounts. These receipts are always reported in total (rather than as an offset to budget authority and outlays).
- *Offsetting receipts* – Collections that are offset against the budget authority and outlays of the collecting agency rather than reflected as governmental receipts in computing budget totals. Offsetting receipts are comprised of:
    - *Proprietary Receipts* - These receipts from the public are market-oriented and are derived from activities operated as business-type enterprises.
    - *Intragovernmental Receipts* - These are collections from other governmental accounts deposited in receipt accounts. These are further classified as follows:
        - *Interfund Receipts* - These are amounts derived from payments between federal and trust funds.
        - *Intrafund Receipts* - These are amounts derived from payments within the same fund group (i.e., within the federal fund group or within the trust fund group).

(dollars in billions)

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Proprietary	14.1	15.4	15.6
Interfund	1.6	1.8	4.0
Intrafund	2.6	1.6	2.0
Total	**18.3**	**18.8**	**21.6**

www.treas.gov