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.

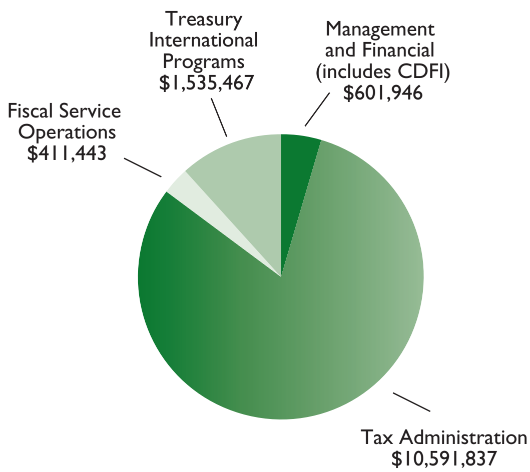
The Department administers America's tax laws and collects revenues that fund most government operations and public services.

FY 2007 President's Budget by Strategic Goal

(Dollars in Thousands)

Treasury Goal/Objective	Promote Prosperous U.S./World Economies (E1) Direct $	Reimb. $	Promote Stable U.S./ World Economies (E2) Direct $	Reimb. $	Promote Integrity of Financial Systems (F3) Direct $	Reimb. $	Manage U.S. Gov Finances Effectively (F4) Direct $	Reimb. $	Management Excellence & Accountability (M5) Direct $	Reimb. $	Total 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.

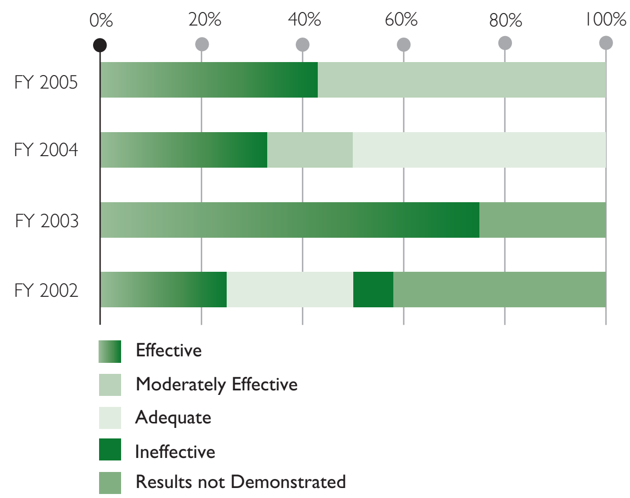
Eliminating Improper Payments Treasury's score is Red in status and Yellow in progress. This PMA initiative is tied to the Improper Payments Information Act of 2002. Treasury is committed to ensuring accurate and appropriate federal payments. Accordingly, Treasury sets performance targets to track progress 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

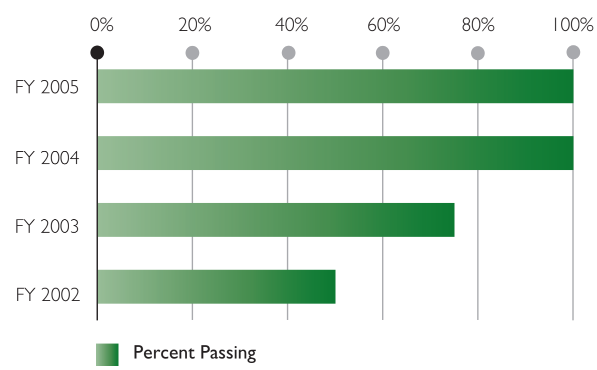
Program evaluation is a core management tool used by Treasury to allocate resources and promote efficiency and effectiveness. In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with OMB to evaluate 20 percent of its programs each year through the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

Appropriation	FY 2005 Actual Direct	FY 2005 Actual Reimb.	FY 2005 Actual Total	FY 2006 Estimated Direct	FY 2006 Estimated Reimb.	FY 2006 Estimated Total	FY 2007 President's Budget Direct	FY 2007 President's Budget Reimb.	FY 2007 President's Budget 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
Salaries and Expenses

Mission

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

1.1 – Appropriation Summary Table

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Executive Direction Programs	$14,430	$16,329	$17,501	$1,172	7.18%
Economic Policies and Programs	31,203	31,691	41,947	10,256	32.36%
Financial Policies and Programs	25,231	26,308	25,336	(972)	-3.69%
Terrorism and Financial Intelligence	34,796	39,540	45,401	5,861	14.82%
Treasury-wide Management Policies and Programs	16,245	16,674	20,372	3,698	22.18%
Administration Programs	56,506	63,094	73,317	10,223	16.20%
Currency Manipulation	0	990	0	(990)	-100.00%
Total Appropriated Resources	**$178,411**	**$194,626**	**$223,874**	**$29,248**	**15.03%**

FY 2007 Priorities

- ***Promoting Economic Growth and Security*** - Increasing economic growth and stability at home and internationally are key priorities for the U.S. Government and the Treasury Department.

- ***Strengthening National Security*** - Fighting and winning the global war on terror continues to be the Administration's top priority.

- ***Maintaining a World-class Treasury*** – Treasury will use the President's Management Agenda to continually improve the management of Treasury and its program delivery to the American taxpayer.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Mission and Priorities

Mission of Departmental Offices

The mission of Departmental Offices (DO) mirrors the mission of the Department of the Treasury: To promote the conditions for prosperity and stability in the United States and to encourage prosperity and stability in the rest of the world.

Departmental Offices, as the headquarters for the Department of the Treasury, provides leadership in economic and financial policy, financial crimes, and general management. DO is responsible for Treasury policy direction and formulation and supports Treasury's role in leading the country and the world to more prosperous and stable economies through improving financial and economic systems, promoting a safe and secure America, and collecting the revenue due to the government.

Key Priorities for the Department and Its Headquarters

The FY 2007 budget request supports DO's leading role in accomplishing key Administration goals:

- ***Promoting Economic Growth and Security*** - Increasing economic growth and stability at home and abroad are key priorities for the U.S. Government and this Department. Treasury will continue to work with international financial institutions and through high-level multilateral forums, such as the G7 and G8 to develop and implement policies that increase productivity, reduce poverty, and prevent financial crises around the world.

- ***Strengthening National Security*** - Fighting and winning the global war on terror continues to be the Administration's top priority. Working closely with other agencies and with governments around the world, the Department will continue to lead the effort to identify, and block financial assets of terrorists, proliferators of weapons of mass destruction and narcotics traffickers and their support networks; and to impair, impede and economically isolate these individuals, organizations and entities.

- ***Maintaining a World-class Treasury*** – Departmental Offices effectively manages the resources of the Department of the Treasury to ensure that it remains a world-class organization. This includes strengthening information technology capabilities and ensuring the health and safety of its employees.

1B – Previous Highlights and Accomplishments

In FY 2005, Departmental Offices provided leadership to achieve new breakthroughs in support of Treasury's missions and strategic goals of promoting economic growth and security at home and abroad, strengthening national security, managing the U.S. government's finances effectively and ensuring that Treasury remains a world class organization by continually improving the operations and management of the Department.

<u>Promoting Economic Growth and Security</u>

The complexity of the Internal Revenue Code leads to a high error rate for individual and corporate returns, and increases the burden of compliance for all taxpayers. In FY 2005, DO provided technical support for the President's Advisory Panel on Federal Tax Reform and development of tax reform options and recommendations. Implementing tax reform will stimulate the U. S. economy through reduced compliance costs and improved voluntary compliance, which in turn reduces the costs of tax administration.

In the last year, Treasury has made significant progress in making basic financial education available to all Americans. DO launched the MyMoney.gov website and 1-888-MyMoney toll-free hotline to promote basic financial literacy, and directed more than 100 financial education events in the last 12 months.

Treasury has also engaged emerging economies, encouraging economic stability and growth around the globe, engaging China in intensive economic dialogue, developing a central budget and revitalized banking system in Iraq, and negotiating debt relief for Iraq. Negotiations with China resulted in an initial movement toward a more market-oriented exchange rate for the Chinese currency. Treasury secured extensive debt relief for Iraq through work in the Paris Club, IMF, and G7 Finance Ministers' process, and successfully linked U.S. commitments to the Multilateral Development Banks (MDBs) to the implementation of MDB reforms.

Treasury delivered to Congress a report mandated by the Terrorism Risk Insurance Act of 2002, assessing the Terrorism Risk Insurance Program's effectiveness in ensuring widespread availability and affordability, as well as insurers' capacity to offer terrorism coverage after the termination of the Program at the end of 2005. The Terrorism Risk Insurance Extension Act of 2005 (P.L. 109-144) however, reauthorized and revised the program established by the Terrorism Risk Insurance Act of 2002 (P.L. 107-297). The Extension Act extends the Terrorism Insurance Program for two years, through December 31, 2007.

Strengthening National Security

In FY 2005, DO continued to enhance its financial intelligence capabilities, attacking the financial underpinnings of international terrorism and other financial crimes. Treasury accelerated its identification and publication of financial sanction targets in the areas of terrorism, international narcotics trafficking, and weapons of mass destruction proliferation. Significant designations and blocking actions by the Office of Foreign Assets Control (OFAC) involved the worldwide network of the Islamic African Relief Agency, multiple front organizations for the Cali Cartel, that laid the foundation for the Colombian government's seizure of the Drogas La Rebaja drugstore chain in a criminal asset forfeiture action, (according to Colombian officials quoted in news reports, was the "largest occupation of property linked to the drug trade in the history of the country"), and eight entities in North Korea, Iran, and Syria engaged in connection with the proliferation of weapons of mass destruction.

DO coordinates intelligence throughout the Department, including the intelligence analysis in the Office of Foreign Asset Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN). In FY 2005, intelligence analysts were forward-deployed to military commands and the National Counterterrorism Center, providing more efficient use of personnel.

Since March 2003, Treasury has led efforts to identify and freeze over $2 billion in Iraqi assets outside the U.S., and facilitated the transfer of over $2.8 billion back to Iraq from U.S. and foreign sources.

Treasury works with allies around the world to improve coordination of intelligence and investigations of financial crimes. DO led the successful effort of the Financial Action Task Force on Money Laundering in FY 2005 to adopt an international standard to identify and target cash couriers, requiring some 120 countries to interdict and confiscate cross-border funds related to terrorist financing and money laundering. Also in the last year, DO created two regional organizations to combat terrorist financing in vulnerable regions of the world, and invoked Section 311 authorities of the USA Patriot Act against seven foreign banks designated as "primary money laundering concerns."

Managing the Government's Finances

Treasury's management of the federal government's finances includes making payments, collecting revenue, issuing debt and preparing public financial statements. In FY 2005, the Department introduced five-year and 20-year TIPS securities (inflation-indexed Treasury notes), resulting in improved liquidity, increased investor interest, and greater demand - approximately $140 billion in TIPS were auctioned in FY 2004 and FY 2005.

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

Maintaining a World-class Treasury

DO continues to improve the management and operations of the Treasury Department, meeting the President's standard of a results-oriented, citizen-centered government.

Treasury reduced its backlog of Freedom of Information Act requests by 20 percent, implemented an SES performance management system, became the first Federal agency to achieve the three day close and accelerate closing to November 15, and reduced material weaknesses from 32 to eight over the last four years.

The Department made significant improvements in the President's Management Agenda (PMA) Scorecard. It has consistently kept a "Green" for Status for Competitive Sourcing, and achieved three consecutive quarters of 'Green' for Progress on the for E-Government. For example, Treasury institutionalized the restructuring and information technology (IT) governance entities and processes (Treasury Chief Information Officers Council and Sub-Councils, Technical Investment Review Board, Executive Investment Review Board) to ensure comprehensive integration of the major IT management disciplines at the Departmental level.

1C – Future Outlook

Treasury's FY 2007 budget priorities reflect the Department's response to two significant factors: the global trend toward increasingly connected, complex and interdependent economies, and the national security priority to dismantle the financial infrastructure of international criminals.

Economic globalization has expanded U.S. engagement in foreign economic policy, financial interdependence, and vulnerability to economic crises and terrorism from abroad. The FY 2007 budget request includes funding to enhance Treasury's overseas presence to improve the U.S. Government's ability to engage emerging economies and to international crises. Treasury's international presence has dwindled from a high of nearly 40 attaches in the 1970s to three in 2005.

Fully funding Terrorism and Financial Intelligence in FY 2007 will provide DO with the tools necessary to support Treasury's National Security mission. TFI will more effectively administer and enforce economic and trade sanctions, provide timely, accurate and actionable intelligence that supports the formulation of policy and the execution of Treasury authorities, and develop policies and implement strategies to safeguard the U.S. and international financial systems from national security threats.

DO requires resources to address infrastructure issues that continue to hamper primary missions. To prevent deterioration of the Main Treasury and the Annex buildings, DO requests funds to re-establish its Repair and Improvements Account, so that it has the resources to address routine and recurring repair and maintenance issues

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Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Appropriation: DO Salaries and Expenses	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	**960**	**$179,850**		
Rescission (P.L. 108-447)		(1,438)		
FY 2005 Enacted	**960**	**178,412**		
FY 2006 Appropriation (P.L. 109 - 115)	**1,004**	**196,592**		
Rescission (P.L. 109 - 148)		(1,966)		
FY 2006 Enacted	**1,004**	**194,626**		
Changes to Base				
Maintaining Current Levels (MCLs)				
FY 2007 Pay Raise	0	2,320		
FY 2007 Non-Pay Inflation	0	1,663		
Pay Annualization of FY 2006 Pay Raise	0	946		
Capital Security Cost Sharing – Charge from Dept. of State	0	415		
MCLs	**0**	**5,344**		
Inter-Appropriation Transfers				
Transfer in to Fund Secretary's Security Detail	0	4,200		
Transfer in to Re-establish R&I account	0	1,000		
Transfers	**0**	**5,200**		
Non-Recurring Costs				
Non-Recur of Currency Manipulation	0	(990)		
Non-Recur of e-Cavern	0	(1,485)		
Non-Recur of Public Key Infrastructure	0	(248)		
Non-Recurs	**0**	(2,723)		
Program Cost Savings				
FY2007 savings from FY2005 closure of 3 overseas posts	0	(293)		
FY2007 across the board management savings	0	(269)		
Savings	**0**	(562)		
Annualizations of FY 2006 Initiatives				
Annualization of FY 2006 TFFC FTE	2	587		
Annualization of FY 2006 Cuba Sanctions FTE	0	81		
Annualization of FY 2006 OIA FTE	11	1,843		
Annualizations	**13**	**2,511**		
Subtotal, Changes to Base	**13**	**9,771**		
Total FY 2007 Base	**1,017**	**204,397**		
Program Changes (not in priority order)				
Increases:				
Expanded Treasury Presence Overseas	10	9,352	Econ. Policy & Prog.	E1A, E2A
Dynamic Analysis Division	3	513	Fin. Policy & Prog.	E1C
Intelligence Analysts	7	1,261	Terrorism/Fin. Intel.	F3A
Iraq Threat Finance Cell	2	2,050	Terrorism/Fin. Intel.	F3A
Additional Secure Workspace	0	1,000	Terrorism/Fin. Intel.	M5B
Economic Sanctions Against Terrorist Networks	8	1,483	Terrorism/Fin. Intel.	F3A
Economic Sanctions Against Weapons of Mass Destruction	5	946	Terrorism/Fin. Intel.	F3A
General Counsel Support of TFI	3	542	Executive Direction	F3A
Chief Counsel Support of the Office Foreign Assets Control	3	492	Executive Direction	F3A
Treasury-wide Performance Management Training	0	1,838	Treasury-wide Mgmt.	M5B
Subtotal FY 2007 Program Changes	**41**	**19,477**		
Total FY 2007 Request	**1,058**	**$223,874**		

2A – Budget Increases and Decreases Description

Changes to Base.. +$9,771,000/13FTE

Adjustments to Maintain Current Levels +$5,344,000/0FTE 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 Department of State overseas Capital Security Cost Sharing of $415,000.

Inter-Appropriation Transfers +$5,200,000/0FTE Transfer in of $1,000,000 and 0 FTE from TBARR to re-establish a Repair and Improvements (R&I) account. A recurring baseline for major repairs and improvements is needed for the Main Treasury (Historic Landmark) and Annex (Historic Register) infrastructure. Prior to the existence of the Treasury Building and Annex Repair and Restoration account, DO had a no-year account for this purpose. Transfer in of $4,200,000 and 0 FTE to cover the cost of the U.S. Secret Service security detail provided to the Secretary of the Treasury.

Non-Recurring Costs -$2,723,000/0FTE FY 2007 savings achieved from non-recurring costs associated with the FY 2006 DO S&E appropriation bill are -$990,000 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 -$562,000/0FTE FY 2007 program cost savings of -$293,000 and 0 FTE from closure of three International Affairs overseas posts during FY 2005 and -$269,000 and 0 FTE from across-the-board management savings.

Annualizations of FY 2006 Initiatives +$2,511,000/13FTE Funding is requested for completing the full-year cost and FTE realization from initiatives enacted for FY 2006 which support Terrorism and Financial Intelligence.

Program Increases (total) .... +$19,477,000/41FTE

Note: Due to the timing lag in implementing most of these initiatives, the FTE requested is lower than the number of actual positions needed. The actual number of positions requested is noted and the FTE balance will be requested for any approved initiatives as an annualization in the FY 2008 budget.

Priority: Promoting Economic Growth and Security

<u>Office of International Affairs +$9,352,000/10FTE</u>

- *<u>Expanded Treasury Presence Overseas +9,352,000/10FTE</u>* 19 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 D.C. 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.

<u>Office of Tax Policy +$513,000/3FTE</u>

- *<u>Dynamic Analysis Division +$513,000/3FTE</u>* The Office of Tax Policy presently has only limited capability to produce dynamic analyses 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.

Priority: Strengthening National Security

<u>Office of Intelligence and Analysis +4,311,000/9FTE</u>

- *<u>Intelligence Analysts +$1,261,000/7FTE</u>* 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, kleptocracy, 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 (ITFC) +$2,050,000/2FTE* 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 Workplace +$1,000,000/0FTE* 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.

Office of Foreign Assets Control (OFAC) +$2,429,000/13FTE

- *Economic Sanctions Against Terrorist Networks +$1,483,000/8FTE* 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 (WMD) Proliferation +$946,000/5FTE* Ten additional positions are requested to implement and administer the new WMD Executive Order signed by the President on June 28, 2005.

Office of the General Counsel +$1,034,000/6FTE

- *General Counsel Support of TFI +$542,000/3FTE* Following the creation of the Office of Terrorism and Financial Intelligence (TFI), Treasury established an Assistant General Counsel for Enforcement & Intelligence (AGC(E&I)) which presently has four attorneys that assist TFI and its five components: the Office of Terrorist Financing, the Office of Intelligence and Analysis, the Financial Crimes Enforcement Network, the Office of Foreign Assets Control, and the Executive Office of Asset Forfeiture. Funds are requested for an additional five attorneys and one support person to address the growing workload and to enable AGC(E&I) to provide adequate counsel to Treasury and other government officials on all aspects of TFI's operations. Increased legal support is critical to the Department's essential and growing terrorist financing, money laundering, and Weapons of Mass Destruction 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 +$492,000/3FTE* 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 that target persons and countries that are considered threats to U.S. national security and foreign policy interests. These attorneys draft Executive Orders and regulations and work closely with other Treasury components and other agencies to establish and administer sanctions programs, identify and block assets of sanctions targets, litigate sanctions-related matters, and respond to Congressional, media, and public inquiries involving sanctions. 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. With the creation of a sanctions civil penalty administrative hearing program, more than 100 pending cases are being litigated by these attorneys. Funding for five additional positions is requested for OGC to provide these highly specialized legal services to OFAC.

Priority: Management Infrastructure

Office of Human Resources Strategy and Solutions +$1,838,000/0FTE

- *Treasury-wide Performance Management Training +$1,838,000/0FTE*
  Treasury-wide performance management training will provide managers with the tools to link agency mission accomplishment to individual performance.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
1. Executive Direction Programs	**111**	**$14,430**	**113**	**$16,329**	**119**	**17,501**	**5.31%**	**7.18%**
2. Economic Policies and Programs	**205**	**31,203**	**222**	**31,691**	**232**	**41,946**	**4.50%**	**32.36%**
Economic Policy	31	4,829	34	4,413	34	4,522	0.00%	2.47%
International Affairs	174	26,374	188	27,278	198	37,424	5.32%	37.20%
3. Financial Policies and Programs	**156**	**25,231**	**182**	**26,308**	**184**	**25,336**	**1.10%**	**-3.69%**
Tax Policy	87	13,595	97	14,080	100	14,778	3.09%	4.96%
Domestic Finance	69	11,636	85	12,228	84	10,558	-1.18%	-13.66%
4. Terrorism and Financial Intelligence	**150**	**34,796**	**233**	**39,540**	**264**	**45,401**	**13.30%**	**14.83%**
U/S Terrorism & Financial Intelligence	4	1,473	8	1,978	8	1,759	0.00%	-11.08%
Terrorism and Financial Crimes	19	3,644	28	4,104	30	4,404	7.14%	7.32%
Office of Intelligence and Analysis	27	5,168	72	11,646	87	14,975	20.83%	28.59%
Office of Foreign Assets Control	100	24,511	125	21,812	139	24,263	11.20%	11.24%
5. Treasury-wide Management Policies and Programs	**80**	**16,245**	**94**	**16,674**	**99**	**20,372**	**5.32%**	**22.18%**
Management and CFO Programs	80	12,879	94	11,553	99	15,258	5.32%	32.06%
Treasury-wide Financial Statement Audits	0	3,366	0	5,121	0	5,114	-	-0.14%
6. Administration Programs	**156**	**56,506**	**160**	**63,094**	**160**	**73,317**	**0.00%**	**16.20%**
7. Currency Manipulation	**0**	**0**	**0**	**990**	**0**	**0**	**0.00%**	**0.00%**
Subtotal Newly Appropriated Resources	**858**	**178,411**	**1,004**	**194,626**	**1,058**	**223,874**	**5.38%**	**15.03%**
Other Resources:								
Offsetting Collections - Reimbursable	89	$15,731	86	$19,800	90	$19,800	4.65%	0.00%
Subtotal Other Resources	**89**	**15,731**	**86**	**19,800**	**90**	**19,800**	**0.00%**	**0.00%**
Total Resources Available for Obligation	**947**	**$194,142**	**1,090**	**$214,426**	**1,148**	**$243,674**	**5.32%**	**13.64%**

The following supplemental table provides a more detailed breakdown of how each new initiative and base adjustment affects budget activities. Because a new initiative includes both direct and indirect support costs, it is important to identify the correct funding placement. The indirect (administration) costs have not been appropriately budgeted the past two years. These costs have been programmed in office budgets as direct funding, and this budget request corrects this technical error.

SUMMARY EXPLANATIONS OF FISCAL YEAR 2007 REQUESTED CHANGES BY ACTIVITY
(Dollars in Thousands)

	Executive Direction Programs		Economic Policies and Programs		Financial Policies and Programs		Terrorism and Financial Intelligence		Treasury-Wide Management Policies and Programs		Administration Programs		Currency Manipulation		Total	
Requested Changes	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
PROGRAM CHANGES: (not in priority order)																
1 Salaries and Expenses (SE)	6	825	10	9,352	3	399	22	5,862	0	1,838	0	1,201	0	0	41	19,477
A. Expanded Treasury Presence Overseas	0	0	10	9,352	0	0	0	0	0	0	0	0	0	0	10	9,352
B. Dynamic Analysis Division	0	0	0	0	3	399	0	0	0	0	0	114	0	0	3	513
C. Intelligence Analysts	0	0	0	0	0	0	7	968	0	0	0	293	0	0	7	1,261
D. Iraq Threat Finance Cell	0	0	0	0	0	0	2	2,050	0	0	0	0	0	0	2	2,050
E. Additional Secure Workspace	0	0	0	0	0	0	0	1,000	0	0	0	0	0	0	0	1,000
F. Economic Sanctions Against Terrorist Networks	0	0	0	0	0	0	8	1,123	0	0	0	360	0	0	8	1,483
G. Economic Sanctions Against Weapons of Mass Destruction	0	0	0	0	0	0	5	721	0	0	0	225	0	0	5	946
H. General Counsel Support of TFI	3	428	0	0	0	0	0	0	0	0	0	114	0	0	3	542
I. Chief Counsel Support of the Office Foreign Assets Control	3	397	0	0	0	0	0	0	0	0	0	95	0	0	3	492
J. Treasury-wide Performance Management Training	0	0	0	0	0	0	0	0	0	1,838	0	0	0	0	0	1,838
SUBTOTAL, PROGRAM CHANGES	**6**	**825**	**10**	**9,352**	**3**	**399**	**22**	**5,862**	**0**	**1,838**	**0**	**1,201**	**0**	**0**	**41**	**19,477**
TOTAL ADJUSTMENTS TO BASE:																
Salaries and Expenses	0	347	0	904	(1)	(1,371)	9	(1)	5	1,860	0	9,022	0	(990)	13	9,771
A. Adjustments Necessary to Maintain Current Levels (MCLs)	0	425	0	858	0	651	0	1,076	0	354	0	1,565	0	0	0	4,929
B. Annualization of FY 2006 Initiatives	0	0	0	0	0	0	13	1,955	0	0	0	556	0	0	13	2,511
C. Capital Security Cost Sharing Invoice from State Department	0	0	0	415	0	0	0	0	0	0	0	0	0	0	0	415
D. FY 2007 savings from FY 2005 closure of 3 overseas posts	0	0	0	(293)	0	0	0	0	0	0	0	0	0	0	0	(293)
E. Across-the-Board Program Reduction	0	(23)	0	(44)	0	(35)	0	(52)	0	(25)	0	(90)	0	0	0	(269)
F. Non-Recur of Currency Manipulation	0	0	0	0	0	0	0	0	0	0	0	0	0	(990)	0	(990)
G. Non-Recur of e-Cavern	0	0	0	0	0	(1,485)	0	0	0	0	0	0	0	0	0	(1,485)
H. Non-Recur of Public Key Infrastructure	0	0	0	0	0	(248)	0	0	0	0	0	0	0	0	0	(248)
I. Transfer in to re-establish R&I account	0	0	0	0	0	0	0	0	0	0	0	1,000	0	0	0	1,000
J. Transfer in to Fund Secretary's Security Detail	0	0	0	0	0	0	0	0	0	0	0	4,200	0	0	0	4,200
K. Transfer Administrative Charges (FY 05/06 technical error)	0	(55)	0	(32)	0	(68)	0	(1,635)	0	0	0	1,790	0	0	0	0
L. Transfer one FTE from Domestic Finance to OFAC	0	0	0	0	(1)	(186)	1	186	0	0	0	0	0	0	0	0
M. Transfer Emerg. Prep. from TFI to Treas-Wide Mgmt	0	0	0	0	0	0	(5)	(1,531)	5	1,531	0	0	0	0	0	0
SUBTOTAL, OTHER CHANGES	**0**	**347**	**0**	**904**	**(1)**	**(1,371)**	**9**	**(1)**	**5**	**1,860**	**0**	**9,022**	**0**	**(990)**	**13**	**9,771**
TOTAL CHANGES, BUDGET AUTHORITY	**6**	**1,172**	**10**	**10,256**	**2**	**(972)**	**31**	**5,861**	**5**	**3,698**	**0**	**10,223**	**0**	**(990)**	**54**	**29,248**

3A – Budget Activity Description

The FY 2007 Departmental Offices (DO) performance budget is presented programmatically to align resources with performance. DO operations are divided into six budget activities: Executive Direction Programs, Economic Policies and Programs, Financial Policies and Programs, Terrorism and Financial Intelligence, Treasury-wide Management Policies and Programs, and Administration Programs. For each activity, budget and performance information are provided to explain historical trends and performance challenges and expectations.

<u>Executive Direction Programs</u> *($17,501,000 in direct appropriations and $590,000 from reimbursements):* Offices supported by Executive Direction provide direction and policy formulation to the Department and Departmental Offices and interact with Congress and the public on Departmental policy matters. These include: the Office of the Secretary, Deputy Secretary, Chief of Staff, Executive Secretary, Office of General

Counsel, Legislative Affairs, Public Affairs, and Treasurer. Note the Office of General Counsel is now included in this budget activity for the FY 2007 performance budget request because its role is similar to other offices in this activity. Specific goals/measures are presented for this budget activity as the work of the offices within this budget activity is captured within the other budget activities.

Economic Policies and Programs *($41,947,000 in direct appropriations, and $3,839,000 from reimbursements):* Offices within Economic Policies and Programs monitor domestic and international economic conditions, and developments, and collect and analyze financial data including foreign credits and credit guarantees. The also provide advice and assistance to the Secretary in the formulation and execution of U.S. and international economic and financial policies. *Other Resources:* Reimbursements totaling $3.5 million are collected from the U.S. Agency for International Development for Treasury economic and financial technical assistance to foreign governments and from the Mansfield Center for Pacific Affairs for personnel services rendered on a rotational basis to the Government of Japan's Ministry of Finance.

Office of International Affairs. The mission of this office is to:

- Raise economic growth in developed and developing countries;
- Improve financial stability and security in emerging and world markets;
- Increase the effectiveness of U.S. assistance to the world's poorest countries;
- Enhance the functioning of the international financial institutions; and
- Promote an open and transparent international trade and investment regime.

Office of Economic Policy. The mission of this office is to:

- Analyze and report on current and prospective economic developments in the U.S. and world economies and assisting in the determination of appropriate economic policies;
- Support the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees; and
- Conduct research to assist in the formulation and articulation of public policies and positions of the Treasury Department on a wide range of microeconomic issues. Recent examples include terror risk insurance, financial disclosure and auditing, stock options, parallel imports, health insurance, retirement income security, and long-term care.

Financial Policies and Programs *($25,336,000 in direct appropriations and $4,665,000 from reimbursements):* Offices within Financial Policies and Programs monitor and provide advice and assistance to the Secretary in the areas of tax policy and domestic finance. *Other Resources:* Reimbursements totaling $4.3 million are collected from the Council of Economic Advisors and the Board of Governors of the Federal Reserve for personnel services rendered.

Office of Tax Policy. Responsibilities of the Office of Tax Policy include:

- Providing economic and legal policy analysis, including revenue estimates, for tax policy decisions, including development of legislative proposals regarding federal taxation;
- Establishing policy criteria reflected in regulations and rulings and guiding preparation of them with the Internal Revenue Service to implement and administer the Internal Revenue Code; and
- Assisting in the implementation of tax policies and programs; including analyzing the ability and the costs to administer and comply with tax code provisions.

Office of Domestic Finance. The mission of this office is to advise and assist the Secretary and Deputy Secretary on the domestic financial system, fiscal policy and operations, governmental assets and liabilities, and related economic and financial matters, as well as create the conditions necessary for the financial sector to be resilient in the event of unforeseeable future events.

Terrorism and Financial Intelligence *($45,401,000 from direct appropriations and $3,242,000 from reimbursements):* The Office of Terrorism and Financial Intelligence (TFI) marshals the department's functions that strengthen national security with the twin aims of safeguarding financial systems against illicit use and combating rogue nations, terrorist facilitators, money launderers, drug kingpins, proliferators of weapons of mass destruction and other national security threats. *Other Resources:* Reimbursements totaling $3.1 million are collected from the Executive Office of Asset Forfeiture and the U.S. Department of Defense.

Office of Foreign Assets Control (OFAC). The mission of this office is to administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of Weapons of Mass Destruction.

Office of Intelligence and Analysis (OIA). The mission of this office is to:

- Develop actionable intelligence by analyzing information collected by the intelligence community (IC) and other financial data in support of Treasury’s mission;
- Support the senior leadership’s intelligence needs on the full range of political and economic issues;
- Manage the Department’s relations with the intelligence community; and
- Coordinate and oversee intelligence throughout the Department, including OFAC’s and FinCEN’s intelligence analysis and the analysts that forward deployed to military commands and the National CounterTerrorism Center (NCTC).

Office of Terrorist Financing and Financial Crimes (TFFC). The mission of TFFC is to develop policies and implement strategies to safeguard the U.S. and international financial systems from national security threats including terrorist financing, money laundering, kleptocracy, organized crime and proliferation finance.

<u>Treasury-wide Management Policies and Programs</u> *($20,372,000 from direct appropriations and $4,681,000 from reimbursements):* Offices within Treasury-wide Policies and Programs develop and implement policies related to the internal management of the Department and its bureaus, including human resources, information technology, financial administration, and management and budget issues. The mission of these offices is to build a strong Treasury, which is citizen centered and results oriented, as well as actively promote innovation through competition, and to work effectively and efficiently to implement the President's Management Agenda across Treasury while continually improving it's internal business operations.
Other Resources: Reimbursements totaling $4.9 million are collected from the Internal Revenue Service Oversight Board, Department of Homeland Security, D.C. Pensions, and other Treasury bureaus for services rendered.

<u>Administration Programs</u> *($73,317,000 from direct appropriations and $2,783,000 from reimbursements):* Administration Programs provides operational support and shared services to all offices within Departmental Offices. Activities include accounting, budget, human resources, information technology, procurement, facilities support, and travel services. Approximately one third of the budget activity relates to information technology support (desktop computers, printers, faxes, copiers, helpdesk support, etc.). Another one third consists of shared services: GSA rent, utilities, telecommunications, printing and graphics, public transit subsidy, workers compensation, and financial system support. By centralizing shared services, economies of scale and workload efficiencies are achieved. The final one third consists of employee salaries, routine building maintenance, custodial services, library services, etc.

No specific goals/measures are presented for this budget activity as the work of the offices within Administration Programs is captured within the other budget activities.

3.2 – Budget and Performance Plan

Treasury Strategic Goal: Promote Prosperous U.S. and World Economies (E1)						
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request
Treasury Strategic Objective E1A:						
Budget Activities: Financial Policies and Programs and Economic Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$37,810	$39,736	$40,105	$40,834	$36,798	$41,862
Other Resources	595	531	214	2,210	2,878	2,878
Total Operating Level	**$38,405**	**$40,267**	**$40,319**	**$43,044**	**$39,676**	**$44,740**
Human Resources						
Newly Appropriated FTE	244	260	214	217	198	198
Other FTE	3	3	2	13	12	13
Total FTE (direct and reimbursable)	**247**	**263**	**216**	**230**	**210**	**211**
Treasury Strategic Objective E1C:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Total Newly Appropriated Resources	$5,231	$5,473	$5,622	$5,288	$13,541	$13,208
Other Resources	0	0	0	310	403	403
Total Operating Level	**$5,231**	**$5,473**	**$5,622**	**$5,598**	**$13,944**	**$13,611**
Human Resources						
Newly Appropriated FTE	34	35	30	28	73	69
Other FTE				2	2	2
Total FTE (direct and reimbursable)	**34**	**35**	**30**	**30**	**75**	**71**
Treasury Strategic Objective E1:						
Budget Activities: Financial Policies and Programs and Economic Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$43,041	$45,209	$45,727	$46,122	$50,339	$55,070
Other Resources	595	531	214	2,520	3,281	3,281
Total Operating Level	**$43,636**	**$45,740**	**$45,941**	**$48,642**	**$53,620**	**$58,351**
Human Resources						
Newly Appropriated FTE	278	295	244	245	272	268
Other FTE	3	3	2	15	14	15
Total FTE (direct and reimbursable)	**281**	**298**	**246**	**260**	**286**	**283**

Treasury Strategic Goal: Preserve the Integrity of Financial Systems (F3)						
Resource Level	**FY 2002 Enacted**	**FY 2003 Enacted**	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 Request**
Treasury Strategic Objective F3A:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$12,702	$13,733	$12,219	$21,935	$37,993	$47,303
Other Resources	167	128	0	2,364	3,078	3,078
Total Operating Level	**$12,869**	**$13,861**	**$12,219**	**$24,299**	**$41,071**	**$50,381**
Human Resources						
Newly Appropriated FTE	68	77	57	98	190	227
Other FTE	0	0	0	16	15	16
Total FTE (direct and reimbursable)	**68**	**77**	**57**	**114**	**205**	**243**
Treasury Strategic Objective F3B:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$12,102	$26,062	$35,235	$33,700	$29,784	$31,019
Other Resources	1,826	2,578	2,468	711	244	244
Total Operating Level	**$13,928**	**$28,640**	**$37,703**	**$34,411**	**$30,028**	**$31,263**
Human Resources						
Newly Appropriated FTE	111	184	173	135	146	148
Other FTE	17	22	23	1	1	1
Total FTE (direct and reimbursable)	**128**	**206**	**196**	**136**	**147**	**149**
Treasury Strategic Objective F3C:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$4,526	$5,352	$5,204	$6,717	$7,116	$5,208
Other Resources	0	0	0	985	1,282	1,282
Total Operating Level	**$4,526**	**$5,352**	**$5,204**	**$7,702**	**$8,398**	**$6,490**
Human Resources						
Newly Appropriated FTE	30	38	29	34	39	30
Other FTE	0	0	0	7	7	7
Total FTE (direct and reimbursable)	**30**	**38**	**29**	**41**	**46**	**37**
Treasury Strategic Objective F3:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$29,330	$45,147	$52,658	$62,352	$74,893	$83,530
Other Resources	1,993	2,706	2,468	4,060	4,604	4,604
Total Operating Level	**$31,323**	**$47,853**	**$55,126**	**$66,412**	**$79,497**	**$88,134**
Human Resources						
Newly Appropriated FTE	209	299	259	267	375	404
Other FTE	17	22	23	24	23	24
Total FTE (direct and reimbursable)	**226**	**321**	**282**	**291**	**398**	**428**

Treasury Strategic Goal: Promote Stable U.S. and World Economies (E2)						
Resource Level	**FY 2002 Enacted**	**FY 2003 Enacted**	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 Request**
Treasury Strategic Objective E2A:						
Budget Activities: Economic Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$14,212	$18,780	$4,593	$5,123	$5,399	$6,055
Other Resources	1,000	1,015	1,070	1,029	1,340	1,340
Total Operating Level	**$15,212**	**$19,795**	**$5,663**	**$6,152**	**$6,739**	**$7,395**
Human Resources						
Newly Appropriated FTE	92	124	26	26	30	34
Other FTE	1	2	2	7	7	7
Total FTE (direct and reimbursable)	**93**	**126**	**28**	**33**	**37**	**41**
Treasury Strategic Objective E2B:						
Budget Activities: Economic Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$7,306	$8,286	$18,134	$18,431	$18,991	$23,381
Other Resources	1,711	1,775	2,073	1,488	1,937	1,937
Total Operating Level	**$9,017**	**$10,061**	**$20,207**	**$19,919**	**$20,928**	**$25,318**
Human Resources						
Newly Appropriated FTE	47	56	12	99	101	106
Other FTE	13	13	16	9	9	9
Total FTE (direct and reimbursable)	**60**	**69**	**28**	**108**	**110**	**115**
Treasury Strategic Objective E2:						
Budget Activities: Economic Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$21,518	$27,066	$22,727	$23,554	$24,390	$29,436
Other Resources	2,711	2,790	3,143	2,517	3,277	3,277
Total Operating Level	**$24,229**	**$29,856**	**$25,870**	**$26,071**	**$27,667**	**$32,713**
Human Resources						
Newly Appropriated FTE	139	180	38	125	131	140
Other FTE	14	15	18	16	16	16
Total FTE (direct and reimbursable)	**153**	**195**	**56**	**141**	**147**	**156**

Treasury Strategic Goal: Manage the U.S. Government's Finances Effectively (F4)						
Resource Level	**FY 2002 Enacted**	**FY 2003 Enacted**	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 Request**
Treasury Strategic Objective F4A:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$10,463	$10,947	$11,244	$10,577	$7,386	$9,462
Other Resources	0	0	0	262	341	341
Total Operating Level	**$10,463**	**$10,947**	**$11,244**	**$10,839**	**$7,727**	**$9,803**
Human Resources						
Newly Appropriated FTE	50	71	59	56	40	50
Other FTE	0	0	0	2	2	2
Total FTE (direct and reimbursable)	**50**	**71**	**59**	**58**	**42**	**52**
Treasury Strategic Objective F4B:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$4,526	$5,352	$5,384	$5,975	$6,439	$2,985
Other Resources	0	0	0	731	952	952
Total Operating Level	**$4,526**	**$5,352**	**$5,384**	**$6,706**	**$7,391**	**$3,937**
Human Resources						
Newly Appropriated FTE	50	71	59	30	35	17
Other FTE	0	0	0	5	5	5
Total FTE (direct and reimbursable)	**50**	**71**	**59**	**35**	**40**	**22**
Treasury Strategic Objective F4D:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$3,395	$3,911	$3,589	$3,984	$4,293	$7,812
Other Resources	0	0	0	1,383	1,801	1,801
Total Operating Level	**$3,395**	**$3,911**	**$3,589**	**$5,367**	**$6,094**	**$9,613**
Human Resources						
Newly Appropriated FTE	22	28	20	20	23	45
Other FTE	0	0	0	9	9	9
Total FTE (direct and reimbursable)	**22**	**28**	**20**	**29**	**32**	**54**
Treasury Strategic Objective F4:						
Budget Activities: Financial Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$18,384	$20,210	$20,217	$20,536	$18,118	$20,259
Other Resources	0	0	0	2,376	3,094	3,094
Total Operating Level	**$18,384**	**$20,210**	**$20,217**	**$22,912**	**$21,212**	**$23,353**
Human Resources						
Newly Appropriated FTE	122	170	138	106	98	112
Other FTE	0	0	0	16	16	16
Total FTE (direct and reimbursable)	**122**	**170**	**138**	**122**	**114**	**128**

Treasury Strategic Goal: Ensure Professionalism, Excellence, Integrity and Accountability in the Management and Conduct of the Department of Treasury (M5)						
Resource Level	**FY 2002 Enacted**	**FY 2003 Enacted**	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 Request**
Treasury Strategic Objective M5B:						
Budget Activities: Treasury-wide Management Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$31,940	$33,759	$26,415	$25,847	$26,888	$31,380
Other Resources	0	0	0	4,258	5,544	5,544
Total Operating Level	**$31,940**	**$33,759**	**$26,415**	**$30,105**	**$32,432**	**$36,924**
Human Resources						
Newly Appropriated FTE	225	236	121	116	129	134
Other FTE	0	0	0	18	17	19
Total FTE (direct and reimbursable)	**225**	**236**	**121**	**134**	**146**	**153**
Treasury Strategic Objective M5B:						
Budget Activities: Treasury-wide Management Policies and Programs						
Financial Resources						
Newly Appropriated Resources	$31,940	$33,759	$26,415	$25,847	$26,888	$31,380
Other Resources	0	0	0	4,258	5,544	5,544
Total Operating Level	**$31,940**	**$33,759**	**$26,415**	**$30,105**	**$32,432**	**$36,924**
Human Resources						
Newly Appropriated FTE	225	236	121	116	129	134
Other FTE	0	0	0	18	17	19
Total FTE (direct and reimbursable)	**225**	**236**	**121**	**134**	**146**	**153**

Promoting Economic Growth and Security

Performance Level	Strat. Object.	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
U.S. Real Gross Domestic Product (GDP) growth rate. (Oe)	E1A	1.5%	3.3%	4.5%	3.6%	3.6%	3.4%	3.3%
U.S. unemployment rate. (Oe)	E1A	N/A	5.9%	5.4%	5.3%	5.1%	5.2%	5.1%
Level of multilateral development banks (MDB) grant financing and satisfactory results measurements (Oe)								
World Bank/IDA Grants (in millions)	E1A	N/A	1,233	1,681	1,728	1,925	3,555	TBD
Grants as a % of IDA FY Commitment	E1A	N/A	17.0%	18.8%	19.6%	21.4%	30.4%	TBD
Level of MDB grant financing and satisfactory results measurements (Oe)								
African Development Bank/AFDF Grants (in millions)	E1A	N/A	240	65	216	46	870	TBD
Grants as a % of AFDF FY Commitment	E1A	N/A	17.0%	39.2%	19.5%	21.8%	35.0%	TBD
Increase GDP Average in developing countries with significant Treasury engagement (Ot)	E1A	N/A	N/A	N/A	Discontinued	Discontinued	Discontinued	Discontinued
Stabilize Debt/GDP ratios in developing countries with significant Treasury engagement (Ot)	E1A	N/A	N/A	N/A	Discontinued	Discontinued	Discontinued	Discontinued
Increase in total number of countries that publish Annual Budget in Brief (Citizen's Guide) each year. (New) (Ot)	E1A	N/A	N/A	N/A	N/A	N/A	8	9
Number of new Free Trade Agreement (FTA) and Bilateral Investment Treaty (BIT) negotiations underway or completed. (Oe)	E1A	N/A	N/A	N/A	5	7	9	7
The number of FTAs and BITs that reflect high standard commitments. (Oe)	E1A	N/A	N/A	N/A	5	7	Discontinued	Discontinued
Encourage movement towards flexible exchange rate regimes. (Oe)	E1A, E1C	N/A	N/A	N/A	Baseline	3	TBD	TBD
Average tax compliance cost for individuals and small businesses (Oe) 1/	E1C	N/A	N/A	N/A	N/A	N/A	TBD	TBD
Percentage of grant and loan proposals containing satisfactory frameworks for results measurements (Oe)	E2B	N/A	N/A	N/A	Baseline	78.0%	90.0%	90.0%
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs. (Oe)	E2B	N/A	N/A	N/A	90.0%	78.0%	90.0%	90.0%
Number of countries removed from the Financial Action Task Force 40+9 non-cooperative countries and territories (NCCT) list. (Oe)	F3A	N/A	N/A	N/A	N/A	N/A	Discontinued	Discontinued

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Customer Satisfaction Measure

* Performance reported after close of fiscal year

1/ Working with IRS to develop reliable measures of the individual tax compliance burden that can be used for this purpose in the future.

Strengthening National Security

Performance Level	Strat. Object.	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Number of countries removed from the Financial Action Task Force 40+9 non-cooperative countries and territories (NCCT) list. (Oe)	F3A	N/A	N/A	N/A	N/A	N/A	Discontinued	Discontinued
Increase the number of international measures and bodies established internationally to protect the financial system from money laundering and terrorist financing. (Ot)	F3B	N/A	N/A	N/A	Baseline	5	Discontinued	Discontinued
Maintain the number of and significance to the foreign narcotics traffickers of new designated targets (Ot)	F3A	N/A	N/A	136	136	504	Discontinued	Discontinued
Maintain turnaround time for submissions with significantly increased workload. (E)								
Requiring internal OFAC review with significantly increased workload.	F3B	N/A	N/A	20 Days	20 Days	28	Discontinued	Discontinued
Requiring Chief Counsel's Office/interagency review with significantly increased workload.	F3B	N/A	N/A	75 Days	75 Days	63	Discontinued	Discontinued
Increase number of terrorist finance designations for which other countries join the US (Ot)	F3B	N/A	N/A	N/A	N/A	N/A	Discontinued	Discontinued
Number of countries that are assessed for compliance with the Financial Action Task Force 40 + 9 recommendations. (Ot)	F3B	N/A	N/A	N/A	Baseline	40	45	45
Increase the dollar amount of terrorist assets and number of financial channels blocked. (Oe)	F3B	N/A	N/A	N/A	N/A	N/A	Discontinued	Discontinued
Number of strategies produced to address Priority Regions/Countries and /or key vulnerabilities in the financial sector (Ot)	F3B	N/A	N/A	N/A	N/A	N/A	Baseline	TBD
Number of outreach engagements with the charitable and international financial communities. (Ot)	F3B	N/A	N/A	N/A	Baseline	95	105	120
Customer satisfaction with OIA analysis in terms of its accuracy, timeliness, and relevance (Oe) (New)	F3B	N/A	N/A	N/A	N/A	N/A	Baseline	TBD
Turn-around time for license and interpretative submissions (E) (New)	F3B	N/A	N/A	N/A	N/A	N/A	Baseline	TBD
The number of civil penalty cases that are resolved within the Statute of Limitations period. (Ot) (New)	F3B	N/A	N/A	N/A	N/A	N/A	Baseline	TBD

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Customer Satisfaction Measure

Maintaining a World-class Treasury

Performance Level	Strat. Object.	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Release Federal Government-wide financial statements on time (Oe)	F4B	Met	Met	Met	Met	Met	Met	Met
Audit opinion received on government-wide financial statements (Oe)	F4B	Met	Met	Met	Met	Met	Met	Met
Variance between estimated and actual receipts (annual forecast) (E)	F4B	N/A	N/A	3.8%	5.0%	5.0%	5.0%	5.0%
Injury and Illness rate Treasury-wide, including Departmental Offices (Ot)	M5B	4.0	3.9	3.9	3.0	2.8	2.8	2.6
Manage cost per Treasury employee (E)	M5B	N/A	N/A	N/A	Baseline	39.3	40.3	38.2
Bureau performance plans for supervisors, managers, and SES members contain elements that link to the bureau mission. (Oe)	M5B	N/A	N/A	77.0%	100.0%	100.0%	100.0%	100.0%
Complete investigations of EEO complaints within 180 days (Oe)	M5B	N/A	N/A	31.0%	50.0%	36.0%	50.0%	50.0%
Number of open material weakness (significant management problems identified by GAO, the IGs and/or the Bureaus) (President's Management Agenda) (Oe)	M5B	20	9	8	4	7	5	2
Percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the ADR process (Ot)	M5B	N/A	N/A	N/A	25.0%	25.0%	30.0%	30.0%
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Customer Satisfaction Measure								

3B – Description of Performance

During FY 2005 Departmental Offices assessed the value of each of its performance measures, selecting only the most meaningful with key results. The number of performance measures was reduced from 338 in FY 2004 to 122 in FY 2005, a 64 percent decrease in the number of performance measures reported to the public.

Departmental Offices performance achievements are described below by budget activity. Specific goals and measures do not exist for the Executive Direction and Administration Programs budget activities because the work of the offices within those activities is indirectly captured within the other budget activities.

Economic Policies and Programs

One of Treasury's important economic performance goals is to address global imbalances and assure sustainable global growth. One way Treasury accomplishes this goals is by encouraging large economies with fixed or rigid exchange rate regimes to adopt flexible exchange rates. Treasury engaged in and supported economic dialogue with countries, including China, and provided technical advice and assistance so these countries will be able to transition from fixed to flexible regimes. In FY 2004 Treasury met its target of three regimes becoming more flexible. In FY 2006 and FY 2007 Treasury will continue to work with China and other governments. China is now taking concrete steps to establish the financial infrastructure to implement flexible exchange rates. Treasury is actively assisting China in its efforts to achieve the desired outcome of a flexible China currency.

Another important economic goal for Treasury is to work with foreign governments to open financial services markets to U.S. providers. This goal is accomplished by increasing the number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaty (BIT) negotiations. Treasury seeks strong commitments from U.S. trading partners in these negotiations to ensure those markets are available to us on a fair and open basis. Once implemented, these agreements serve as a core element of U.S. trading partner's economic infrastructure and help enhance international economic and financial stability. In FY 2005, Treasury negotiated seven such agreements, which surpassed its target of five. For FY 2007, Treasury plans to negotiate seven more agreements.

Financial Policies and Programs

In FY 2005, Treasury's Office of Domestic Finance released the federal Government-wide financial statements on time. Treasury has met this performance target since FY 2004 and it plans to continue to meet it in FY 2007. It is important to release this statement on time because it is the culmination of the recent government-wide campaign to accelerate the issuance of financial reporting. Treasury also manages the government's cash position to ensure that funds are available on a daily basis to cover federal payments to maximize investment earnings and minimize borrowing costs.

To optimize cash management, Treasury measures that difference between actual and projected receipts. In FY 2005, Treasury continued to improve in forecasting receipts, outlays, debt and overall cash and met its targeted variance level of five percent. In FY 2006 and FY 2007, Treasury plans to continue efforts to improve its forecasting abilities in order to saving the government money.

Terrorism and Financial Intelligence

When the Office of Terrorism and Financial Intelligence (TFI) was established in 2004, Treasury reallocated resources from other programs to support its start-up. While each program that made up TFI had its own performance management system, TFI did not have a system which supported Treasury's entire National Security mission. In FY 2005, TFI worked to align its performance goals, objectives and measures with Treasury's Strategic Plan. TFI's focus on performance management lead to significant changes to its suite of performance measures - several established performance measures were discontinued and several new measures were developed.

TFI is working closely with the international financial community to implement standards that are designed to deny terrorists access to a country's financial systems. Without implementation of these standards worldwide, terrorists will enter the international financial system at the point of least resistance, and preventative national efforts will be rendered less effective. These standards are an important element in the financial war on terror. One way Treasury tracks its effort in this important area is through the measure "Number of Countries that are "assessed for compliance with the Financial Action Task Force (FATF) 40+9 Recommendations." In FY 2005, 49 countries were assessed for compliance with these international standards. In FY 2007, Treasury will continue to work closely with the IMF and World Bank to increase assessments and gain more international cooperation with implementation of these standards. Treasury's FY 2007 target for the number of countries assessed is 78, which is a 60 percent increase from FY 2005 results.

Another integral element in the war on terrorism is combating money laundering. Treasury continues to promote anti-money laundering as a key to attacking criminal activity, including narcotics trafficking, white collar crime, organized crime and public corruption. One way Treasury is fighting this illicit activity is by working with both U.S. and international governments and private institutions to ensure that they safeguard themselves and the financial system against money laundering. Treasury tracks its engagements with these entities through the measure "Increase the number of outreach engagements with charitable and financial communities." In FY 2005, Treasury worked with 95 entities to ensure their financial systems are safeguarded from money laundering. In FY 2007, Treasury plans to work with 120 entities, an increase of over 25 percent from FY 2005 results.

Treasury-Wide Management Policies and Programs

In FY 2004, the Department of Labor recognized Treasury for reducing the total injury and lost time injury rates by more than 10 percent each, well below the recommended three percent for all Federal Agencies. In 2005, Treasury continued its aggressive occupational safety and health program and had a 2.8 percent rate.

The cost for Treasury-wide management per FTE will measure the cost effectiveness of Departmental Offices (DO) management. The FY 2005 baseline is $39.33 thousand per FTE. DO hopes to achieve a cost of $40.27 thousand in FY 2006 and $38.21 thousand in FY 2007.

Treasury measures bureau performance plans for supervisors, management, and SES members that contain elements linking to the bureau mission. In FY 2005, Treasury reached 100 percent of this goal.

The average number of EEO investigations completed within 180 days was 36 percent and below the target of 50 percent. Vacancies existed throughout FY 2005, causing the slowdown. Every effort is being made to fill vacancies, and the EEO Center is working to identify bottlenecks and opportunities for process improvement.

Treasury continues to make progress toward resolving its material weaknesses. The Internal Revenue Service (75 percent of the eight weaknesses) has targeted three for closure in FY 2006. The remaining 25 percent are spread between Departmental Offices and the Financial Management Service and are currently on track for closure during FY 2006 and FY 2007.

Treasury met its Alternative Dispute Resolution (ADR) target of 25 employees using counselors and the ADR process.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

Departmental Offices has the responsibility for managing the Department's overall President's Management Agenda (PMA) effort. Treasury is working to achieve more on the PMA each year, improving the current status and progress status for each of the six initiatives to reach "green" in all areas (which it is doing). More importantly, Treasury is focused on creating a "green" organization. In a "green" organization, all of the PMA initiatives work together and leverage one another's successes. For example, in a "green" organization, a skill gap identified by the human capital initiative might be resolved through a competitive sourcing activity that results in improved financial performance reflected in *a performance budget* that is appropriately tracked by an e-system.

Human Capital

Treasury has developed and published a Human Capital Strategic Plan (HCSP) for FYs 2005–2008. It establishes a roadmap for attracting and retaining diverse talent to meet future challenges and mission objective. To ensure HCSP objectives are achieved, Treasury established a Human Capital System for Accountability that will provide a framework for measuring and evaluating how well the Department is doing.

A Department-wide working group transformed eight separate bureau Senior Executive Service (SES) performance management systems into a single Department-wide (including Departmental Offices) pay-for-performance system. This new system fundamentally changes how executive performance is evaluated. Now it differentiates between high and low performers, linking performance to agency mission and goals. It emphasizes observable outcomes and results such as the Program Assessment Rating Tool, the PMA, and analytical performance measures at the organizational level. As a follow on, Treasury's Human Resources policy office is developing a policy requiring bureaus to cascade the tenets of the SES performance management system to their manager systems eventually addressing all employee appraisals. The criteria for getting to green under the Human Capital calls for Treasury to move towards this goal, which will begin once the system policy is in place.

Other Treasury achievements include: bureau efforts on succession planning identifying management competencies and reporting gaps and progress by bureaus in meeting the 45 day hiring model.

Treasury's Human Resources policy office has the following Departmental goals to achieve a Human Capital PMA status of "green" in the future:

- Succession planning and closing competency gaps, particularly in the HR/Equal Employment Opportunity area;
- Building skills in performance measurements, using accountability systems, and assessing organizational effectiveness;
- Educating managers on union/management relationship issues and changing the labor relations environment;
- Developing the capacity to respond effectively to new Presidential initiatives; and
- Moving to "One Treasury" within the Human Resources community.

Competitive Sourcing

Treasury is improving the cost-effectiveness of its operations every year through competitive sourcing. The Department began using this as a budget tool but it has matured into a workforce modernization tool, as an option to address findings from the Program Assessment Rating Tool.

Competitive sourcing solutions have ranged from the re-design of a single office/function; to multi-location, multi-discipline, multi-process operation; to groundbreaking use of training people with disabilities to staff phones for tax information call centers. Treasury implemented six studies within the timeframes set forth in Circular A-76 (the Competitive Sourcing policy); studied 3,100 positions; completed 60 competitions (at least one per bureau) and significantly streamlined several Treasury processes. The Department anticipates savings as a result of competitive sourcing to exceed $220 million over the next five years.

Other Treasury achievements include: submitted Federal Activities Inventory Reform (FAIR) inventory to OMB on June 30, 2005 and all bureaus were trained to use Internal Revenue Service (IRS) standards which when used in 2004 improved the consistency and accuracy of the IRS inventory. Treasury Goals:

- Treasury currently has eight studies underway (either in pre-planning or Office of Management and Budget A-76 process) totaling almost 5,000 FTE; and
- The 2006 FAIR inventory will be completed in HR Connect (Treasury's Human Capital system) to improve management's ability to integrate Human Capital and competitive sourcing decision making.

Financial Performance

Treasury's financial reporting process and the accuracy of monthly financial data has greatly improved. Bureaus now close their books by the third business day of each month. Meeting this closing date enables interim analysis of the monthly and quarterly financial statements. Timely data-management during the year ensures the issuance of the Performance and Accountability Report 45 days after year-end and promotes a clean audit opinion. Treasury has also enhanced its financial data warehouse containing all bureau financial data and various edit checks which have also contributed to improved data accuracy for monthly financial statements. Accelerated monthly and annual financial reporting has also encouraged employees to look for creative ways to streamline and eliminate redundant or outdated financial processes. Management also realizes that employees are often in the best position to find and implement solutions to long-standing problems.

Departmental Offices (DO) financial performance for FY 2005 included the increased use of payments electronically rather than by check, and the completion of audits of over half of DO government credit cards. The goal was to audit 50 percent of all card holders.

<u>E-Government</u>

Treasury was designated as a Center of Excellence for the Financial Management Line of Business, and conditionally designated as a Shared Service Center for the Human Resources Management Line of Business. This enables Treasury to enter competitions to provide financial management and human resources services on a government-wide basis. In April 2005, Treasury successfully deployed HR Connect, its enterprise human resources management system, at the Department of Housing and Urban Development. This deployment added approximately 9,200 customer records to the HR Connect system.

Aside from the few areas where the Department is working to eliminate duplication, Treasury determined that it is neither planning nor operating investment technology investments or programs that duplicate the PMA or Line of Business initiatives.

Treasury is implementing the PMA e-Travel initiative Department-wide as a common government-wide travel management service to significantly improve official travel and save the government money. The implementation of E-Travel using GovTrip software provided by Northrop Grumman Mission Systems, one of the two vendors Federal agencies are required to use for E-Travel. To date, the Financial Management Service, Financial Crimes Enforcement Network and the Alcohol and Tobacco Tax and Trade Bureau Office of the Inspector General, the Inspector General for Tax Administration and Departmental Offices have been fully implemented with assistance and service from the Bureau of the Public Debt's, Administrative Resource Center. Implementation of E-Travel will continue in FY 2006 with the remaining bureaus.

Migrating to a Department-wide travel program will put all employees on one system, which is expected to make overall travel administration easier to manage and provide the following results:

- Improve the travel program for all travelers across the Department and simplify the transition of employees from one bureau to another;
- Make cross-bureau communications on travel system issues much more effective; and
- Provide cost savings and improved efficiency.

The Safety & Health Information Management System (SHIMS) is an integrated business application supporting Treasury worker compensation claim reporting to the Department of Labor and reporting on safety incidents within the Department. This program supports electronic (paperless) claims processing with an enhanced reporting functionality, and electronic data exchange with the Department of Labor. One of Treasury's FY 2005-2006 program goals is to further leverage SHIMS to enhance Treasury's safety and health program management capabilities.

During FY 2003, Treasury's bureaus processed 4,094 workers compensation claims compared to 3,470 claims during FY 2004 through the SHIMS system. In FY 2005 workers compensation claims continued to decline to 1,713 claims processed as of the third quarter. SHIMS is one of the tools that management can use to perform injury and illness analysis to identify areas in which to reduce claims and identify areas for improvement.

Budget and Performance Integration

Treasury continues to streamline and improve its budget and performance integration. It worked with stakeholders (Congress and the Office of Management and Budget) to streamline and pilot a new performance budget integration tool and revise Treasury's FY 2006 Budget in Brief, which was well accepted. Treasury effectively linked the Secretary's testimony on the Department's FY 2006 budget to the agency's mission, goals, and outcomes.

Treasury developed a new way for its senior managers to gain a Department-wide view on performance using a Treasury Performance Framework. This is a web-enabled tool that provides quarterly information on all of the Department's core mission areas or value chains. The framework is a step toward using performance information that allows senior decision makers to make well informed operational, policy and budget decisions.

In 2004 Treasury reported on 338 performance measures to the public in its budget. During FY 2005 Treasury assessed the value of each these measures, concentrating on key results, and reduced the number of reported department-wide measures to only 122, a 64 percent reduction. Enhancements to its Performance Reporting System, a tool that improves reporting on measures and supports the management framework, were finalized.

The Performance and Accountability Report (PAR) contains a wealth of information on the Department's program performance, financial statements, and other management information of interest to Treasury employees, external stakeholders and the public. Treasury was the first agency to issue its FY 2003 PAR, publishing it on November 15, 2003, two years ahead of the date mandated by OMB. Treasury issued its FY 2004 PAR on November 15, 2004, and its FY 2005 PAR on November 15, 2005. The publications included audited Department-wide financial statements with an unqualified audit opinion for the Department.

Treasury uses the Program Assessment Rating Tool (PART) for the rigorous evaluation of its programs as identified for review by OMB. Treasury submitted to OMB PARTs for six programs plus a Re-PART of a program rated Results not Demonstrated. To fully exploit PART, Treasury has set the following goals:

- Focus on doing a better job evaluating programs;
- Develop better efficiency and outcome measures;
- Provide bureaus with regular training to ensure a consistent approach;
- Avoid Results Not Demonstrated for undeserving programs; and
- Focus continually improving Treasury's PMA score.

Eliminating Improper Payments

In 2006, an estimated 22 million families will receive over $40 billion in Earned Income Tax Credit (EITC) payments to reward work and help lift them out of poverty. The Internal Revenue Service is piloting new strategies, such as qualifying child certification, to reduce monies paid out in error, currently estimated as one out of four.

Improve Credit Program Management is a new initiative to improve the management of the Federal Government's credit portfolios. Since Treasury has only a very limited portfolio of outstanding direct loans and loan guarantees, the status rating reflects the Department's efficiency and effectiveness in implementing the requirements of the Debt Collection Improvement Act of 1996 to recover delinquent debt for other agencies. Since 1996, Treasury's Financial Management Service has collected more than $24 billion in delinquent debt. In FY 2005 collections were $3 billion. Because this is the first quarter that agency efforts in this initiative were rated, no progress scores were given.

3.3 – PART Evaluation Table

PART Name:	Office of Foreign Assets Control (OFAC)
Strategic Goal:	Preserve the Integrity of Financial Systems
Rating:	Results Not Demonstrated

OMB Major Findings/Recommendations

1. OFAC needs to develop long-term performance goals with specific timeframes and measures
2. OFAC needs to develop annual performance goals and align them with the long-term performance goals

Bureau Actions Planned or Underway

OFAC has developed one long-term measure and one short-term measures, as follows:

Long-Term	The number of civil penalty cases that are resolved within the Statute of Limitations Periods. Target: 40
Short-Term	Turn around time for license and interpretive submissions. Target: 60. Number of out reach engagements focusing on compliance with OFAC regulations. Target: 60

PART Name:	International Development Association
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Adequate

OMB Major Findings/Recommendations

1. By signing on to the IDA-13 replenishment agreement, the U.S. committed to provide $850 million annually for the next three years (2003 through 2005). The Administration is also requesting $27 million in 2004 to clear some of the $73 million in arrears that the U.S. owes IDA.
2. The Administration will request an additional $100 million for IDA in 2004 if IDA meets specific performance benchmarks and an additional $200 million for IDA in 2005 if IDA makes satisfactory progress in the areas of health, education, and private sector development.
3. The Administration will continue to press IDA and other donors to increase the amount of grants that IDA provides.

Bureau Actions Planned or Underway

1. The FY 2006 budget requested $950 million for the first of three scheduled contributions to IDA-14.
2. The IDA-14 agreement provides $34 billion for development, primarily in the poorest countries, for FY 2006-FY 2008. The U.S. committed $2.85 billion to IDA-14. Major policy initiatives that emerged in the IDA-14 agreement include: a significant expansion of the results measurement system; a sharp increase in the provision of grants; promotion of private sector development; and expanded transparency.
3. Treasury will be closely working with IDA to ensure that the performance and other reform commitments agreed to in the replenishment negotiations are implemented in a timely and effective manner.

PART Name:	Technical Assistance
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Adequate

OMB Major Recommended Follow-up Actions

The Administration will continue to work with OTA as they implement the Project Management tracking System (PMTS) and develop long-term and annual measures and targets across OTA.

Bureau Actions Planned or Underway

1. OTA has developed and implemented long-term performance measures, through the new PMTS, in which it continues to work. The trial PMTS implementation was completed with the OTA Budget Unit during FY 2005; full implementation across all OTA units will be effective in FY 2006.
2. OTA has two long-term measures and one annual measure.

PART Name:	Global Environment Facility
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Results Not Demonstrated

OMB Major Findings/Recommendations

1. The GEF has not yet implemented a performance-based allocation system (PBAS) as promised during the most recent donor replenishment agreement for the GEF (called GEF-3). While project selection focuses on global benefits, projects are funded in the order in which they are proposed and not on the basis of relative country performance or environmental benefits.
2. GEF funds should be focused on countries with the greatest potential benefits to the global environment and the best policy performance.
3. The GEF needs to pay great attention to cost-effectiveness.
4. While the GEF has long-term performance goals, several are rather general, such as conserving biological diversity; many do not have established baselines; and several goals lack time-frames.
5. GEF annual measures are mainly process rather than outcome oriented.
6. The GEF needs to undertake more rigorous evaluations of its projects' performance and donors should tie a portion of their replenishment contributions to key outcomes.

Bureau Actions Planned or Underway

1. The FY 2006 budget requested $107.5 million for the fourth and final scheduled contribution to the GEF-3 replenishment.
2. The GEF continues to work on the reform commitments contained in the GEF-3 replenishment agreement. In September 2005, the GEF Council approved the establishment of a performance-based allocation system, called the Resource Allocation Framework (RAF). The RAF will apply initially to biodiversity and climate change, which have historically represented two thirds of total resources. Of this, 75% will be allocated to individual countries on the basis of performance.
3. However, progress on other issues has been uneven. There has been an improvement in the results measurement frameworks of new projects, although there needs to be better focus on country and GEF-wide institutional outcomes and more systematic reporting of those outcomes. GEF needs to focus on further improvements in cost effectiveness and overall project management, including canceling dormant projects. Finally, the new private sector strategy is two years behind schedule.

PART Name:	Tropical Forest Conservation Act
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Results Not Demonstrated

OMB Major Findings/Recommendations

The assessment found that the program did not have performance measures that would enable a meaningful evaluation of program effectiveness. To overcome this deficiency, the Treasury has developed an Evaluation Sheet and is currently in the process of implementing this tool for existing and pending agreements. The Evaluation Shee will measure the success of the Tropical Forest Conservation Act (TFCA) boards and oversight committees in developing a strategic plan that specifies key objectives, conservation and funding priorities, target dates in meeting those objectives, and key TFCA efficiency measures. To date to performance data has been collected, leading to the "Results Not Demonstrated" rating.

Bureau Actions Planned or Underway

1. The FY 2006 budget requested $99.75 million for debt restructuring programs overall and flexibility in determining the amount to allocate for each program, including TFCA.
2. The administration will work with TFCA boards, oversight committees, and program partners to implement the TFCA Evaluation Sheet for all existing and pending agreements, and include the Evaluation Sheet or other appropriate evaluations in all new agreements.
3. The Administration will ensure that the program is effectively managed and meets performance goals.

PART Name:	African Development Fund
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Results Not Demonstrated

OMB Major Findings/Recommendations

1. Request $118 million in 2005 for the third of three annual installments under the AfDF-IX replenishment agreement By signing onto the agreement, the U.S. committed to provide $118 million annually for three years (2003-2005).
2. Closely monitor the Bank's progress in implementing the results measurement and result-based management systems, particularly the development of short-term performance measures, targets, and baselines' and long-term targets and timeframes -- by September 2004.
3. Continue to press AfDF and other donors to increase the amount of grants that the AfDF provides.

Bureau Actions Planned or Underway

1. The FY 2006 budget requested $135.7 million for the first of three scheduled contributions to AfDF-10.
2. The total AfDF-10 replenishment makes available approximately $1 billion per year for grant and lending operations.
3. Major policy objectives agreed to in AfDF-10 include:
   - o Grants are expected to total approximately 45% of AfDF total assistance, because debt sustainability will now be determinant of a country's financing terms;
   - o Enhanced AfDF development effectiveness with measurable results on the ground;
   - o Improved focus on support for private sector development;
   - o Capacity to assist post-conflict countries in clearing arrears to the AfDB group; and
   - o Expanded information disclosure of the Bank's activities and policies.

PART Name:	Asian Development Bank
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Results Not Demonstrated

OMB Major Findings/Recommendations

1. The Fund has agreed to improve its performance measurement and performance-based allocations. In the latest donor negotiations, the AsDF-9 replenishment, the Fund and donors adopted several important reforms to improve performance and to implement results measurement, including launching the Managing for Results action plan. These reforms need to be implemented and expanded.
2. AsDF-9 agreed to reforms to improve the ability of the poorest countries to handle their debts. In particular, it established a new program to give 30 percent of funding in the form of grants to these countries. These reforms need to be implemented.
3. Transparency and accountability in the Bank are improving. AsDF-9 requires more transparency through improved information disclosure and communication policies. The Bank's anti-corruption and auditing procedures require improvements.

Bureau Actions Planned or Underway

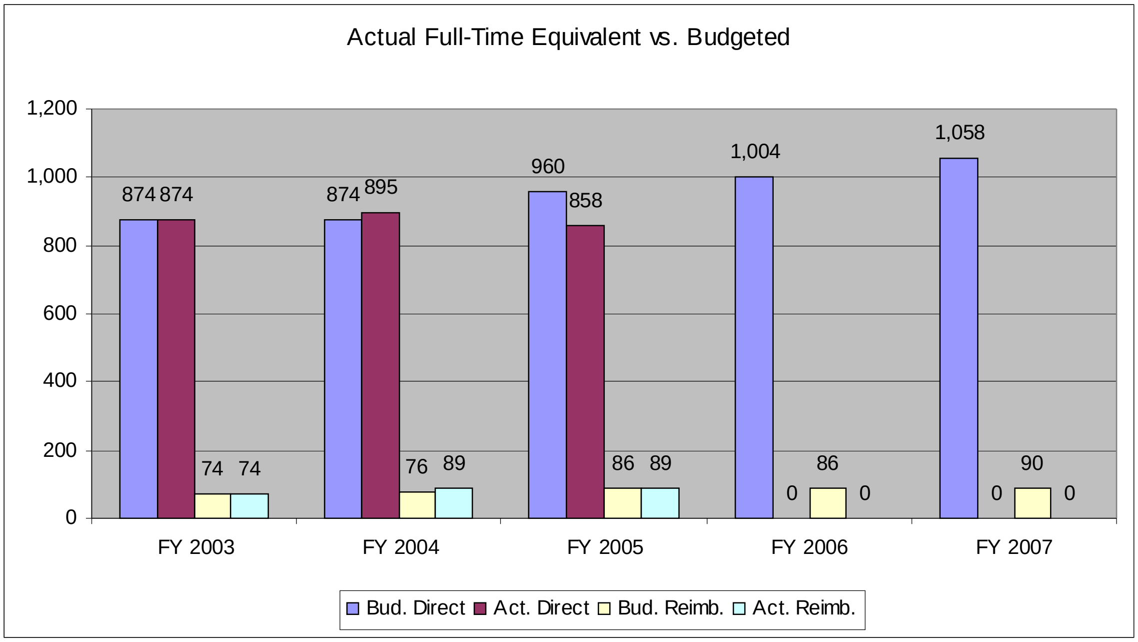
1. Working with Congress to secure $115 million annually for the period 2006 to 2009 to fund the U.S. commitment to the latest African Development Fund replenishment (AsDF-9).
2. Monitoring the Fund's improvements and implementation of measures to show its effectiveness in achieving development goals, including its progress in meeting development objectives across-the-board.
3. Working with the Fund and other donors to improve the ability of developing countries to handle their debt, including increasing the amount of grants for the most debt-vulnerable Asian countries.

Section 4 – Supporting Materials

4.1 – Human Resources Table

CHANGES IN FULL-TIME EQUIVALENTS

		FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year		**874**	**858**	**1,004**
Increases:				
Reason #1:	In FY 2004, DO implemented a hiring freeze to generate salary savings in order to establish the Office of Terrorism and Financial Intelligence. This office was created to fight the war on terrorism.	-16		
Reason #2:	The majority of the increase in FTEs can be attributed to strengthening national security.		146	
Reason #3.:	The majority of the increase in FTEs can be attributed to strengthening national security.			54
Subtotal, Increases		**-16**	**146**	**54**
Year-end Actual/Estimated FTEs		**858**	**1,004**	**1,058**
Net Change from prior year SOY to budget year EOY				**200**



4A – Human Capital Strategy Description

Departmental Offices Human Capital Strategy has three strategic goals: Organizational Effectiveness, Recruitment and Diversity, and Employee Retention and Employee Satisfaction.

By providing sound advice and guidance regarding hiring, retention, rewarding, employee/labor relations, performance evaluation, training and employee development, the Office of Human Resources (OHR) provides management with the HR tools it needs to manage its human capital effectively.

<u>HC Strategic Goal 1: Organizational Effectiveness</u>: To align human capital plans, strategies, and systems to achieve organizational effectiveness and mission accomplishment.

DO undertook a major initiative moving transactional HR processing to the Bureau of the Public Debt (BPD) which consolidated recruitment and staffing functions, and revamped DO's on-site HR services to focus on areas aligned with Treasury's Human Capital Strategic Plan. This transition is expected to enhance quality and delivery of HR services by eliminating redundancies and creating economies of scale.

DO and the HR Connect group implement a 45-day hiring model by mapping all business processes associated with classification, recruitment and processing. This result supported outsourcing to BPD. DO implemented "Recruitment Tracker," a cradle-to-grave hiring tracking system and began using all functions of the Career Connector system, which automates the vacancy announcement and assessment processes. The current hiring cycle time averages about 57 days, but these strategies should move reduce it to 45 days.

DO streamlined the new employee orientation process to focus more on key issues of importance to new hires, and developed a one-on-one new employee orientation for senior executives and political appointees. During the second quarter of FY 2006, a “technology awareness” segment will be added to encourage employees, early in their DO careers, to take advantage of the myriad of available system capabilities (e.g., HR Connect, Employee Express, etc.).

Goals for FY 2007 include implementing a 40 hour training program for new supervisors in an effort to better equip them to be 21st century leaders. A pilot of the program will be rolled out before the end of the second quarter of FY 2006. The OHR also plans to strengthen the performance management system for DO by ensuring alignment to organizational goals and results.

<u>HC Strategic Goal 2: Recruitment and Diversity</u>: To recruit and hire a highly skilled and diverse workforce aligned with business goals.

DO advocates the use of a variety of excepted appointments to ensure that new talent is hired as quickly as possible, e.g., Presidential Management Fellows, Student Career Experience Program, including Hispanic Association of Colleges and Universities, National Internship Program, Departmental Office-specific fellowship programs, and other authorities.

DO uses a variety of pay and workplace scheduling flexibilities, where appropriate, e.g., recruitment bonuses, superior qualifications appointments and alternative work schedules.

Goals for FY 2006 include developing a “Manager’s Handbook” to explain and reinforce the use of the number of recruitment and retention flexibilities available.

<u>HC Strategic Goal 3: Employee Retention and Employee Satisfaction</u>: To retain a high performing workforce while maintaining an environment conducive to a high level of employee satisfaction.

DO advocates the use of a variety of retention and compensation tools to ensure that Treasury has the workforce needed to carry out its mission. These flexibilities include retention allowances and student loan repayment.

DO effectively manages placement in management and executive development training programs. Efforts in this area strengthen and develop core leadership and management competencies.

The OHR has a number of other planned objectives FY 2006 to support employee retention and satisfaction: developing an “Employee Handbook” a quick, easy reference guide on matters of importance to employees; conducting quarterly lunch-n-learn sessions on benefits topics of interest to employees; and probing results from the 2004 Federal Human Capital Survey and making recommendations for improvements.

DO faces a number of human capital challenges in FY 2006, such as a large number of employees reaching retirement eligibility, including those in the Senior executive Service, taking with them valuable institutional knowledge; increased competition from private sector and other federal agencies for well-qualified economic, intelligence, financial and other types of highly skilled analysts; and ensuring that the current workforce receives the training it needs to keep pace with technological advances.

To address these challenges, OHR will work with DO management to define current and future competency requirements and develop strategies for closing gaps, including knowledge management options. Now that transactional processes have been outsourced to BPD, a planned OHR reorganization during early FY 2006 will result in greater emphasis on workforce analysis and the development of workforce and recruitment plans. Plans will also be put into place to maintain quality assurance of outsourced and in-house human resources services.

4.2 – Operating Levels Table

Appropriation Title: DO Salaries & Expenses	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	**858**	**1,004**			**1,004**	**1,004**	**1,058**
Object Classification:							
11.1 Full-Time Permanent Positions........................	83,138	$85,688			$91,905	$91,905	$100,850
11.3 Other than Full-Time Permanent Positions......	0	0			2,781	2,781	2,781
11.5 Other Personnel Compensation.......................	2,732	2,732			197	197	197
11.8 Special Personal Services Payments.............	580	580			0	0	0
11.9 Personnel Compensation (Total).....................	86,450	89,000	5,883	0	94,883	94,883	103,828
12.0 Personnel Benefits...	21,260	17,800	1,317		19,117	19,117	21,548
13.0 Benefits to Former Personnel..........................	25	575	(575)		0	0	0
21.0 Travel..	3,354	3,025	(25)		3,000	3,000	6,296
22.0 Transportation of Things..................................	61	0	0		0	0	0
23.1 Rental Payments to GSA.................................	4,529	4,000	0		4,000	4,000	4,602
23.2 Rent Payments to Others................................	995	0	0		0	0	0
23.3 Communications, Utilities, & Misc....................	4,686	9,500	(1533)		7,967	7,967	7,967
24.0 Printing and Reproduction...............................	2,300	4,400	(1685)		2,715	2,715	2,715
25.1 Advisory & Assistance Services.......................	24,230	2,594	25420		28,014	28,014	41,852
25.2 Other Services..	11,767	15,168	(5444)		9,724	9,724	9,724
25.3 Purchase of Goods/Serv. from Govt. Accts....	13,443	28,454	(9607)		18,847	18,847	18,847
25.4 Operation & Maintenance of Facilities............	535	750	150		900	900	900
25.5 Research & Development Contracts...............	0	29	(29)		0	0	0
25.6 Medical Care...	0	30	(30)		0	0	0
25.7 Operation & Maintenance of Equipment..........	1,100	10,675	(9675)		1,000	1,000	1,000
25.8 Subsistence & Support of Persons.................	0	0	0		0	0	0
26.0 Supplies and Materials....................................	3,200	6,125	(2414)		3,711	3,711	3,801
31.0 Equipment...	475	3,128	(2380)		748	748	794
32.0 Lands and Structures......................................	0	0	0		0	0	0
33.0 Investments & Loans......................................	0	0	0		0	0	0
41.0 Grants, Subsidies...	0	0	0		0	0	0
42.0 Insurance Claims & Indemn............................	0	0	0		0	0	0
43.0 Interest and Dividends…………………………	1	0	0		0	0	0
44.0 Refunds...	0	0	0		0	0	0
Total Budget Authority…………………………………	**178,411**	**$195,253**	**(627)**	**$0**	**$194,626**	**$194,626**	**$223,874**
Budget Activities:							
Executive Direction Programs	$14,430	$16,656	(327)		$16,329	$16,329	$17,501
Economic Policies and Programs	31,203	32,011	(320)		31,691	31,691	41,947
Financial Policies and Programs	25,231	24,720	1588		26,308	26,308	25,336
Terrorism and Financial Intelligence	34,796	39,939	(399)		39,540	39,540	45,401
Treasury-Wide Management Policies and Programs	16,245	16,843	(168)		16,675	16,675	20,372
Administration Programs	56,506	65,084	(1990)		63,094	63,094	73,317
Currency Manipulation	0	0	990		990	990	0
Total Budget Authority…………………………………	**$178,411**	**$195,253**	**(627)**	**$0**	**$194,626**	**$194,626**	**$223,874**

4B – Appropriations Language

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

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.)

Treasury Building and Annex Repair and Restoration

Mission

The Treasury Building and Annex Repair and Restoration (TBARR) program repairs and restores the Main Treasury Building while preserving its historic fabric and modernizes building systems to comply with local and national codes and standards.

1.1 – Appropriation Summary Table

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Treasury Building and Annex Repair and Restoration	$12,217	$9,900	$0	($9,900)	-100.00%
Total Appropriated Resources	**$12,217**	**$9,900**	**$0**	**($9,900)**	**-100.00%**

FY 2007 Priorities

The modernized Main Treasury Building is an investment to be protected. Funding in FY 2007 for the Repair and Improvements (R&I) account is requested within the Salaries and Expenses account to maintain and safeguard the property.

Table of Contents

Section 1 – Purpose

1A – Description of Program Vision and Priorities

Under the Federal Property and Administrative Services Act of 1949 (as amended), the Treasury Department has direct operational control over the Main Treasury and Treasury Annex buildings. Planning to improve basic building systems began in the FY 1996 budget under the Repair and Improvements appropriation with a funding request for heating, ventilation and air conditioning, and electrical systems. The time line for these projects was severely affected by the June 1996 fire, which caused extensive damage to the interior of the north wing of the Main Treasury building.

The Building Modernization and Renovation Program started in FY 1999 as an umbrella program to coordinate building projects in the most cost effective manner. The program was accomplished with a "Construction Manager as Constructor" contract, under which the contractor participated in the design development as well as provided overall construction management and subcontracting for construction of the systems. A funding stream was developed to modernize multiple systems simultaneously. If systems were modernized one at a time, costs would be greater, as repeated incursions into walls, floors and ceilings would be necessary. In addition, this serial approach would mean repeatedly evacuating portions of the building, increasing the cost of moves and rental space outside of the Treasury Building.

1B – Previous Highlights and Accomplishments

The TBARR program office was formed specifically to repair and restore the Main Treasury Building while preserving the historic fabric of the building and to modernize building systems to comply with local and national codes and standards. The renovated and modernized Main Treasury Building now features an ample local area network and telecommunications infrastructure, a fully compliant fire alarm and fire protection system, an expanded security access and alarm system, new electrical lighting and mechanical systems, and the addition of new elevators and emergency stairwells. Hallways, lobbies and office suites that possess architectural historic significance were restored to reflect their original condition. The rest of the suites have been modernized to be reconfigurable and ergonomically considerate.

1C – Future Outlook

The modernized Main Treasury Building is an investment to be protected. Funding in FY 2007 for the Repair and Improvements (R&I) account is requested within the Salaries and Expenses account to maintain and safeguard the property.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Appropriation Title: Treasury Building and Annex Repair and Restoration	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	**10**	**$12,316**		
Rescission (P.L. 108-447)		(99)		
FY 2005 Enacted	**10**	**12,217**		
FY 2006 Appropriation (P.L. 109 - 115)	**9**	**10,000**		
Rescission (P.L. 109 - 148)		(100)		
FY 2006 Enacted	**9**	**9,900**		
Changes to Base				
Transfer out to DO S&E for Repairs and Improvements Account	0	(1,000)		
Non-recur of TBARR	(9)	(8,900)		
Total FY 2007 Base	**0**	**$0**		

2A – Budget Increases and Decreases Description

Transfer to DO Salaries and Expenses.. -$1,000,000

Transfer Out to DO S&E for Repairs and Improvements -$1,000,000 / 0 FTE
Transfer funding to re-establish a recurring baseline for major repairs and improvements to the Main Treasury and Annex infrastructure. Maintenance of the Historic Landmark (Main Treasury) and Historic Register (Annex Building) is a priority. Prior to the establishment of the Treasury Building and Annex Repair and Restoration account, $1,000,000 was appropriated annually for this purpose in a Departmental Offices Salaries and Expenses no-year account.

Non-Recur .... -$8,900,000

Treasury Building and Annex Repair and Restoration -$8,900,000 / 0 FTE
Additional funds are not requested for the TBARR program. The FY 2006 enacted TBARR appropriation will be used to complete the project and re-occupy all of the Main Treasury building.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

(Dollars in Thousands)

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Treasury Building and Annex Repair and Restoration	11	$12,217	9	$9,900	0	0	-100.00%	-100.00%
Subtotal Newly Appropriated Resources	11	$12,217	9	$9,900	0	$0	-100.00%	-100.00%
Other Resources:								
Available multi-year/no-year funds	0	1,934	0	0	0	0	0.00%	0.00%
Subtotal Other Resources	0	1,934	0	0	0	0	0.00%	0.00%
Total Resources Available for Obligation	11	$14,151	$9	$9,900	$0	$0	-100.00%	-100.00%

3A – Budget Activity Description

This appropriation funds repairs and selected improvements to the Main Treasury building.

3.2 – Budget and Performance Plan Table

Treasury Strategic Goal: Ensure Professionalism, Excellence, Integriy and Accountability in the Management and Conduct of the Department of Treasury (M5)						
Resource Level	**FY 2002 Enacted**	**FY 2003 Enacted**	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 Request**
Treasury Strategic Objective M5B:						
Budget Activities: Treasury Building and Annex Repair and Restoration						
Financial Resources						
Newly Appropriated Resources	$35,500	$28,832	$24,852	$12,217	$9,900	$0
Other Resources	0	0	0	0	0	0
Total Operating Level	**$35,500**	**$28,832**	**$24,852**	**$12,217**	**$9,900**	**$0**
Human Resources						
Newly Appropriated FTE	8	10	10	11	9	0
Other FTE	0	0	0	0	0	0
Total FTE (direct and reimbursable)	**8**	**10**	**10**	**11**	**9**	**0**
Treasury Strategic Objective M5B:						
Budget Activities: Treasury Building and Annex Repair and Restoration						
Financial Resources						
Newly Appropriated Resources	$35,500	$28,832	$24,852	$12,217	$9,900	$0
Other Resources	0	0	0	0	0	0
Total Operating Level	**$35,500**	**$28,832**	**$24,852**	**$12,217**	**$9,900**	**$0**
Human Resources						
Newly Appropriated FTE	8	10	10	11	9	0
Other FTE	0	0	0	0	0	0
Total FTE (direct and reimbursable)	**8**	**10**	**10**	**11**	**9**	**0**

3B – Description of Performance

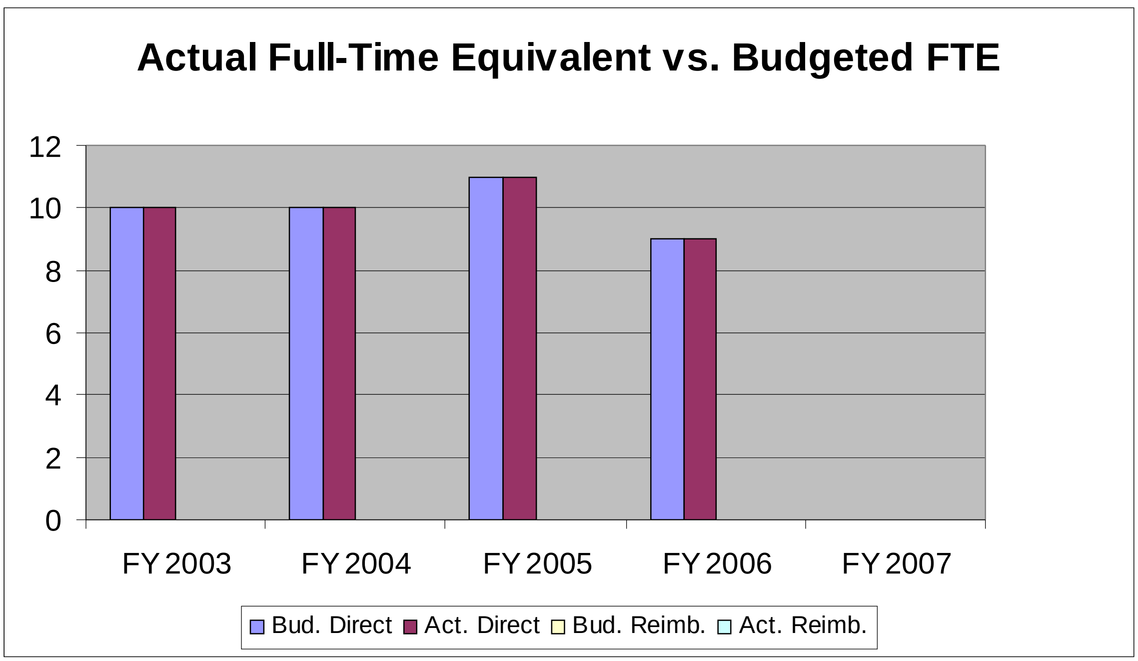
Major repairs and restoration have resulted in a more modernized working environment while preserving the historic integrity of the Treasury Building and have ensured improved working conditions for the health and safety of Treasury employees and visitors.

Section 4 – Supporting Materials

4.1 – Human Resources Table

CHANGES IN FULL-TIME EQUIVALENTS

		FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year		**10**	**11**	**9**
Increases:				
Reason:	11 FTE represents the amount of FTE required to maintain the Treasury Building and Annex Repair and Restoration project	1		
Subtotal, Increases		**1**	**0**	**0**
Decreases:				
Reason #1:	Reduction of 2 FTE reflects the amount of FTE needed to complete the program comparable to the funding that was authorized.		-2	
Reason #2:	The FTE redcution of 9 FTEs to 0 in FY 2007 is due to the program expiring in FY 2006.			-9
Subtotal, Decreases		**0**	**-2**	**-9**
Year-end Actual/Estimated FTEs		**11**	**9**	**0**
		11	9	0
Net Change from prior year SOY to budget year EOY				**-11**



4.2 – Operating Levels Table

(Dollars in Thousands)

Appropriation Title: Treasury Building and Annex Repair and Restoration	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	**11**	**9**			**9**	**9**	**-**
Object Classification:							
11.1 Full-Time Permanent Positions..........................	$500	409			$409	$409	$0
11.1 Other than Full-Time Permanent Positions.........	0	0			0	0	0
11.5 Other Personnel Compensation.........................	0	0			0	0	0
11.8 Special Personal Services Payments................	0	0			0	0	0
11.9 Personnel Compensation (Total).......................	500	409			409	409	0
12.0 Personnel Benefits..	180	147			147	147	0
13.0 Benefits to Former Personnel............................	0	0			0	0	0
21.0 Travel..	25	20			20	20	0
22.0 Transportation of Things....................................	0	0			0	0	0
23.1 Rental Payments to GSA..................................	624	511			511	511	0
23.2 Rent Payments to Others..................................	0	0			0	0	0
23.3 Communications, Utilities, & Misc......................	267	219			219	219	0
24.0 Printing and Reproduction.................................	0	0			0	0	0
25.0 Other Services...	216	177	(100)		77	77	0
25.1 Advisory & Assistance Services.........................	0	0			0	0	0
25.2 Other Services...	3	3			3	3	0
25.3 Purchase of Goods/Serv. from Govt. Accts……	0	0			0	0	0
25.4 Operation & Maintenance of Facilities...............	0	0			0	0	0
25.5 Research & Development Contracts..................	0	0			0	0	0
25.6 Medical Care..	0	0			0	0	0
25.7 Operation & Maintenance of Equipment............	6	6			6	6	0
25.8 Subsistence & Support of Persons....................	0	0			0	0	0
26.0 Supplies and Materials......................................	50	41			41	41	0
31.0 Equipment...	150	123			123	123	0
32.0 Lands and Structures..	10,196	8,344			8,344	8,344	0
33.0 Investments & Loans...	0	0			0	0	0
41.0 Grants, Subsidies..	0	0			0	0	0
42.0 Insurance Claims & Indemn...............................	0	0			0	0	0
43.0 Interest and Dividends……………………………	0	0			0	0	0
44.0 Refunds...	0	0			0	0	0
Total Budget Authority…………………………………	**$12,217**	**$10,000**	**($100)**	**$0**	**$9,900**	**$9,900**	**$0**
Budget Activities:							
Treasury Building and Annex Repair and Restoration	$12,217	$10,000	($100)		$9,900	$9,900	$0
Total Budget Authority…………………………………	**$12,217**	**$10,000**	**($100)**	**$0**	**$9,900**	**$9,900**	**$0**

Department-wide Systems and Capital Investments Program

Mission

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.

1.1 – Appropriation Summary Table

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Department-wide Systems & Capital Investment Program					
Critical Infrastructure Protection (Financial Institutions)	$5,754	$5,742	$2,093	($3,649)	-63.55%
E-Government Initiatives	2,740	2,734	2,209	(525)	-19.20%
Back-up Disaster Recovery Capacity	1,732	1,729	1,656	(73)	-4.22%
Integrated Wireless Network	1,488	1,485	0	(1,485)	-100.00%
Cyber Security	2,540	2,281	2,244	(37)	-1.62%
Enterprise Architecture	397	396	0	(396)	-100.00%
HR Connect	15,367	0	0	0	0.00%
Appliance-Based Computer Security	1,488	0	0	0	0.00%
Certificate-Based Internet Security	496	0	0	0	0.00%
Treasury Foreign Intelligence Network (TFIN)	0	5,940	21,200	15,260	256.90%
OFAC Enterprise Content Management	0	0	627	627	0.00%
Treasury Secure Data Network (TSDN)	0	2,772	4,003	1,231	44.41%
Defense Messaging System	0	495	0	(495)	-100.00%
Documents Management	0	594	0	(594)	-100.00%
Total Appropriated Resources	**$32,002**	**$24,168**	**$34,032**	**$9,864**	**40.81%**

FY 2007 Priorities

- Completing the redesign and modernization of the Treasury Foreign Intelligence Network (TFIN) and upgrading and enhancing the Treasury Secure Data Network (TSDN). TFIN and TSDN are classified systems that are critical to Treasury's expanding financial intelligence mission.

- Continuing to modernize the Departmental Offices (DO) Information Technology infrastructure to 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.

- Achieving new levels of resilience within the financial services sector, through continued Critical Infrastructure Protection testing, and the enhancement of regional coalitions targeted at resilience.

- Implementing all applicable initiatives as well as completing all required milestones as part of Treasury's Presidential E-Government Implementation Plan.

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Section 1 – Purpose

1A – Description of Program Vision and Priorities

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. First time funding is requested in FY 2007 to plan for the development of an Enterprise Content Management system for the Office of Foreign Assets Control.

1B – Previous Highlights and Accomplishments

Treasury has made significant progress in key initiatives under the DSCIP program. Highlights of these accomplishments include:

HR Connect: In April 2005, Treasury successfully began servicing their first customer for the HR Connect enterprise human resources management system, the Department of Housing and Urban Development (HUD). This is a first success for Treasury as a Human Resources Line of Business (HR LoB) provider. On August 23, 2005, the Office of Personnel Management selected five agencies, including Treasury, to be a Shared Service Center (SSC) in the HR LoB. The HR LoB provides government-wide business and technology solutions to support the strategic management of human capital. Treasury's HR LoB product, HR Connect, currently supports 148,000 employees within Treasury, HUD, and components of the Departments of Justice and Homeland Security. Selection as an HR LoB SSC provides Treasury the opportunity to achieve significant reduction in per capita costs for HR Connect by spreading fixed costs over an expanded customer base.

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.

E-Government Initiatives: Treasury fully participates 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-Gov representatives and the federal Managing Partners, Treasury-wide coordination has improved and transition activities have begun to identify and eliminate duplicative systems.

Cyber Security: Treasury has improved its Federal Information Security Management Act performance. Significant gains were made in the number of Treasury systems certified and accredited and the number of systems which have security costs integrated into their system life cycle.

1C – Future Outlook

The key goals for FY 2007 include:

- Completing the redesign and modernization of the classified Treasury Foreign Intelligence Network and upgrading and enhancing Treasury Secure Data Network, which are critical to support Treasury's expanding national security mission.

- Continuing to modernize the DO information technology infrastructure to provide enhanced functionality, performance, and security for DO customers.

- Improving Treasury's Federal Information Security Management Act performance and strengthening the Department's overall security posture.

- Achieving new levels of resilience within the financial services sector, through continued Critical Infrastructure Protection testing and the enhancement of regional coalitions targeted at resilience.

- Implementing all applicable initiatives as well as completing all required milestones as part of Treasury's E-Government Implementation Plan.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

(Dollars in Thousands)

Appropriation: Department-wide Systems and Capital Investment Program (DSCIP)	FTE	Amount	Budget Activity	Treasury Strategic Objective
Projects :				
Treasury Foreign Intelligence Network		21,200	DSCIP	M5B
OFAC Enterprise Content Management		627	DSCIP	M5B
Treasury Secure Data Network (TSDN)		4,003	DSCIP	M5B
Critical Infratstructure Protection (Fin Inst.)		2,093	DSCIP	M5B
Back-up Disaster Recovery Capacity		1,656	DSCIP	M5B
Cyber Security		2,244	DSCIP	M5B
E-Government Iniaitatives		2,209	DSCIP	M5B
Total FY 2007 Request	**0**	**$34,032**		

2A – Budget Increases and Decreases Description

Projects..+$34,032,000

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. The Treasury Foreign Intelligence 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 it 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. 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.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

(Dollars in Thousands)

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Department-wide Systems & Capital Investment Program	0	$32,002	0	$24,168	0	34,032	0.00%	40.81%
Subtotal Newly Appropriated Resources	0	32,002	0	24,168	0	34,032	0.00%	40.81%
Other Resources:								
Available multi-year/no-year funds	0	11,410	0	0	0	0		
Subtotal Other Resources	0	11,410	0	0	0	0	0.00%	0.00%
Total Resources Available for Obligation	0	$43,412	0	$24,168	0	$34,032	0.00%	40.81%

3A – Budget Activity Description

DSCIP 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. Highlights of some of the efficiencies and benefits from these investments include:

Completing the Modernization of Treasury Financial Intelligence Network (TFIN): Completing the modernization of TFIN is the top priority of the Department. The network is critical to the processes and productivity of Treasury's national security and analytical staff. Modernization is necessary to increase network capacity to support a growing number of users.

Upgrading Treasury Secure Data Network (TSDN): Updating TSDN is a critical component of improving the work processes and productivity of Treasury's national security and analytical staff. TSDN supports a number of offices and Bureaus and enhancements are needed to increase uptime and reliability of the system, faster access and communications through increased network capacity, support for a growing number of users, and new tools and features that will significantly increase analyst productivity.

Ensuring the Resilience of America's Economy: The Office of Critical Infrastructure Protection and Compliance Policy (OCIPCP) exists to fulfill the President's direction pursuant to HSPD-7 and to ensure that the highest achievable level of resilience for the U.S. financial services sector is reached. Critical financial services sector functions must be highly resilient when natural disasters, such as Hurricanes Katrina and Rita, or terrorist attacks, occur. The OCIPCP fulfills the President's vision of a safer America for all through a detailed program of testing, analysis, and risk management, in cooperation with the private sector.

Disaster Recovery Capabilities: This upgrade is critical to ensure the stability of essential operations of the Department in the event of an emergency. The upgrade will enhance the ability of the Department's information technology infrastructure to recover in the event of a disaster or major service failure. Funding is needed to avoid limited operations of email, shared drive (essentially personal) files, and other of applications.

Implementation of Presidential E-Government Initiatives: The President's Management Agenda and Presidential E-Government Initiatives drive Treasury to identify opportunities to leverage existing systems and services in order to reduce costs and duplication. Treasury continues to review and monitor projects targeted for migration and eventual shut-down. By migrating to government-wide solutions such as E-Rulemaking, E-Authentication and E-Training, the Department is able to leverage existing systems or infrastructure, thereby reducing costs and duplicative investments within Treasury and across government.

3.2 – Budget and Performance Plan Table

Treasury Strategic Goal: Ensure Professionalism, Excellence, Integriy and Accountability in the Management and Conduct of the Department of Treasury (M5)

Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request
Treasury Strategic Objective M5B:						
Budget Activities: Department-wide Systems and Capital Investment Program						
Financial Resources						
Newly Appropriated Resources	$62,150	$68,828	$36,185	$32,002	$24,168	$34,032
Other Resources	0	0	0	0	0	0
Total Operating Level	**$62,150**	**$68,828**	**$36,185**	**$32,002**	**$24,168**	**$34,032**
Human Resources						
Newly Appropriated FTE	0	0	0	0	0	0
Other FTE	0	0	0	0	0	0
Total FTE (direct and reimbursable)	**0**	**0**	**0**	**0**	**0**	**0**
Treasury Strategic Objective M5B:						
Budget Activities: Department-wide Systems and Capital Investment Program						
Financial Resources						
Newly Appropriated Resources	$62,150	$68,828	$36,185	$32,002	$24,168	$34,032
Other Resources	0	0	0	0	0	0
Total Operating Level	**$62,150**	**$68,828**	**$36,185**	**$32,002**	**$24,168**	**$34,032**
Human Resources						
Newly Appropriated FTE	0	0	0	0	0	0
Other FTE	0	0	0	0	0	0
Total FTE (direct and reimbursable)	**0**	**0**	**0**	**0**	**0**	**0**

Performance Level	Strat. Object.	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance
Increase the quality and quantity of information sharing of U.S. financial information between the federal government and the U.S. financial services sector institutions (Ot)	F3C	N/A	67.0%	309.0%	20.0%	20.0%	10% growth
Increase the resilience of Treasury programs to ensure the effective operation of the United States financial system (Ot)	F3C	N/A	N/A	N/A	N/A	N/A	6
Support and encourage the formation of regional coalitions (Ot)	F3C	N/A	N/A	N/A	N/A	N/A	2
Treasury Secure Data Network (TSDN) is within 10% of cost and schedule (E)	F3B	N/A	N/A	N/A	N/A	N/A	10.0%
Treasury Financial Intelligence Network (TFIN) is within 10% of cost and schedule (E)	F3B	N/A	N/A	N/A	N/A	N/A	10.0%
Office of Foreign Asset Control (OFAC) Enterprise Content Management is within 10% of cost and schedule (E)	F3B	N/A	N/A	N/A	N/A	N/A	10.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Customer Satisfaction Measure
* Performance reported after close of fiscal year

3B – Description of Performance

The Office of Critical Infrastructure Protection and Compliance Policy (OCIPCP) partnered with the private sector to start up the Financial Sector-Information Sharing and Analysis Center (FS-ISAC). In FY 2003, it increased participation by 67 percent and in FY 2004 increased participation by 309 percent. The OCIPCP also contributed to the Department's strategic objectives by increasing the resiliency and protection of the U.S. financial system. To this end, it has: 1) increased the number of protective response planning exercises for critical institutions, 2) tested crisis response of federal financial regulators, 3) worked with the Financial Services Information Sharing and Analysis Center to ensure it has accurate and useful information and that it continues to build membership, 4) worked with other sectors on which financial services are interdependent to address vulnerabilities, 5) improved the tools and processes used to communicate with the public and private sectors, 6) monitored the finalization of rules and implementation of procedures required under the Fair and Accurate Credit Transactions Act, thereby ensuring their consistency with the intent of the statute, and 7) and discharged Treasury's obligations under Homeland Security Presidential Directive 7.

FY 2007 DSCIP performance measures are to: 1) conduct a series of tests that will allow the financial services sector to make informed decisions about the best course of action to take to protect their employees, customers, and operations and 2) support and encourage the formation of regional coalitions, such as ChicagoFIRST, comprising private sector financial industry representatives, and local, state, and federal law enforcement officials as well as financial regulators. Through these regional coalitions, the financial sector may communicate with law enforcement and the regulators in case of an emergency. Lastly, DSCIP's major capital investments will be measured to ensure that cost and schedule are within 10 percent of estimates. These major investments include the Treasury Secure Data Network, Treasury Foreign Intelligence Network, and OFAC's Enterprise Content Management system.

3C – PMA Evaluation Description

Expanding E-Government: Treasury is committed to improving Department-wide coordination and collaboration to meet the Expanding E-Government goals outlined in the President's Management Agenda (PMA). The Department is working collaboratively to meet PMA requirements across each program area. Highlights include:

- Achieved upgrade from "Red" to "Yellow" for status and maintained "Green" for progress for the E-Government PMA Status as evaluated by the Office of Management and Budget (OMB),

- Finalized the OMB required E-Government Implementation Plan by September 1, 2005,

- Remedied and removed the majority the Treasury business cases that were on the OMB watch list,

- Completed all quarterly FISMA reporting requirements,

- Treasury was designated as a Center of Excellence for the Financial Management Line of Business, and conditionally designated as a Shared Service Center for the Human Resources Management Line of Business.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

4.1 – Human Resources Table

DSCIP does not require a Human Resources Strategy.

4.2 – Operating Levels Table

(Dollars in Thousands)

Appropriation Title: Department-wide Systems & Capital Investment Program	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	-	-			-	-	-
Object Classification:							
11.1 Full-Time Permanent Positions..........................	$0	$0			$0	$0	$0
11.1 Other than Full-Time Permanent Positions.........	0	0			0	0	0
11.5 Other Personnel Compensation.........................	0	0			0	0	0
11.8 Special Personal Services Payments................	0	0			0	0	0
11.9 Personnel Compensation (Total).......................	0	0			0	0	0
12.0 Personnel Benefits..	0	0			0	0	0
13.0 Benefits to Former Personnel............................	0	0			0	0	0
21.0 Travel..	76	57			57	57	81
22.0 Transportation of Things....................................	0	0			0	0	0
23.1 Rental Payments to GSA....................................	439	219			219	219	467
23.2 Rent Payments to Others....................................	0	0			0	0	0
23.3 Communications, Utilities, & Misc......................	0	122			122	122	0
24.0 Printing and Reproduction.................................	0	0			0	0	0
25.0 Other Services..	8,935	0			0	0	9,502
25.1 Advisory & Assistance Services.........................	2,604	10,576			10,576	10,576	2,769
25.2 Other Services..	14,166	9,802			9,802	9,802	15,065
25.3 Purchase of Goods/Serv. from Govt. Accts…….	3,515	2,336	(244)		2,092	2,092	3,738
25.4 Operation & Maintenance of Facilities...............	0	0			0	0	0
25.5 Research & Development Contracts..................	0	0			0	0	0
25.6 Medical Care...	0	0			0	0	0
25.7 Operation & Maintenance of Equipment............	740	0			0	0	787
25.8 Subsistence & Support of Persons....................	0	0			0	0	0
26.0 Supplies and Materials.......................................	275	210			210	210	292
31.0 Equipment..	1,252	1,090			1,090	1,090	1,331
32.0 Lands and Structures...	0	0			0	0	0
33.0 Investments & Loans...	0	0			0	0	0
41.0 Grants, Subsidies..	0	0			0	0	0
42.0 Insurance Claims & Indemn...............................	0	0			0	0	0
43.0 Interest and Dividends……………………………	0	0			0	0	0
44.0 Refunds...	0	0			0	0	0
Total Budget Authority……………………………………	**$32,002**	**$24,412**	**($244)**	**$0**	**$24,168**	**$24,168**	**$34,032**
Budget Activities:							
Department-wide Systems & Capital Investment	$32,002	$24,412	($244)		$24,168	$24,168	$34,032
Total Budget Authority……………………………………	**$32,002**	**$24,412**	**($244)**	**$0**	**$24,168**	**$24,168**	**$34,032**

4B – Appropriations Language

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

Federal Funds

General and Special Funds:

DEPARTMENT-WIDE SYSTEMS AND CAPITAL INVESTMENT PROGRAM

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.)

4B – Appropriations Language

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

Federal Funds

General and Special Funds:

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.)

JUSTIFICATION OF CHANGES

The Treasury Building and Annex Repair and Restoration account is no longer needed.

Air Transportation Stabilization Program

Mission

The Air Transportation Stabilization Board (ATSB) was established under the Air Transportation Safety and System Stabilization Act (Public Law 107-42) to issue federal credit instruments (loan guarantees) to assist air carriers that suffered losses as a result of the September 11, 2001 terrorist attacks on the United States.

1.1 – Appropriation Summary Table

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Air Transportation Stabilization Board	$1,984	$2,723	$0	($2,723)	-100.00%
Total Appropriated Resources	**$1,984**	**$2,723**	**$0**	**($2,723)**	**-100.00%**

FY 2007 Priorities

In FY 2006 the Board plans to negotiate repayment or remarketing of its remaining loans and the sale of its warrants. ATSB expects that these events will eliminate the need to request additional resources for FY 2007.

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Section 1 – Purpose

1A – Description of Program Vision and Priorities

The Air Transportation Stabilization Board (ATSB) was established under the Air Transportation Safety and System Stabilization Act (Public Law 107-42) to issue federal credit instruments (loan guarantees) to assist air carriers that suffered losses as a result of the September 11, 2001 terrorist attacks on the U.S. The ATSB is composed of the Chairman of the Board of Governors of the Federal Reserve System, the Secretary of the Department of Transportation, the Secretary of the Department of Treasury, and the U.S. Comptroller General (as a non-voting member) or their designees. Current voting members of the ATSB are: Chairman Donald L. Kohn, Board of Governors of the Federal Reserve System; Randal Quarles, Under Secretary for Domestic Finance, Department of the Treasury; and, Jeffrey Shane, Under Secretary for Policy, Department of Transportation. The program is governed and accounted for in accordance with the provisions of the Federal Credit Reform Act of 1990.

To date, the ATSB has issued six loan guarantees, four of which have been paid off. Of the remaining two loans, one guarantee has been called and the ATSB has paid the private lender and now owns the loan directly. This borrower is in a Chapter 11 bankruptcy proceeding and is expected to reorganize and exit bankruptcy in the first half of FY 2006. The loan will be reinstated as a direct loan. The one remaining borrower with a loan guarantee is current on all interest, guarantee fees, and principal payments.

Additionally, the ATSB held warrants in each of its borrowers. The ATSB is currently in the process of monetizing its remaining warrant portfolio in a manner that maximizes the return from these securities to the taxpayer.

1B – Previous Highlights and Accomplishments

The ATSB received 16 applications prior to its June 28, 2002 application deadline requesting loan guarantees totaling $3.6 billion. It approved seven applications and denied nine. It has negotiated and issued six Federal loan guarantees totaling $1.6 billion to air carriers for term loans with maturities ranging from four and one half to seven years. The seventh approved applicant withdrew its request.

The guarantee agreements negotiated by the ATSB provide that the ATSB receive guarantee fees from each borrower and stock warrants representing 10 percent to 32 percent of the borrower's equity. These warrants can be exercised and sold at the ATSB's discretion for the benefit of the U.S. taxpayers. To date, the ATSB has sold warrants totaling approximately $112 million.

The ATSB closely monitors its loan guarantee portfolio to determine the financial health of its borrowers and compliance with the terms of the loan agreements, including timely payment of fees and principal. Its staff reviews periodic reports submitted by borrowers, meets with borrowers on a regular basis and briefs Board members on significant developments. The staff prepares quarterly reviews of each borrower for Board evaluation.

The ATSB frequently receives requests from borrowers for amendments or waivers to certain loan agreement terms. The ATSB reviews these requests to determine the impact on the ATSB's credit position and determines whether to approve the requests and if so on what terms.

As of December 31, 2005, two of the ATSB borrowers had repaid in full the outstanding balances on their ATSB guaranteed loans. Additionally, two of the remaining four guarantees were successfully remarketed to institutional investors without the government guarantee.

One of the ATSB's two remaining borrowers is in a Chapter 11 bankruptcy proceeding. The ATSB has actively worked with this borrower throughout the bankruptcy process to ensure that the taxpayer interests are protected.

Finally, the ATSB remaining warrant positions currently have an intrinsic value that exceeds $25 million.

1C – Future Outlook

In early 2006 the ATSB will be conducting complex negotiations with respect to the emergence of one of its two remaining borrowers from bankruptcy protection. In addition, the ATSB will be investigating other transactions that would result in the repayment of or remarketing of its remaining two loans as well as exploring transactions designed to maximize return on its remaining warrant portfolio. With respect to all restructuring and bankruptcy matters, the ATSB must rely heavily on its experienced financial and legal consultants and staff. The key challenge will be to protect taxpayer interests

In FY 2006 the ATSB will continue to closely monitor its loan guarantee portfolio. ATSB expects that the Board will be able to negotiate repayment or remarketing of its remaining loans by the end of FY 2006. The Board has met the requirements established under P.L. 107-42 and will terminate its activities in 2007.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

(Dollars in Thousands)

Appropriations: Air Transportation Stabilization Program	FTE	Amount	Budget Activity	Treasury	Strategic Objective
FY 2005 Consolidated Appropriations (H. R. 4818)	**3**	$2,000			
Rescission (H. R. 2673)	-	$16			
FY 2005 Enacted	**3**	**$1,984**			
FY 2006 Appropriation (P.L. 109 - 115)	**6**	**2,750**			
Rescission (P.L. 109 - 148)	-	(27)			
FY 2006 Enacted	**6**	**2,723**			
Non - Recur of ATSP Funds	**(6)**	**(2,723)**			
Total, FY 2007 Request	**-**	**$0**			

The ATSB is winding down its portfolio and expects to end its activities by the end of FY 2006.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

(Dollars in Thousands)

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Air Transportation Stabilization Board	**3**	**$1,984**	**6**	**$2,723**	**0**	**$0**	**-100.00%**	**-100.00%**
Subtotal Newly Appropriated Resources	**3**	**$1,984**	**6**	**$2,723**	**0**	**$0**	**-100.00%**	**-100.00%**
Other Resources:								
Recoveries	0	$0	0	$177	0	$0	0.00%	0.00%
Available multi-year/no-year funds	0	$566	0	$0	0	$0	0.00%	0.00%
Subtotal Other Resources	**0**	**$566**	**0**	**$177**	**0**	**$0**	**0.00%**	**0.00%**
Total Resources Available for Obligation	**3**	**$2,550**	**6**	**$2,900**	**0**	**$0**	**-100.00%**	**-100.00%**

3A – Budget Activity Description

The ATSB budget covers cost of operations including staff salaries and benefits and other operating expenses such as rent and the costs associated with the Board's various financial and legal consultants.

To date, despite the serious economic challenges facing the airline industry, the ATSB has been successful in maximizing value of assets in its loan guarantee program while minimizing risk of loss under its loan guarantees. Continuing success depends on having an experienced staff and financial and legal consultants who are expert in the many facets of airline operations and finances.

3.2 – Budget and Performance Plan Table

Treasury Strategic Goal: Promote Stable U.S. and World Economies (E2)						
Resource Level	**FY 2002 Enacted**	**FY 2003 Enacted**	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 Request**
Treasury Strategic Objective E2A:						
Budget Activities: Air Transportation Stabilization Board						
Financial Resources						
Newly Appropriated Resources	$9,400	$6,041	$2,277	$1,984	$2,723	$0
Other Resources	595	531	214	0	0	0
Total Operating Level	**$9,995**	**$6,572**	**$2,491**	**$1,984**	**$2,723**	**$0**
Human Resources						
Newly Appropriated FTE	0	8	6	3	6	**0**
Other FTE	0	0	0	0	0	0
Total FTE (direct and reimbursable)	**0**	**8**	**6**	**3**	**6**	**0**

Performance Level	Strat. Object.	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
On-time payment of federal loan guarantee fees and repayment of underlying loans by borrowers (Oe)	F3C	N/A	100.0%	100.0%	100.0%	100.0%	100.0%	Discontinue

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Customer Satisfaction Measure
* Performance reported after close of fiscal year

N/A: Not Applicable

3B – Description of Performance

The Air Transportation Stabilization Board supports Treasury's strategic goal to promote stable U.S. and world economies in its strategic objective of increasing citizen economic security and safety. The ATSB has not had any exceptions with regards to its performance measurement goals.

Section 4 – Supporting Materials

4.1 – Human Resources Table

ATSB does not require a Human Resources Strategy.

4.2 – Operating Levels Table

(Dollars in Thousands)

Appropriation Title: Air Transportation Stabilization Board	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	**3**	**6**			**6**	**6**	**-**
Object Classification:							
11.1 Full-Time Permanent Positions...............................	$275	$100			$100	$100	$0
11.1 Other than Full-Time Permanent Positions.............	0	0			0	0	0
11.5 Other Personnel Compensation..............................	0	0			0	0	0
11.8 Special Personal Services Payments....................	0	0			0	0	0
11.9 Personnel Compensation (Total)............................	275	100			100	100	0
12.0 Personnel Benefits...	51	50			50	50	0
13.0 Benefits to Former Personnel.................................	0	0			0	0	0
21.0 Travel..	10	0			0	0	0
22.0 Transportation of Things..	0	0			0	0	0
23.1 Rental Payments to GSA...	197	0			0	0	0
23.2 Rent Payments to Others..	0	0			0	0	0
23.3 Communications, Utilities, & Misc...........................	0	0			0	0	0
24.0 Printing and Reproduction......................................	0	0			0	0	0
25.0 Other Services...	0	0			0	0	0
25.1 Advisory & Assistance Services..............................	1,400	2,600	(27)		2,573	2,573	0
25.2 Other Services...	50	0			0	0	0
25.3 Purchase of Goods/Serv. from Govt. Accts……	0	0			0	0	0
25.4 Operation & Maintenance of Facilities..................	0	0			0	0	0
25.5 Research & Development Contracts.......................	0	0			0	0	0
25.6 Medical Care..	0	0			0	0	0
25.7 Operation & Maintenance of Equipment.................	0	0			0	0	0
25.8 Subsistence & Support of Persons.........................	0	0			0	0	0
26.0 Supplies and Materials...	1	0			0	0	0
31.0 Equipment..	0	0			0	0	0
32.0 Lands and Structures..	0	0			0	0	0
33.0 Investments & Loans..	0	0			0	0	0
41.0 Grants, Subsidies...	0	0			0	0	0
42.0 Insurance Claims & Indemn....................................	0	0			0	0	0
43.0 Interest and Dividends………………………………	0	0			0	0	0
44.0 Refunds...	0	0			0	0	0
Total Budget Authority………………………………………	**$1,984**	**$2,750**	**($27)**	**$0**	**$2,723**	**$2,723**	**$0**
Budget Activities:							
Appropriation Title: Air Transportation Stabilization Board	$1,984	$2,750	($27)		$2,723	$2,723	$0
Total Budget Authority………………………………………	**$1,984**	**$2,750**	**($27)**	**$0**	**$2,723**	**$2,723**	**$0**

4B – Appropriations Language

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

Federal Funds

General and Special Funds:

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.)

Treasury Forfeiture Fund

Mission

To affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Fund to disrupt and dismantle criminal enterprises.

Non-Appropriated Resources Summary
Table 1.1
(Dollars in Thousands)

Resources	FY 2005 Obligations	FY 2006 Estimated	FY 2007 Estimated	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Forfeiture Revenue	$340,583	$292,094	$251,000	($41,094)	-14%

FY 2007 Priorities

- Educate and focus stakeholders and others on the vision and mission of Treasury’s multi-Departmental asset forfeiture program,
- Focus resources in a high-impact manner that enhances support of law enforcement’s National Money Laundering Strategy and anti-terrorism financing efforts,
- Foster and support the investment of forfeiture resources in the needs of the participating law enforcement bureaus, including new technologies and data collection, in order to promote program excellence and strengthen the overall quality of high-impact criminal investigations,
- Work to reinforce relationships with member bureaus that extend across Departmental boundaries and with state and local law enforcement agencies who “extend the reach” of federal law enforcement, and
- Develop and modify forfeiture training and awareness programs that are responsive to today’s needs and to continually re-evaluate such training initiatives for best practices.

Treasury Forfeiture Fund

FY 2007 Congressional Budget Submission

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by bureaus participating in the Treasury Forfeiture Fund. The Fund was established in October of 1992 as the successor to the Customs Forfeiture Fund. When the enabling legislation for the Fund was enacted, it brought together all of Treasury law enforcement under a single forfeiture program. The original member law enforcement bureaus of the Fund were the U.S. Customs Service (Customs), the U.S. Secret Service (Secret Service), the Bureau of Alcohol, Tobacco and Firearms (ATF) and the Internal Revenue Service's Criminal Investigation (IRS-CI). These member bureaus were joined by the U.S. Coast Guard of the Department of Transportation (Coast Guard), as the result of a long-standing close law enforcement relationship with Customs.

The Homeland Security Act of 2002, enacted November 25, 2002, transferred the majority of ATF to the Department of Justice, all of Customs and the Secret Service, as well as the Coast Guard, to the new Department of Homeland Security, with IRS continuing as the principal Treasury participant of the Fund. The law enforcement bureaus of the Department of Homeland Security continue as active member bureaus of the Treasury forfeiture program.

Summary of Treasury Forfeiture Fund Authorities: The Treasury Forfeiture Fund is a *special fund* with permanent, indefinite authority. *Special funds* are federal fund collections that are earmarked by law for a specific purpose, and which consist of separate receipt and expenditure accounts. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used. The funds can be allocated and used without the enactment of an annual appropriation by Congress.

A forfeiture process begins once property or cash is seized. Upon forfeiture, seized currency, initially deposited into suspense, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is forfeiture revenue that composes the budget authority for meeting expenses of running the Treasury Forfeiture Fund program.

Expenses of the Fund are set in a relative priority so that unavoidable or "mandatory" costs are met first. Expenses may not exceed revenue in the Fund.

Types of spending authority of the Fund:

The ***mandatory authority*** items are generally used to meet "business expenses" of the Fund, including expenses of storing and maintaining seized and forfeited assets; valid liens and mortgages; investigative expenses incurred in pursuing a seizure; information and inventory systems; and certain costs of local police agencies incurred in joint law enforcement operations. Following seizure, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

Secretary's Enforcement Fund (SEF) is derived from equitable shares received from the Department of Justice or U.S. Postal Service (USPS) forfeitures. These shares represent Treasury's portion in the overall investigative effort that lead to a Justice or USPS forfeiture. SEF revenue is available for federal law enforcement purposes of any law enforcement organization participating in the Treasury Forfeiture Fund.

Super Surplus represents the remaining un-obligated balance at the close of the fiscal year after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose.

Strategic Vision: Fund management will focus on strategic cases and investigations that result in high-impact seizures. Management believes this approach will have the greatest impact on criminal organizations and thus will accomplish the ultimate goal of the Fund – to disrupt and dismantle criminal enterprises. The enhancement of forfeiture activity requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fund large case initiatives including Purchase of Evidence and Information, Expenses Associated with Joint Operations, Investigative Expenses Leading to Seizure, and Asset Identification and Removal Teams. In addition, it is also a priority to fund revenue-enhancing projects such as major case funding, database development and computer forensics through the use of the Secretary's Enforcement Fund or Super Surplus funds.

Strategic Goals: The goal of the Treasury Forfeiture Fund is to support the now multi-Departmental national asset forfeiture program in a manner that results in federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal enterprises. In addition, the Fund has the following four supporting goals which further the strategic mission: 1) deprive criminals of property used in or acquired through illegal activities; 2) encourage joint operations among federal, state and local law enforcement agencies, as well as foreign countries; 3) strengthen law enforcement; and 4) protect the rights of the individual.

To achieve these goals, the program must be administered in a fiscally responsible manner that minimizes the administrative costs incurred and maximizes the benefits for law enforcement and the society it protects. Also, the continued viability of the program rests upon public confidence in its integrity, and, therefore, safeguarding the rights of affected individuals is an overriding concern in the administration of the program.

Key Strategic Issues: Asset seizure and forfeiture is a top priority for the Fund's participating law enforcement organizations, as well as the Department of Treasury, and is linked directly to the National Money Laundering Strategies. In this regard, management has identified the following key strategic issues:

- Continue to educate and focus stakeholders, and others, on the vision and mission of Treasury's multi-Departmental asset forfeiture program (i.e., affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus participating in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises),
- Focus resources in a manner that enhances support of law enforcement's national money laundering strategy and anti-terrorism financing efforts, and
- Foster and support the investment of forfeiture resources in the needs of the participating law enforcement bureaus in order to promote program excellence and strengthen the overall quality of criminal investigations.

1.1 – Resources Summary Table

(Dollars in thousands) Resources	FY 2005 Obligations	FY 2006 Estimated	FY 2007 Estimated	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Forfeiture Revenue	$340,583	$292,094	$251,000	($41,094)	-14%

Revenues are not guaranteed to remain constant, so the FY 2006 and FY 2007 estimates assume a conservative program.

1B – Previous Highlights and Accomplishments

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2005, representing the forfeiture interests of law enforcement components of the Departments of Treasury and Homeland Security. In the midst of this period of growth and change, the Fund's family of law enforcement bureaus continued their hard work of federal law enforcement and the application of asset forfeiture as a sanction to bring criminals to justice. FY 2005 was a productive year for the Fund with revenue from forfeitures and recoveries that supported obligations totaling $340,583,000.

Strategic performance target: Again in FY 2005, the Fund's law enforcement bureaus exceeded the target for the Fund's strategic performance measure, *Percent High Impact Cases.* The Fund established a target of 75 percent for cash forfeitures to equal or exceed $100,000 on a per-case basis and the bureaus exceeded this target with a final performance level of 81 percent high-impact forfeitures.

This measure was first established in 2001 as management's choice of a "strategic view" of overall bureau performance in the application of the forfeiture sanction. At the same time, Fund management established a strategic approach to expense funding, i.e., an emphasis on funding those expense categories that would lead to higher-impact forfeiture cases. The strategy has proven to be successful with revenue reaching or exceeding projected levels and the bureaus exceeding the performance measure target for high impact cases.

1C – Future Outlook

FY 2006: Fund management remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise including valuable training and investigative expense funding that emphasizes high impact cases.

Strategies for FY 2007: For FY 2007, Fund management plans to continue investment in technologies and data collection; to encourage the bureaus to pursue truly major cases and establish financial plans that reflect such priorities; to further develop and modify forfeiture training and forfeiture awareness programs that are responsive to today's needs and designed to foster the understanding and application of asset forfeiture; and to continually re-evaluate the basic method of operation to ensure that this methodology is the best one. Fund management will continue its work to reinforce relationships with member bureaus that extend across Departmental boundaries to ensure that the vision, mission, and operating strategies and policies of the Treasury Forfeiture Fund continue to be recognized by the various Departments.

Section 3 – Budget and Performance Plan

3.1 – Activity Summary Table

Dollars in Thousands

Description	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated	% Change FY 2006 to FY 2007
Revenue Sources:				
Carryover from prior year	$ 95,778	$ 91,094	$ 50,000	-45%
Current year forfeiture revenue	335,899	251,000	251,000	0%
Total……………………………..	$ 431,677	$ 342,094	$ 301,000	-12%
Uses:				
Permanent Authority (Obligations)	$ 340,583	$ 292,094	$ 251,000	-14%
Carryover to next year [1/]	91,094	50,000	50,000	0%
Total……………………………..	$ 431,677	$ 342,094	$ 301,000	-12%

[1/] The Fund incurs expenses immediately upon the start of the new year, including costs of an extensive array of property contracts which must be funded without delay. Therefore, a carryover is required each year.

3A – Budget Activity Description

BUDGET ACTIVITY: Law Enforcement Operations

The function of the Treasury Forfeiture Fund is to ensure resources are managed to cover the costs of an effective asset seizure and forfeiture program, including the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting and disposing of property. Asset forfeiture is used by federal law enforcement to disrupt and dismantle criminal enterprises.

3.2 – Budget and Performance Plan

Strategic Objective: **Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks - F3A**

Budget Activity: **Law Enforcement Operations**

Performance Goal: **Strategic use of asset forfeiture by Treasury law enforcement in a manner that results in a high-impact forfeiture program.**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percent of forfeited cash proceeds resulting from high-impact cases (%) (Oe)						
Target	75	75	75	75	75	75
Actual	73	80.55	83.95	81		
Target Met?	N	Y	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

Definition of "high impact:" A cash seizure equal to or greater than $100,000 (in dollars.)

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3B – Description of Performance

Strategic performance: For FY 2007, Fund management will measure the strategic performance of the participating law enforcement bureaus through the use of the performance measure: Percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases; those with currency seizures in excess of $100,000. Fund management believes that focusing on strategic cases and investigations that result in high-impact seizures will do the greatest damage to criminal organizations while accomplishing the ultimate objective which is to disrupt and dismantle criminal activity.

Performance Target: A target of 75 percent high-impact cases has been set for this performance measure. The target allows for those cases which may not be high-impact in nature but that are important to the exercise of law enforcement. The measure is calculated by dividing the total amount of forfeited cash proceeds from cases equal to or greater than $100,000 by the total amount of forfeited cash proceeds for all cases. The data is regularly available to Fund management and provided through accounting systems of record the data from which is audited annually as part of the annual financial statement audit process.

Performance Exceeds Target: Law enforcement bureaus participating in the Treasury Forfeiture Fund have exceeded the performance target in each of the last three fiscal years with performance at 80.6 percent, 84 percent and 81 percent for FY 2003, FY 2004 and FY 2005, respectively. This achievement remains excellent given the extra demands placed on law enforcement personnel for anti-terrorism initiatives. The Fund expects to meet or exceed the target for FY 2007 given performance projections to date.

3C – Presidential Management Agenda

Human Capital

The Treasury Forfeiture Fund reports to the Assistant Secretary for Terrorist Financing in Departmental Offices. The Executive Office of Asset Forfeiture (EOAF) utilizes DO's Human Resources office and adheres to DO's human capital policies and strategies.

Competitive Sourcing

The Treasury Forfeiture Fund is a small organization which is classified as inherently governmental. EOAF has participated in shared services for years by utilizing DO and DHS for all of its administrative services.

Financial Performance

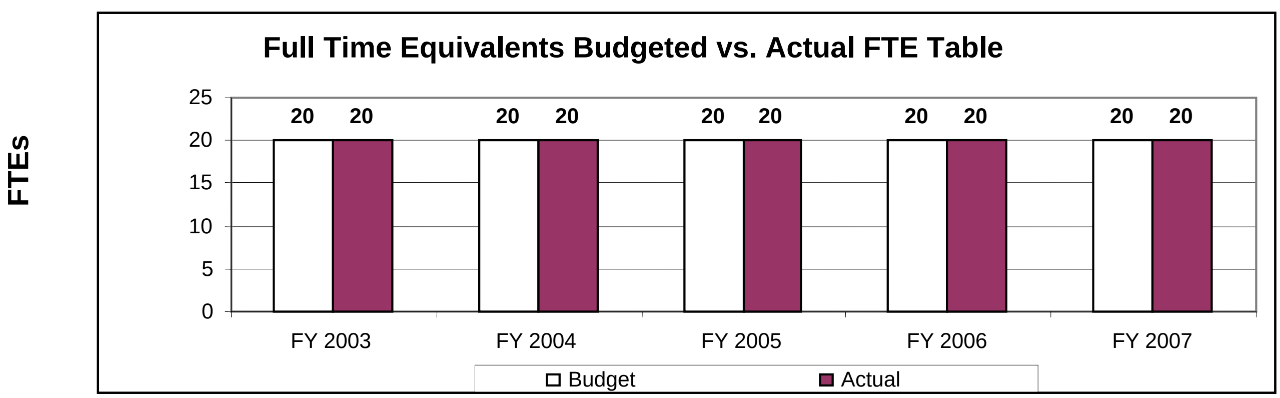
The Treasury Forfeiture Fund continued to meet all consolidated financial statement reporting deadlines. The Fund's independent auditors gave the FY 2005 financial statements an Unqualified Opinion. Management asserted a statement of reasonable assurance with regard to the Federal Managers' Financial Integrity Act (FMFIA) and substantial compliance with the Federal Financial Management Improvement Act (FFMIA) for FY 2005.

3.3 PART Evaluation

The Treasury Forfeiture Fund has not and is not scheduled to be PARTed at this time but its performance is measured through carefully selected goals.

Section 4 – Supporting Materials

4.1 – Human Resources Table



All staffing of the Treasury forfeiture program is reimbursed, there are no direct FTEs associated with the Fund.

4A – Human Capital Strategy Description

The Treasury Forfeiture Fund is managed by the Executive Office for Asset Forfeiture (EOAF), a policy office that reports to the Assistant Secretary for Terrorist Financing. EOAF reimburses Departmental Offices for a total of about 20 FTE annually, depending upon the status of vacancies at any one time.

4.3 – Operating Levels Table

Amounts shown in the table below agree with Table 3.2 but exclude the annual carryover funding shown under "Uses" of Table 3.2. Carryover amounts are required for start-up expenses of the Fund in each new fiscal year. Since there must be a carryover balance for business purposes at the beginning of each fiscal year, the carryover amount is not allocated for expenses of the Fund and is, therefore, excluded from operational obligation amounts shown below.

Table 4.3 Operating Levels

Dollars in thousands

Treasury Forfeiture Fund	FY 2005 Obligations	FY 2006 Estimated	FY 2007 Estimated
25.2 Other Services (Direct)	$179,083	$134,094	$115,000
25.3 Reimbursable Services	69,453	78,000	71,000
41.0 Equitable Sharing	92,047	80,000	65,000
Total……………………………………………..	$340,583	$292,094	$251,000

Revenues are not guaranteed to remain constant, so the FY 2006 and FY 2007 estimates assume a conservative program. There may be minor differences between the object classification detail in the President's Budget Appendix and this document.

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.

Appropriation Summary
Table 1.1
(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
BSA Administration and Analysis	$63,635	$64,458	$81,143	$16,685	25.89%
Regulatory Support Programs	8,287	8,436	$8,651	215	2.55%
Total Appropriated Resources	$71,922	$72,894	$89,794	$16,900	23.18%

FY 2007 PRIORITIES

- Maintain and potentially expand outreach and guidance efforts to better meet the expectations of both the regulated communities and those who examine for Bank Secrecy Act requirements.

- Expand analytical efforts to provide more policy level analysis of money laundering and terrorist financing trends and methodologies.

- Upgrade BSA Direct to meet the expanded user population and enhance the electronic filing component to prepare for the transfer of collection and dissemination processes currently performed by Internal Revenue Service.

- Expand BSA Direct to handle the volume of cross-border wire transfer data anticipated from implementation of the Intelligence Reform Act of 2004, Section 6302.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Mission

The Financial Crimes Enforcement Network (FinCEN), a bureau within Treasury's Office of Terrorism and Financial Intelligence, is the largest overt collector of financial intelligence in the United States. FinCEN's mission is to safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity. This is accomplished primarily 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.

Vision

Financial Crimes Enforcement Network responds with agility and creativity to the challenges posed to the domestic and global financial systems by terrorist financiers and operatives, money launderers and other perpetrators of financial crime.

Strategic Goals

In February 2005, Financial Crimes Enforcement Network developed and adjusted its strategic plan to more clearly articulate our role as a regulatory agency and establish goals to better use our analytical resources. As part of that process, FinCEN established the following Strategic Goals:

- Protect the financial system through effective administration of the Bank Secrecy Act;
- Combat terrorism, money laundering and other financial crime through analysis of the Bank Secrecy Act data and other relevant information;
- Intensify international anti-money laundering collaboration through the global network of Financial Intelligence Units; and
- Facilitate regulatory compliance, data management and information sharing through electronic government.

Priorities

To accomplish its strategic goals, FinCEN established several priorities. First, FinCEN will strengthen efforts to oversee the effective and uniform application of the Bank Secrecy Act (BSA) aimed at reducing the 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 the value of its efforts to analyze and mine the 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 component processes into BSA Direct.

To fulfill its mission, goals and priorities, FinCEN works to: (1) issue, interpret, and enforce compliance with regulations implementing the Bank Secrecy Act, including provisions of Title III of the USA PATRIOT Act; (2) support and oversee compliance examination functions delegated to other federal regulators; (3) manage the collection, processing, storage, and dissemination of Bank Secrecy Act data; (4) maintain a government-wide access service to the Bank Secrecy Act data and network users with overlapping interests; and (5) in coordination with Treasury's Office of Intelligence and Analysis, conduct analysis in support of policy makers, law enforcement, regulatory and intelligence agencies, and the financial industry. Our three primary functional areas are described below.

Regulatory: Financial Crimes Enforcement Network supports and oversees examination activities to help ensure effective and uniform application of the Bank Secrecy Act regulations. To achieve effective and uniform compliance, FinCEN works closely with its regulatory partners. When warranted, FinCEN may assess civil money penalties or impose lesser enforcement remedies against institutions to promote and encourage greater compliance. In the global arena, our activities include: expanding and systematizing the exchange of financial intelligence information, improving the expertise and capabilities of personnel in money laundering and terrorist financing areas, and fostering better and more secure communication among financial intelligence units through the application of technology.

Analysis: Financial Crimes Enforcement Network's analysis function is moving to a new paradigm that emphasizes more complex and higher-level research and analysis. The new paradigm will help analysts understand and explain the cutting-edge problems relating to money laundering and illicit finance, including terrorist financing. The analysis is based upon all sources of information, linking the data collected under the Bank Secrecy Act with other data to provide support for regulatory and policy decisions, to support law enforcement agencies investigating financial crimes, and to support intelligence agencies. FinCEN proactively identifies individuals and networks with suspicious financial activity and refers that information to appropriate law enforcement agencies. Analysts develop threat assessments, industry reports, and technical guides describing financial transaction mechanisms.

Data Collection and Sharing: The Financial Crimes Enforcement Network provides direct access to the Bank Secrecy Act data to authorized law enforcement, regulatory and intelligence agencies. FinCEN will continue to integrate and modernize the various components of the Bank Secrecy Act data collection and sharing systems into an overall BSA Direct system. The goal of this modernization effort is to improve the quality of the Bank Secrecy Act data by preventing the omission of critical information, validating the information collected, and improving feedback on the use and utility of the data. Further integration of the BSA Direct components will improve the analysis and utility of the Bank Secrecy Act data.

1B – Previous Highlights and Accomplishments

In FY 2005, the Financial Crimes Enforcement Network was appropriated $71,922,000 to support 309 FTE. With this appropriation, FinCEN addressed significant strategic threats such as terrorism, drug trafficking, and other money laundering activities. During FY 2005, FinCEN published an interim adjustment to its strategic plan and completed a major organizational restructuring to meet these challenges. Major accomplishments are addressed below by functional area.

<u>Regulatory.</u>

- Established and executed information sharing agreements with five federal banking agencies and the Internal Revenue Service, which have delegated examination authority. These agreements describe the specific and aggregate information that the regulators will provide so that FinCEN better understands industry compliance with the Bank Secrecy Act.
- Developed and executed 35 information sharing agreements with state financial institution regulators to obtain and share Bank Secrecy Act compliance information. The information collected from the sharing agreements will allow FinCEN to leverage resources, especially for non-bank financial institutions such as money services businesses, and enhance our overall ability to ensure the uniform application of the Bank Secrecy Act.
- Issued a final rule to require dealers in precious metals, stones and jewels to establish anti-money laundering programs. A final rule to require insurance companies to establish an anti-money laundering program and to file suspicious activity reports was also submitted for Treasury clearance.
- Hosted the 13th Egmont Plenary in June 2005. The Egmont Group is a global organization made up of financial intelligence units. At this meeting, Egmont membership grew to more than 100 financial intelligence units.
- Participated in two newly created Financial Action Task Force (FATF) Style Regional Bodies, the Middle East and North Africa FATF, and the Eurasia FATF. FinCEN provided seven technical assistance visits this fiscal year to Argentina, Brazil, Paraguay, Thailand, Turkey, Azerbaijan, and Georgia.

<u>Analysis.</u>

- Devoted significant analytic resources to support regulatory compliance efforts by identifying compliance weaknesses in the reporting submitted by the regulated industries as well as trends, patterns, and threats posed by money launderers and illicit financiers to the financial system.
- Completed a review of the case development support and are implementing a strategy to transition agencies now requesting routine query support to BSA Direct.
- Supported Treasury's efforts to develop a National Money Laundering Threat Assessment, which will track money laundering threats over a large geographic area, identify changing money laundering methodologies, and assist law enforcement and other end users in applying resources to areas of greatest threat.

- Supported Treasury initiatives by identifying jurisdictions or institutions as primary money laundering concerns under Section 311 of the USA PATRIOT Act.

Data Collection and Sharing.
- The BSA E-Filing system received a Golden Link award from the Armed Forces Communications and Electronics Association as an excellent government technology solution.
- Launched the BSA Direct initiative that will provide the architecture for long-range plans to collect, process, store, and disseminate Bank Secrecy Act data. BSA Direct established a data warehouse with integrated query and analysis tools to streamline and enhance processes for storing, accessing, and analyzing data collected under the Bank Secrecy Act.
- Deployed new software to accept bulk electronic filing by the largest financial institutions.
- Improved the information sharing exchange program through the establishment of a secure web site. This secure web will allow us to share information with the financial industry that will help them assess risk and better discharge their responsibilities under the Bank Secrecy Act.
- Initiated a feasibility study to outline options for collecting cross-border wire transfer data, which will be completed in FY 2006.

1C - Future Outlook

The enacted level in FY 2006 for Financial Crimes Enforcement Network is $72,894,000 and will support 330 FTE. This request continues to address the objectives and priorities outlined in our strategic plan. The objectives include continued strengthening of our regulatory administration and oversight activities. In addition, FinCEN will complete an upgrade of the new BSA Direct reporting and retrieval component. This is a key element for the transition of major collection and dissemination functions from the Internal Revenue Service to the Financial Crimes Enforcement Network. To accomplish these priorities, FinCEN requests $89,794,000 to support 352 FTE in FY 2007. The key challenges and planned accomplishments are addressed below for each functional area.

Regulatory: The key challenge faced by the regulatory program will be to meet expanding expectations in all aspects of Bank Secrecy Act administration and continue to attract and recruit skilled employees.

FinCEN will strengthen our regulatory role in FY 2006 by:
- Providing outreach to the industries that are newly covered by Bank Secrecy Act requirements (approximately 15 industry groups), expanding outreach on suspicious activity reporting to covered industry groups (approximately 12 groups), increasing issuance of guidance, and expanding the number of examiner training sessions for federal and state regulatory agencies.
- Consolidating the existing Regulatory Helpline, Financial Institutions Hotline and webmaster functions to improve outreach and customer responsiveness by

establishing a modernized resource center, staffed with regulatory support specialists dedicated to responding to inquiries from the public, attorneys, accountants, industry, regulators, examiners, and law enforcement.

- Enhancing automation to improve workflow and documentation of analyses of the compliance data submitted by the Federal and State Regulators.
- Improving the exchange of international terrorist financing information by upgrading the Egmont Secure Web. FinCEN will play a leadership role within Egmont to implement information exchange policies and procedures to systematize terrorism-related financial record checks and analysis throughout the global network.
- Enhancing efforts with regard to Financial Action Task Force Style Regional Bodies, which are expected to increase by two in FY 2007.

With the basic support framework established, FinCEN will work to expand requirements for regulatory efforts in FY 2007 to:

- Expand regulatory outreach and education building on existing programs. The outreach is intended to reach not only the financial industry, but also state and federal regulators and international organizations.
- Enhance relationships with state regulatory authorities to improve compliance within newly covered industries, many of which are supervised by state regulatory authorities. The new partnership with state regulators has expanded our regulatory partners from eight to potentially 48.

Analysis: The key challenge faced by the analysis function will be transitioning the workforce and workload to perform sophisticated research in support of complex and significant law enforcement investigations, and the expanded production of strategic products.

FinCEN will continue to strengthen analytic efforts in FY 2006 by:

- Transitioning users requiring simple Bank Secrecy Act data extracts to direct access programs, allowing analytical staff to concentrate on more complex analysis.
- Continuing to expand collaborative efforts with Egmont Group international partners by developing joint analytic efforts that fuse data with our partners to develop typologies and methodologies on global criminal networks.
- Continuing to devote significant portion of the analytic workforce to support regulatory compliance and oversight.

With the transition to the BSA Direct retrieval platform complete, analytical efforts in FY 2007 will expand to:

- Continuing to expand support of regulatory efforts to administer the Bank Secrecy Act. This effort will be extremely challenging given the inclusion of the state regulatory agencies reporting of their compliance examination efforts.
- Provide more policy level analysis of money laundering and terrorist financing trends and methodologies.

Data Collection and Sharing: The key challenge faced by data collection and sharing functions will be enhancing BSA Direct while developing and implementing the cross-border wire transfer program and database as mandated by the Intelligence Reform Act of 2004, Section 6302. The wire transfer database is expected to be significantly larger than the Bank Secrecy Act data warehouse.

FinCEN will continue to enhance data collection and sharing in FY 2006 by:

- Improving marketing and outreach for BSA electronic filing.
- Completing transition to the BSA Direct retrieval platform.
- Continuing planning efforts to assume the Bank Secrecy Act processing functions now performed by the Internal Revenue Service (IRS).
- Automating the networking processes within BSA Direct.

With basic BSA Direct capabilities in place, data collection efforts in FY 2007 will be enhanced. This is essential to transfer and modernize collection and dissemination processes currently performed by Internal Revenue Service into BSA Direct, the Financial Crimes Enforcement Network's umbrella system. In FY 2007, FinCEN will expand data collection and sharing efforts to include:

- Continue planning efforts to transfer and integrate additional BSA data collection processes now performed by the Internal Revenue Service (IRS).
- Upgrading BSA Direct to meet the expanded user population.
- Expanding electronic filing alternatives and develop capability to integrate this component directly into the retrieval component.
- Expanding BSA Direct to handle the volume of cross-border wire transfer data is anticipated following the Treasury Secretary's approval of the feasibility study, by implementation of the mandates included in the Intelligence Reform Act of 2004, Section 6302.

Section 2 – Explanation of Increases and Decreases

2.1 – BUDGET INCREASES AND DECREASES TABLE

Budget Increases and Decreases
Table 2.1

Appropriation: FinCEN Salaries and Expenses (Dollars in Thousands)	FTE	Amount
FY 2005 Enacted	309	71,922
FY 2006 Request Consolidated Appropriations (P.L. 109-115)	330	73,630
Rescission (P.L. 109-148)		-736
FY 2006 Enacted	330	72,894
Current Services		
Adjustments to Maintain Current Levels	18	4,427
Annualization of FY 2006 Initiatives	18	2,498
Pay Annualization		229
Proposed Pay Raise		635
Non-Pay Inflation Adjustment		1,065
Program Reductions	-38	-5,749
Realignments to Enhance Critical Operations	-19	-3,211
Realignments to Strengthen Regulatory Oversight	-19	-2,538
Base Re-Investments	42	5,749
Enhancements to Strengthen Critical Operations	23	3,211
Strengthen Regulatory Compliance and Oversight	19	2,538
FY 2007 Current Services Level	352	77,321
Program Increases:	0	12,473
Enhance BSA Direct, including electronic filing	0	2,473
Develop BSA Direct - Cross-Border Wire Transfer System	0	10,000
Total FY 2007 Request	352	89,794

2A - Budget Increases and Decreases Descriptions

Changes to Base.. $+4,427,000/18 FTE

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

Annualizations of the FY 2006 Program Increases +$2,498,000/+18 FTE: This provides additional funding to annualize the staffing initiative approved in FY 2006. It allows FinCEN 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; and operation and maintenance of the BSA E-filing contract administered and controlled by the Financial Crimes Enforcement Network.

Program Reductions..$-5,749,000/-38 FTE

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 allowing redeployment of five information technology specialists, reducing the number of supervisory staff by ten to create a more proportionate organizational structure, and consolidating duties of four administrative positions to improve operational efficiency.

Realignments to Strengthen Regulatory Oversight: $-2,538,000/-19FTE: 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.. +$5,749,000/42 FTE
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 the 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 .... $+12,473,000/0 FTE

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. FinCEN needs to move these components to the next level to further prepare for the transition of all collection, retrieval, and sharing pocesses from the Internal Revenue Service. The electronic filing component is already operational and electronic BSA filings increased to 44% by the end of the first quarter of 2006. However, further upgrades to the electronic filing component are needed to allow direct input into the retrieval and sharing component such as reference number assignment, error notification or other correspondence, and improved editing of certain types of filing errors. In addition, the system must provide a cost effective and simplified submission option for single form filers to eliminate paper submission of reports. The next component of BSA Direct is the retrieval and sharing component, which became operational in the FY 2006. By FY 2007, the user base is expected to triple over FY 2004 as we transition users from other BSA access systems to this single portal. Additional system enhancements and hardware upgrades will be required to meet the anticipated user base.

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 includes 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 FinCEN's ability to support intelligence agencies and law enforcement customers in the conduct of complex financial investigations, and, enhance law enforcement’s ability to punish and deter criminal activity, including terrorist financing.

Section 3 – Budget and Performance Plan

Appropriation Detail Table 3.1 (Dollars in Thousands)								
Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
BSA Administration and Analysis	309	$63,635	330	$64,458	352	$81,143	6.67%	25.89%
Regulatory Support Programs	0	8,287	0	8,436	0	8,651	0.00%	2.55%
Subtotal Newly Appropriated Resources	309	$71,922	330	$72,894	352	$89,794	6.67%	23.18%
Other Resources:								
Recoveries								
Offsetting Collections - Reimbursable*	0	$1,541	0	$3,541	1	$1,541		-56.48%
Available multi-year appropriations		10,766		N/A **		N/A**		N/A**
Transfers In/Out								
Subtotal Other Resources	0	12,307	0	3,541	1	1,541		
Total Resources Available for Obligation	309	$84,229	330	$76,435	353	$91,335	6.97%	19.49%

* Includes a request to the Treasury Forfeiture Fund of $2,000,000
** Multi-year are included within the Subtotal above.

3A – Budget Activity Description

Bank Secrecy Act Administration and Analysis ($81,143,000 from direct appropriations) 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 business 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 Bank Secrecy Act data in the money services business industry.

3.2 – Budget and Performance Plan Tables

Budget and Performance Plan
Table 3.2
(Dollars in Thousands)

Treasury Strategic Goal: Preserve the Integrity of Financial Systems (F3)						
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective F3A: Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks						
Budget Activity: BSA Administration and Analysis						
Financial Resources						
Newly Appropriated Resources	$39,747	$43,132	$49,127	$63,635	$64,458	$81,143
Other Resources	$3,580	$4,297	$3,341	$1,541	$3,541	$1,541
Total Operating Level	$43,327	$47,429	$52,468	$65,176	$67,999	$82,684
Human Resources						
Newly Appropriated FTE	238	259	277	309	330	352
Other FTE	5	1	1	1	1	1
Total FTE (direct and reimbursable)	243	260	278	310	331	353
Budget Activity: Regulatory Support Programs, including Money Services Businesses						
Financial Resources						
Newly Appropriated Resources	$7,790	$8,284	$8,104	$8,287	$8,436	$8,651
Other Resources						
Total Operating Level	$7,790	$8,284	$8,104	$8,287	$8,436	$8,651
Treasury Strategic Goal F3:						
Total Financial Resources						
Total Newly Appropriated Resources	$47,537	$51,416	$57,231	$71,922	$72,894	$89,794
Total Other Resources	3,580	4,297	3,341	1,541	3,541	1,541
Total Operating Level	$51,117	$55,713	$60,572	$73,463	$76,435	$91,335
Total Human Resources						
Total Newly Appropriated FTE	238	259	277	309	330	352
Total Other FTE	5	1	1	1	1	1
Total FTE (direct and reimbursable)	243	260	278	310	331	353

Strategic Objective: Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks - F3A

Budget Activity: **Investigative Analysis and BSA Administration**

Performance Goal: Combat terrorism, money laundering, and other financial crime through analysis of Bank Secrecy Act data and other relevant information.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of customers finding FinCEN's analytic support valuable (%) (Oe)						
Target				Baseline	75	78
Actual				73		
Target Met?	N/A	N/A	N/A	Y		

Budget Activity: **Investigative Analysis and BSA Administration**

Performance Goal: Facilitate regulatory compliance, data management, and information sharing through E government.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Number of users accessing BSA data electronically (Oe) [DISCONTINUED FY 2006]						
Target	Baseline	900	1,700	3,000	Discontinued	Discontinued
Actual	898	1,105	2,181	3,941		
Target Met?	Y	Y	Y	Y		
Percentage of users that rate the BSA Direct system satisfactory for their work requirements (%) (Oe)						
Target					Baseline	TBD
Actual						
Target Met?	N/A	N/A	N/A	N/A		

Budget Activity: **Investigative Analysis and BSA Administration**

Performance Goal: Protect the financial system through effective administration of the Bank Secrecy Act.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Average time to process enforcement matters (in Years) (E)						
Target	1.8	1.5	1.2	1.1	1	1
Actual	1.5	1.3	1	1.3		
Target Met?	Y	Y	Y	N		
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding/information sharing agreements. (Oe)						
Target				Baseline	45	48
Actual				41		
Target Met?	N/A	N/A	N/A	Y		
Number of vulnerable industries covered by anti-money laundering regulations (Oe) [DISCONTINUED FY 2006]						
Target	Baseline	7	11	15	Discontinued	Discontinued
Actual	10	10	10	11		
Target Met?	Y	Y	N	N		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

To further discuss performance highlights from the table above:

FinCEN surpassed the performance target for the number of users accessing BSA data electronically with an actual of 3,941 users compared to the target of 3,000. FinCEN achieved this increase by establishing Memoranda of Understanding with law enforcement that access the data and increasing outreach and training. In FY 2006, FinCEN will discontinue using this performance measure as an external budget measure. However, it will be tracked internally.

In FY 2005, FinCEN conducted the surveys that established a baseline and future targets for the measure "Percentage of customers finding Financial Crimes Enforcement Network's analytic support valuable". A baseline of 73% was established along with future targets anticipating increased customer ratings of our analytical products. This performance measure combines data from surveys on strategic analytical products, investigative case reports and investigative targets. The measure will provide important information on how our financial industry customers rate the value of our analytic support.

FinCEN issued draft and final anti-money laundering regulations for many vulnerable industries in FY 2005. Specifically, on June 9, 2005, we published the interim final rule for dealers in precious metals, precious stones, and jewels in the Federal Register. The interim rule requires dealers to implement anti-money laundering programs by January 1, 2006. Further, in February 2005, Financial Crimes Enforcement Network completed the final regulation requiring certain insurance companies to establish anti-money laundering programs and transmitted the regulation to Treasury for review and clearance. FinCEN prepared drafts of final regulations requiring securities investment advisers, commodity trading advisors, and unregistered investment companies to establish anti-money laundering programs and circulated them to the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) for review and comment. The challenges addressed above contributed to the inability to fully meet the FY 2005 target of issuing final anti-money laundering program regulations covering 15 industries. FinCEN will work toward completion of the regulations for securities investment advisors, commodity trading advisors, and unregistered investment companies which require extensive consultation and coordination with both the SEC and CFTC FinCEN will continue to work closely with policy makers and attorneys within Treasury to clear the pending insurance company regulation and any future regulation submissions.

In FY 2005, FinCEN closed an unprecedented number, 76, of enforcement cases and eliminated the historic case backlog at Financial Crimes Enforcement Network. Although FinCEN did not meet the FY 2005 performance target of 1.1 years average time to process cases, the actual result of 1.3 years reflects focusing resources on eliminating the case backlog. In other words, closing cases that had been open for a long period of time, caused the average time to increase. With the elimination of the case backlog, FinCEN will direct resources exclusively towards the timely, appropriate resolution of significant cases such as AmSouth Bank and Arab Bank. FinCEN processed the AmSouth Bank and Arab Bank cases in three months and eight months, respectively. Over the past year, we reorganized the Regulatory Policy and Programs Division, added additional resources, and developed case processing procedures to improve internal efficiency.

Performance Plan

Regulatory**:** Financial Crimes Enforcement Network supports and oversees examination activities to help ensure effective and uniform application of the Bank Secrecy Act regulations. To achieve effective and uniform compliance, we work closely with our regulatory partners. Additionally, regulatory activities support global partners and include: expanding and systematizing the exchange of financial intelligence information, improving the expertise and capabilities of personnel in money laundering and terrorist financing areas, and fostering better and more secure communication among financial intelligence units through the application of technology.

In FY 2005, in the regulatory area, FinCEN accomplished the following:

- Established an office to support and communicate with regulatory agencies that examine financial institutions for Bank Secrecy Act compliance, including recruiting and hiring 18 persons.
- Participated in the drafting of revised Bank Secrecy Act examination procedures with five Federal banking agencies.
- Assessed a civil money penalty against AmSouth Bank in the amount of $10 million and Arab Bank for $24 million.
- Issued guidance to address the crisis of money services businesses unable to obtain banking services.
- Connected an additional nine financial intelligence units to the Egmont Secure Web, raising the total connected to 93 by the end of FY 2005.
- Hosted the Egmont Group's 10th anniversary plenary meeting in Washington, D.C.
- Participated in two newly created Financial Action Task Force (FATF) Style Regional Bodies, the Middle East and North Africa FATF, and the Eurasia FATF.

In the regulatory area, FinCEN will be able to achieve the following quantifiable results and accomplishments with the requested funds in FY 2007:

- Increase the number of Memorandum of Understanding agreements signed with regulatory agencies to exchange compliance data to 8 federal agencies and 40 state agencies.
- Provide regulatory guidance to financial institutions subject to the Bank Secrecy Act in order to improve consistency in the interpretation and application of Bank Secrecy Act regulations.
- Identify "best practices" to be incorporated into Bank Secrecy Act examination procedures, and the increased expectation to improve consistency in the examination process.
- Process enforcement matters within the target of 1.0 years.

- Increase participation in conferences and seminars to provide enhanced technical assistance and training to financial intelligence units and foreign delegations.
- Establish a baseline and targets for the quality of support provided to call center customers receiving regulatory guidance.
- Enhance efforts with Financial Action Task Force Style Regional Bodies, which are expected to increase by two in FY 2007.
- Connect new Egmont members to the Egmont Secure Web to promote collection and sharing of suspicious or unusual financial activity from the financial industry.

Analysis: FinCEN's analysis function is moving to a new paradigm that emphasizes more complex and higher-level research and analysis. The new paradigm will help analysts understand and explain the cutting-edge problems relating to money laundering and illicit finance, including terrorist financing.

In FY 2005, in the analysis area, FinCEN accomplished the following:

- Established the Office of Intelligence Support within our Analytics Division.
- Showed an increase in the percentage of complex analysis products produced from 1.6% in FY 2004 to 10% in FY 2005.
- Began a long-term analysis of mortgage loan fraud based on Suspicious Activity Report filings.
- Supported over 1,400 investigative efforts through research and analysis of Bank Secrecy Act and other data.
- Researched more than 8,000 subjects being investigated by law enforcement.
- Supported the Department's efforts to develop a National Money Laundering Threat Assessment.
- Analyzed money laundering and illicit financing schemes based on use of commodities, false invoicing, trade diversion, and other mechanisms.

In the analytical area, FinCEN will be able to achieve the following quantifiable results and accomplishments with the requested FY 2007 funds:

- Report on targets established for the percentage of customers finding FinCEN's analytic support valuable.
- Increase the percentage of complex analysis products produced by Financial Crimes Enforcement Network analysts to 50%.
- Reduce the median processing time between the receipt of a Financial Institution Hotline Tip to transmittal of the information to law enforcement or the intelligence community to 25 days.
- Decrease the average time expended to perform financial institution reviews dealing with compliance issues.
- Increase production of predictive analyses that identify trends and patterns in terrorist financing and money laundering and vulnerability assessments to identify areas susceptible to financial crime.
- Expand participation in joint collaborative efforts with international counterparts.
- Update findings identified in the national money laundering threat assessment, outlining any changes in money laundering methodology or demographics.

- Continue to support and enhance participation in Treasury USA PATRIOT Act Section 311 initiatives to target foreign financial institutions as money laundering concerns.
- Expand and enhance support of significant, complex law enforcement investigative initiatives, working closely with law enforcement liaison representatives.
- Provide enhanced support to regulatory initiatives including the routine exchange of Bank Secrecy Act examination activities at the federal and state level, initiation of enforcement actions and providing timely feedback to the financial community concerning the use and utility of Suspicious Activity Reports.

<u>Data Collection and Sharing</u>: Financial Crimes Enforcement Network provides direct access to the Bank Secrecy Act data to authorized law enforcement, regulatory and intelligence agencies. FinCEN will continue to integrate and modernize the various components of the Bank Secrecy Act data collection and sharing systems into an overall BSA Direct system. The goal of this modernization effort is to improve the quality of the Bank Secrecy Act data by preventing the omission of critical information, validating the information collected, and improving feedback on the use and utility of the data.

In FY 2005, in the area of <u>collection and sharing</u> of Bank Secrecy Act data, FinCEN accomplished the following:

- Increased the number of users accessing Bank Secrecy Act data electronically to 2,181 in FY 2004 nearly double the 1,105 direct users in FY 2003. In FY 2005 we surpassed the target of 3,000 with 3,941 users directly accessing the Bank Secrecy Act data.
- Developed online training and testing modules as a way to streamline customer training for users accessing Bank Secrecy Act data through the web-based system.
- Sent 402 law enforcement information requests to more than 44,000 financial institution points of contact through the law enforcement-financial institution information-sharing program authorized under Section 314(a) of the USA PATRIOT Act.
- Moved the operation and work flow of the Section 314 (a) information-sharing program to a secure online environment.

FinCEN will be able to achieve the following quantifiable results and accomplishments for <u>collecting and sharing</u> Bank Secrecy Act data with the requested FY 2007 funds:

- Upgrade the electronic filing component of BSA Direct with the capability to directly integrate into the retrieval and sharing component. (Linked to FY 2007 Request)
- Increase e-filing to 80 percent to meet target of 90 percent in FY 2008. (Linked to FY 2007 Request).
- Increase the number of users accessing Bank Secrecy Act data to 6,000. (Linked to FY 2007 Request).
- Reduce the cost per BSA form E-filed to 0.15.
- Increase the number of largest BSA report filers using E-Filing to 353.
- Increase the networking of similar investigations through BSA direct access programs by 15%.

- Increase onsite and offsite inspections by 6%, and increase delegated inspections from zero in 2005 to 25 in 2007.
- Expand BSA Direct to handle the volume of cross-border wire transfer data anticipated following the Treasury Secretary's approval of the feasibility study, by implementation of the mandates included in the Intelligence Reform Act of 2004, Section 6302. (linked to FY 2007 request)

Regulatory Support Programs including Money Services Businesses: The Department of Treasury has delegated the Internal Revenue Service responsibility for ensuring compliance with the Bank Secrecy Act for all financial institutions not otherwise subject to examination by another federal functional regulator, including money services businesses, casinos and credit unions. FinCEN will continue efforts with the Internal Revenue Service, especially related to the money services business industry, to ensure compliance, respond to public inquiries, distribute forms and publications, and support information processing of the BSA data.

Major accomplishments for this program in FY 2005 include the following:

- Completed an update to a study concerning the nature, characteristics, geographic allocation and size of the money services business industry.
- Established the Bank Secrecy Act Resource Center; granted a contract for development of technology to integrate and convert the Regulatory Helpline, Financial Institutions Hotline, and Webmaster into one web-based data management system.
- Provided funding for 20% of funding used by Internal Revenue Service Small Business/Self Employed Division (SB/SE) to perform their Title 31 regulatory functions related to oversight of the money services business industry.

FinCEN will achieve the following quantifiable results and accomplishments related to money services businesses with the requested FY 2007 funds:

- Update and publish (in multiple languages) money services businesses guidance materials.
- Support the collection and processing activities at Internal Revenue Service related to the Money Services Business industry.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA EVALUATION DESCRIPTION

Competitive Sourcing

- Submitted FY 2005 FAIR Act Inventory.
- FinCEN relies heavily on the private sector to perform commercial activities, especially in the information technology environment and is committed to continuing this in the future.

E-Government

- FinCEN uses a travel E-gov system that is administered by Bureau of Public Debt's Administrative Resource Center.
- The BSA E-filing project supports the Government-to-Business E-Gov business model. BSA E-filing provides financial institutions an on-line option for filing Bank Secrecy Act reports, which otherwise must be submitted via paper. This system has achieved a high level of customer satisfaction.
- The BSA Direct project is an example of a Government-to-Government E-Gov application. BSA Direct will be completed in FY 2006 and will provide federal and state law enforcement and regulatory agencies a means of accessing BSA data using a secure web portal. With the deployment of BSA Direct and its electronic filing component, FinCEN is aggressively pursuing a strategy aimed at leveraging web technology to both acquire and disseminate BSA data more efficiently than previously possible. Electronic filing of the BSA data is allowing FinCEN to both improve the quality of the data and reduce the processing time allowing access to the data much sooner. Additionally, some of our largest filing institutions are realizing the advantages of increased security and instant acknowledgement of their BSA data filings.

Human Capital Management

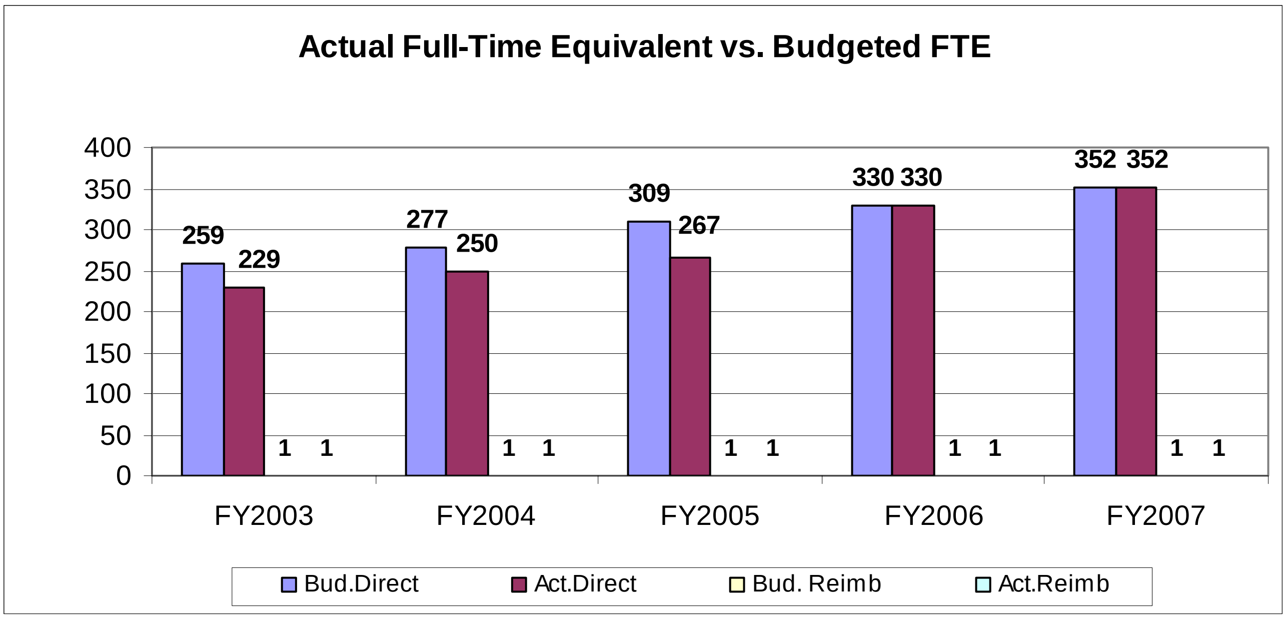
- Set the strategic human capital objective to attract, develop and retain a high-performing diverse workforce.
- Developing a Financial Crimes Enforcement Network Human Capital Strategic Plan which will be aligned with the Treasury Human Capital Strategic Plan.

3.3 – PART Evaluation Table

PART Evaluation Table 3.3
PART Name: BSA Data Collection, Retrieval and Sharing Strategic Goal: Preserve the integrity of the financial systems (F3) Rating: Moderately Effective
OMB Major Findings/Recommendations ●The program has long-term performance measures that focus on the program's purpose and strategic goals, but more work is needed to measure the quality of data collected. ●Federal managers are held accountable for cost, schedule and performance results. However, some activities are managed by another entity and are outside the scope of the performance measures. ●The program can show improved efficiencies and cost effectiveness for collecting and sharing data. The program has been able to show substantial increases in the number of users directly accessing data, the share of filings submitted electronically, and improved cost effectiveness for costs per form E-Filed.
Bureau Actions Planned or Underway We are taking the following actions to improve the performance of the program: ●Surveying users to determine if they are receiving needed information in a timely manner, if the information is helpful, and if there are any problems with the information and format. ●Creating targets to measure the number of top 650 filers who file reports electronically. Currently, the program tracks the top filers' use of E-Filing but does not set annual targets. ●Creating a performance measure to measure the quality of information provided on Suspicious Activity Reports, possibly by measuring the number of completed fields that are critical to law enforcement.

For the FY 2008 Budget Submission, FinCEN plans to conduct PART evaluations on two remaining programs: BSA Administration and BSA Analysis.

4.1 – Human Resources Information



4A – Human Capital Strategy Description

FinCEN created a strategic human capital objective to attract, develop and retain a high-performing diverse workforce. The headings listed below represent the key focus areas of the strategic human capital objective, and include related accomplishments.

Strategic Alignment: Each of the four strategic objectives in the FY 2006-2008 Strategic Plan include areas that will require more employees and/or employees with enhanced skills, which align directly with the strategic human capital objective. Additionally, the Strategic Plan has a management objective to attract, develop and retain a high-performing diverse workforce.

Workforce Planning & Deployment: FinCEN established a new training office charged with developing defined paths for career progression, and developed mentoring and coaching programs to identify and grow talent, and enhance the skills of existing employees. In terms of competitive sourcing, FinCEN submitted the FY 2005 FAIR Act Inventory in May 2005. Financial Crimes Enforcement Network has always relied heavily on the private sector to perform commercial activities, especially in the information technology environment and we are committed to continuing this in the future.

Leadership and Knowledge Management: The senior leadership of Financial Crimes Enforcement Network is committed to succession planning. We completed a workforce analysis and are in the process of developing an action plan for succession planning. The action plan will define specific roles, responsibilities and priorities, and will link to the strategic plan. Included in the workforce analysis was an assessment of the leadership skills of the current management team. Significant gaps were identified and an action plan was agreed upon by the senior leadership that includes a plan for training managers in FY 2005 and FY 2006. Additionally, employees actively participate in government-wide leadership programs such as the Executive Leadership Program, Executive Potential Program and Congressional Internships.

Results-Oriented Performance Culture: We abolished the pass/fail performance system and established a new 5-tier performance management system that requires each employee to establish an Individual Development Plan and three individual commitments linked directly to the strategic plan. We also have two award programs, an Incentive Awards Program and the Director's Awards and Recognition Program. In May 2005, the Director's Awards Program acknowledged 11 employees of whom 18% were minorities and 45% female.

Diversity: FinCEN completed several efforts to ensure a diverse workforce is maintained. Major efforts are listed below:

- Held an annual Diversity Day Training Conference consisting of six workshops on various topics. Approximately 70% of the workforce attended the conference.

- Participated in the Treasury Diversity Council and its support group.
- Created a Diversity Advisory Committee.
- Established a mandatory EEO/Diversity element addressing EEO principles, workplace conflict, supporting EEO plans and diversity hiring requirements in all supervisory performance plans.
- Created an EEO/Diversity Manager and Employee of the Year award to recognize individuals who have made outstanding contributions to building and maintaining a diverse, high-quality workforce.

Talent: FinCEN identified mission critical occupations—Intelligence Research Specialists, Law Enforcement Liaison Specialists, Regulatory Programs Specialists and Information Technology Specialists. Training development plans have been created to identify core skill training that is required to perform job tasks for both the Intelligence Research Specialist and Law Enforcement Liaison Specialists. FinCEN also began to develop competency models for these mission critical occupations. Additionally, FinCEN took advantage of many hiring authorities and flexibilities within the last year. For example, numerous students were hired under the Student Temporary Employment Program (STEP) – 8 in FY04 and 10 in FY05. FinCEN also made several Veteran Rehabilitation Act (VRA) and Schedule A appointments over the past two years and within the last year made 4 appointments utilizing the Outstanding Scholars Program.

Accountability: FinCEN is committed to supporting disabled employees and equal opportunity. The subject of providing reasonable accommodations to disabled employees is discussed in the Financial Crimes Enforcement Network 101 – Basic Manager EEO Training Class. Further, an updated directive and procedures for requesting reasonable accommodations is being prepared for employees. All employees receive a copy of the Financial Crimes Enforcement Network EEO policy statement and prevention of sexual harassment brochure during new employee orientation, and receive annual training on new EEO regulations and changes to internal policies and procedures. New managers attend an eight-hour Financial Crimes Enforcement Network 101 Supervisory EEO Training Course.

4.3 – Operating Levels Table

Operating Levels
Table 4.3
(Dollars in Thousands)

Appropriation Title: FinCEN Salaries & Expenses	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	309	330			330	330	352
Object Classification:							
11.1 Full-Time Permanent Positions	$24,159	$26,720			$26,720	$27,310	$29,345
11.1 Other than Full-Time Permanent Positions	284	284			284	284	284
11.5 Other Personnel Compensation	526	526			526	526	526
11.8 Special Personal Services Payments	0	0			0	0	0
11.9 Personnel Compensation (Total)	24,969	27,530			27,530	28,120	30,155
12.0 Personnel Benefits	6,062	6,818			6,818	7,156	7,789
13.0 Benefits to Former Personnel	0	0			0	0	0
21.0 Travel	911	1,377	(45)		1,332	1,332	1,561
22.0 Transportation of Things	0	0			0	0	0
23.1 Rental Payments to GSA	4,167	4,800			4,800	4,800	4,968
23.2 Rent Payments to Others	43	43			43	43	55
23.3 Communications, Utilities, & Misc.	651	751			751	995	995
24.0 Printing and Reproduction	250	250			250	250	250
25.1 Advisory & Assistance Services	180	180			180	522	750
25.2 Other Services	15,405	11,155	(606)		10,549	9,354	19,642
25.3 Purchase of Goods/Serv. from Govt. Accts	8,756	9,539	(85)		9,454	9,454	9,892
25.4 Operation & Maintenance of Facilities	1,344	960			960	960	960
25.5 Research & Development Contracts	0	0			0	0	0
25.6 Medical Care	108	120			120	120	128
25.7 Operation & Maintenance of Equipment	5,866	6,008			6,008	6,008	6,150
25.8 Subsistence & Support of Persons	0	0			0	0	0
26.0 Supplies and Materials	334	369			369	369	395
31.0 Equipment	2,876	3,730			3,730	3,411	6,104
32.0 Lands and Structures	0	0			0	0	0
33.0 Investments & Loans	0	0			0	0	0
41.0 Grants, Subsidies	0	0			0	0	0
42.0 Insurance Claims & Indemn.	0	0			0	0	0
43.0 Interest and Dividends	0	0			0	0	0
44.0 Refunds	0	0			0	0	0
Total Budget Authority	$71,922	$73,630	($736)	$0	$72,894	$72,894	$89,794
Budget Activities:							
BSA Administration and Analysis	$63,635	$65,109	($651)		$64,458	$64,458	$81,143
Regulatory Support Programs including Money Services Businesses	8,287	8,521	(85)		8,436	8,436	8,651
Total Budget Authority	$71,922	$73,630	($736)	$0	$72,894	$72,894	$89,794

4C – Appropriation Language

DEPARTMENT OF TREASURY

FINANCIAL CRIMES ENFORCEMENT NETWORK

Federal Funds

General and Special Funds:

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 and foreign government [law enforcement] 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.

JUSTIFICATION OF LANGUAGE CHANGES

During FY 2007, the Financial Crimes Enforcement Network anticipates funding additional technical assistance and training efforts in partnership with global support and partnership with financial intelligence units. Therefore, the appropriation language was changed to clarify this intent. Currently, a large portion of that training had previously been funded through interagency agreements from the State Department. In recent years, this funding has not been adequate to meet the needs of many of the developing nations. This funding is used to support training at both developing Financial Intelligence Units and established Egmont Financial Intelligence Units. The Egmont Financial Intelligence Units have grown rapidly with 101 members.

The funding available until September 30, 2009 is required for information technology or special analytical efforts and therefore may require a longer lead-time to execute. The funding was adjusted based on the funding requested in FY 2007 for information technology projects. This adjustment will allow the projects to be executed in a single appropriation regardless of lead-time for acquisition.

The funding available until September 30, 2008, reflects the amount requested for Regulatory Support Programs, including Money Services Businesses. The funding level was adjusted for inflation. This approach in essence establishes a separate appropriation for the Regulatory Support Programs, including Money Services Businesses funding, which will be implemented through inter-government contract support with the Internal Revenue Service and other contractual partners. It also funds outreach and other activities to industries newly regulated under the Bank Secrecy Act.

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.

Appropriation Summary
Table 1.1
(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Collect the Revenue	$45,285	$49,618	$45,376	($4,242)	-8.55%
Protect the Public	37,051	40,597	18,588	($22,009)	-54.21%
Total Appropriated Resources	$82,336	$90,215	$63,964	($26,251)	-29.10%
Adjustments (+/-)					
User Fees 1/	$0	$0	$28,640	$28,640	100.00%
Unobligated balance lapsing	$0	$0	$0	$0	0.00%
Offsetting Collections - Reimbursable 1/	$1,700	$1,700	$1,700	$0	0.00%
Total Adjustments	$1,700	$1,700	$30,340	$28,640	1684.71%
Total Program Operating Level	$84,036	$91,915	$94,304	$2,389	2.60%

1/ The FY 2007 Protect the Public regulatory activity is to be funded partially from new proposed user fees in the amount of $28,640.
2/ Reimbursable Funds from the "cover over" (return to Puerto Rico Government) for the cost of the Puerto Rico Operations.

FY 2007 Priorities

- Collect roughly $15 billion in excise taxes.
- Process more than 4,000 original and 11,000 amended permit applications that allow for the start up of new businesses in the alcohol and tobacco industries.
- Process over 100,000 applications for certificates of label approval that allow industry members to introduce new alcohol products into the marketplace.
- Collect excise taxes for the government of Puerto Rico and the Virgin Islands.
- Process roughly 3,000 drawback claims for manufacturers of non-beverage alcohol products resulting in claims in the range of $300-$400 million.
- Collect 98 percent of the federal excise tax receipts electronically.
- Conduct some 90 audits of major taxpayers who pay 98 percent of the annual federal excise tax collections
- Conduct over 900 field investigations to protect the public, based on incoming permit application requests, consumer complaints, Federal Alcohol Administration (FAA) trade practice violations leads, and work from the product integrity program.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

In FY 2007, the Alcohol and Tobacco Tax and Trade Bureau (TTB) will continue to collect federal excise taxes and to develop policies, regulations, procedures, rulings, directives, and other materials that guide the operations of the regulated industries. TTB will protect the public by preventing consumer deception and fraud and ensures that alcohol beverage products comply with federal commodity, safety and distribution standards. TTB provides regulatory and tax collection functions as well as technical, scientific, and legal expertise relating to these products.

Collect the Revenue- TTB is charged with collecting alcohol, tobacco, firearms, and ammunition excise taxes. These products generate nearly $15 billion in tax revenue annually, making TTB the third largest tax collection agency in the Federal Government. TTB has roughly 7,300 taxpayers and 200 of the largest taxpayers account for 98 percent of the annual excise tax collections. In FY 2005, the majority of taxes collected were from tobacco (50 percent of revenue collections) and alcohol (48 percent of revenue collections), with the remaining tax collections from firearms and ammunition (2 percent). The key to collecting all the revenue rightfully due is a field approach that uses analysis to target non-compliant industry members and establishes an identifiable presence within all of industry that encourages voluntary compliance. As a result, TTB strives to provide the most effective and efficient system for the collection of all revenue that is rightfully due, in addition to eliminating or preventing tax evasion and providing high quality service to its customers while imposing the least regulatory burden.

Protect the Public- TTB's Protect the Public activity assures the integrity of products and industry members in the marketplace; ensures compliance with laws and regulations by regulated industries; and provides information to the public to prevent consumer deception. Under this activity, TTB enforces federal laws related to the labeling, advertising, and marketing of alcohol products through education, investigation, and laboratory testing. TTB works with industry, foreign and state governments, and other interested parties to make it easier to comply with regulatory requirements, and maintain the appropriate level of oversight to ensure the public's safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal.

1B – Previous Highlights and Accomplishments

Collect the Revenue

The following highlights and accomplishments represent a full year activity based on FY 2005 results:

- During FY 2005, TTB collected more than $14.7 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms and ammunition industries. The taxes collected by TTB, net of related fund disbursements, are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise taxes are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

- During FY 2005, TTB expanded the e-filing program to allow all excise taxpayers to file and pay taxes and file monthly operational reports electronically, through the Pay.Gov program. In FY 2005, 98 percent of TTB's tax receipts were collected electronically.
- Voluntary compliance is an important element of TTB's collection strategy. In FY 2005, 70 percent of taxpayers filed payments on or before the scheduled due date.
- TTB will audit the largest taxpayers who pay 98 percent of the annual $14.7 billion in federal excise tax collections. This is a multi year effort and is the driving force in measuring the tax gap and for ensuring that the bureau is collecting the amount of revenue that is rightfully due. Through FY 2005, TTB completed audits on 113 of the largest taxpayers, and plans to finish the remaining audits in FY 2006 and 2007. Audit findings have included underpayment of tax, recordkeeping violations, and internal control irregularities. Audit results include an additional $4.3 million in collections and an additional $10.2 million in tax, penalties, and interest potentially due. While the audit effort focuses on the major taxpayers, the remaining taxpayers are selected for audit based on risk and random sampling. In FY 2007, the bureau plans to complete 90 to 100 field audits of taxpayers.
- Federal excise taxes are collected on certain articles produced in Puerto Rico and the Virgin Islands that are imported into the United States. In accordance with the law, such taxes collected on Puerto Rico and Virgin Islands rum imported into the United States are "covered-over" or paid into the treasuries of Puerto Rico and the Virgin Islands. In FY 2005, TTB processed $420 million in cover-over payments to Puerto Rico and $6 million to 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 to manufacturers of non-beverage products. Claimants must submit a product formula to the TTB laboratory for analysis and approval of the non-beverage product before manufacturing the product and filing a claim.
- During FY 2005, TTB laboratories analyzed 1,901 beverage alcohol samples for product integrity, pre-market analysis of imported products, and compliance. These analyses determine the class and type of the products for proper tax collection, and ensure that the marketed products are compliant with TTB regulations. TTB also processed 10,111 non-beverage alcohol flavor formulas, riders, and samples; 2,534 specially denatured alcohol formulas and samples; 109 tobacco tax classification submissions; and 110 submissions for 5010 tax credit. Considering the trends in the last few years, TTB expects to see at least 15 percent growth in the beverage alcohol samples analyzed by the laboratories in FY 2007. In addition, TTB anticipates a significantly larger increase in tobacco samples submitted to the laboratories in FY 2007 because of the new standards of identification for classifying cigarettes and little cigars.

Protect the Public

The following highlights and accomplishments represent a full year activity based on FY 2005 results:

- The Federal Alcohol Administration Act requires importers and bottlers of beverage alcohol to obtain a certificate of label approval (COLA) or certificate of exemption from label approval for most alcoholic beverages prior to their introduction into interstate commerce. During FY 2005, TTB processed over 110,000 COLAs. COLAs Online was launched in FY 2003 as an e-filing option for obtaining label approval. TTB continues to encourage its use by all industry members and the number of e-filers and the percent of the e-filed applications has risen steadily since the launch. The FY 2005 performance target was that 30 percent of all COLAs would be processed within nine calendar days of receipt. In FY 2005, TTB processed 50 percent of all COLAs within nine calendar days, and received 25 percent of all COLAs electronically.
- 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. TTB conducted 400 field inspections on these applications. In FY 2005, TTB exceeded its goals by completing 81 percent of permit transactions within 60 days.
- TTB's rulemaking activities provide information and guidance to taxpayers, industry members, and the public to help promote voluntary compliance by the regulated industry. During FY 2005, TTB resolved a controversial regulatory and excise tax issue by setting a Federal standard or definition of flavored malt beverages that could be adopted by all fifty states. This rulemaking received significant press attention and TTB addressed 16,000 comments in the process. The final rule limits the addition of flavors and non-beverage materials containing alcohol to beers and malt beverages and ensures that consumers are adequately informed about the identity of flavored malt beverages. In FY 2007, TTB will address several other controversial issues including allergen labeling, ingredient and nutritional listing and "serving facts" panels in alcohol labels.
- TTB provides significant support to the Office of the United States Trade Representative (USTR). TTB participated in negotiations between the United States and Mexico regarding cross-border trade in tequila, resulting in an agreement that will be signed in the near future. The agreement reaffirms that Mexico is prohibited from banning the export of bulk tequila to the U.S. By providing very detailed, technical, legal and regulatory advice, TTB played a crucial role in developing a satisfactory bilateral agreement. The U.S.-Mexico tequila agreement will ensure that exports of tequila from Mexico to the U.S., valued at approximately $400 million per year, shall continue uninterrupted.
- TTB also played a significant role in negotiating the Agreement in Trade in Wine between the U.S. and the European Community. This agreement covers wine-

making practices and labeling, and will facilitate bilateral trade in wine valued at $2.8 billion annually.

- In FY 2007, TTB plans to complete over 900 field investigations, based on incoming permit application requests, consumer complaints, FAA trade practice violation leads, and work from the product integrity program. In FY 2005, TTB initiated over 479 product integrity investigations, 113 of which were on importers and conducted over 400 field application investigations for prospective distilleries, wineries, breweries, and importers in the U.S. and Puerto Rico.
- During 2005, the Scientific Services Division analyzed 1,848 alcohol beverage products for methanol, a potential carcinogen. Of these, 39 products were found to contain methanol in excess of the current Food and Drug Administration (FDA) regulatory limit. The laboratories also analyzed 940 wines for sulfur dioxide content (an allergen) and label waiver requests. Eight wines, submitted for label waiver request were found to contain sulfur dioxide and required label declaration. In addition, 115 beverage alcohol products were analyzed for ingredients which are declared limited and/or prohibited in alcoholic beverages by the FDA. As part of the yearly pesticide monitoring program, the laboratories analyzed 120 imported and domestic wines for pesticides and their residues. Also, the laboratories analyzed 1,901 beverage alcohol samples for product integrity, pre-market analysis of imported products, and alcohol sampling program to ensure that the products are complaint with TTB laws and regulations so that the consumers are not misled and that the products are safe for consumption. TTB processed 517 requests for information on flavors intended for use in alcoholic beverages. This information includes TTB and FDA limited ingredients allowing TTB to make certain that products made with these flavors are safe and properly labeled. In FY 2007, the TTB laboratories will continue to analyze alcoholic beverages for adulterants, limited and prohibited ingredients to ensure the safety of the country's alcohol beverages. The yearly pesticide monitoring program for wines will also continue. TTB anticipates a greater role of the laboratories in enforcing the Food Allergen and Consumer Protection Act (FALPCA) in alcoholic beverages as mandated by the Congress starting in January 2006.

IC – Future Outlook

In FY 2007, TTB plans to conduct 90 to100 excise tax audits, including two national audits. These audits are accomplished using a staff of approximately 93 professional auditors located throughout the United States. The goal is to complete an audit of all of the major 200 taxpayers within a 3-4 year cycle which will establish a baseline for future efforts. While the audit effort focuses on the major taxpayers, the remaining taxpayers will be selected for audit based on risk and random sampling.

As part of its investment in electronic government, TTB future plans are to consolidate all of the tax databases into a single integrated system known as the Integrated Revenue Information System (IRIS). The FY 2006 plans include merging the Federal Excise Tax (FET) database into its tax collecting and reporting to the IRIS database. This merger will eliminate duplicate entries of taxpayer information (name, address, principal parties, etc) that already reside in IRIS. TTB also plans to put into production the eFAPS program, which is the electronic downloading of tax payment information into the FET database. This will reduce and eliminate manual entries into FET and the imaging of paper documents. TTB will continue to improve on its performance measures to process all applications and claims within a limited time, and to accurately and quickly verify that all tax that is rightfully due is paid. TTB will also continue its industry liaison work by conducting informational and educational seminars to members of regulated industries. Recent law amended the Internal Revenue Code of 1986 (IRC) in two ways that affect TTB and its taxpayers. First, it suspended the Special Occupational Tax (SOT) on most alcohol taxpayers, effective July 1, 2005. It repealed SOT for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers and export warehouses) remains intact.

Likewise, the law amended the tax payment and return provisions of IRC section 5061 to extend the existing semi-monthly payment and return periods for taxpayers whose annual liability does not exceed $50,000. Effective January 1, 2006, taxpayers under this category may pay their taxes and submit their returns on a quarterly basis, as provided under the IRC.

In FY 2007, the TTB Office of Headquarters Operations plans to continue to make improvements to its processes, systems and availability of information to enhance its ability to service TTB's industry members. The Scientific Services Division will finalize method development of utilizing chemical analysis to verify grape variety claims in wine. The International Trade Division will increase assistance to U.S. alcohol exporters by providing comprehensive beverage and industrial alcohol export requirements for all major world markets via the TTB website. The Advertising, Labeling and Formulation Division will continue to market the use of the Certificate of Label Approval (COLA) e-filing system.

The Trade Investigations Division (TID) is planning over 900 field investigations in FY 2007. Investigations will be based on incoming permit application requests, risk assessment results, consumer complaints and information referrals. TTB completed its initial Federal Alcohol Administration trade practice enforcement training in FY 2006 and can expect results in the number of cases and hours worked per case in FY 2007.

Anticipated activities for the Protect the Public function include:

- permit application investigations
- product integrity investigations (includes consumer complaints)
- trade practice investigations (includes alcohol advertising investigations)
- revenue investigations, and
- Industry seminars.

Succession planning is high on the list of TTB strategic priorities for future transitioning, especially as it relates to TTB's investigator forces. TTB expects to lose fifty percent of its workforce between now and 2010 due to retirements and other attrition. To mitigate these losses, it is vital that TTB continue to have the use of the personnel interventions identified in the pay demonstration project to enable the Bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB must have the flexibility to continue to use the tailored approaches designed, developed, and implemented specifically for the Bureau's continuing and evolving needs in order to meet mission requirements and remain competitive for highly skilled talent. Continuation of the pay demonstration authority is a key component in TTB's ability to close skill gaps in mission critical occupations. It is essential that the authority be extended to continue this pilot program.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Budget Increases and Decreases
Table 2.1
(Dollars in Thousands)

Appropriation: TTB Salaries and Expenses	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	544	$83,000		
Rescission (P.L. 108-447)		(664)		
FY 2005 Enacted	544	82,336		
FY 2006 Appropriation (P.L. 109-115)	544	91,126		
Rescission (P.L. 109-148)		(911)		
FY 2006 Enacted	544	90,215		
Changes to Base				
Proposed Pay Raise		1,103		
Pay Annualization		401		
Non-Pay Inflation Adjustment		909		
Base Reinvestments		1,576		
Program Reduction				
Tax Services-SOT Suspension/Quarterly Tax Filings		(1,600)	Collect the Rev	F4A
Total FY 2007 Base	544	92,604		
Total FY 2007 Request	544	92,604		
Offsetting Fees				
User Fees Proposal		($28,640)		
Total Net FY 2007 Request	544	$63,964		

2A – Budget Increases and Decreases Description

Changes to Base.. +$2,413,000
Adjustments to Maintain Current Levels +$2,413,000/ 0 FTE Funds are requested for the FY 2007 pay inflation cost relating to the January 2006 pay increase which carries into the next fiscal year (October 2006 to December 2006) and the proposed January 2007 pay raise, the total estimated pay inflation adjustment is $1,504,000 and the proposed non pay inflation and annualization adjustment is $909,000.

Program Reduction………………………………………………………… -$1,600,000

Recent law amended the Internal Revenue Code of 1986 (IRC) in two ways that affect TTB and its taxpayers. First, it suspended the Special Occupational Tax (SOT) on most alcohol taxpayers, effective July 1, 2005. It repealed SOT for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers and export warehouses) remained intact.

Likewise, the law amended the tax payment and return provisions of IRC section 5061 to extend the existing semi-monthly payment and return periods for taxpayers whose annual liability does not exceed $50,000. Effective January 1, 2006, taxpayers under this category may pay their taxes and submit their returns on a quarterly basis, as provided under the IRC.

The anticipated pay and non pay savings realized from this legislation is $1,600,000. The bureau plans to reinvest this savings.

TTB expects to realize a savings of 12 Full Time Equivalents (FTE) because of the amendments and plans to redeploy the FTE into other areas of the National Revenue Center (NRC) to meet increasing workloads in these critical program areas. Assuming a savings of 12 FTE, 10 FTE would originate from the savings realized by the SOT suspension and repeal; the other two FTE are projected to result from the reduction in payment and return submissions incident to the extended return and payment periods that will be available for qualified taxpayers described above.

TTB maintained a staff of 12 FTE to administer the SOT program. In FY 2005, one FTE was redeployed to meet workload demands in other areas of the NRC. Of the remaining 11 FTE, one FTE is required to continue administering the SOT requirements applicable to tobacco permittees, as these provisions were not suspended or repealed. The remaining 10 FTE will be available for reassignment to meet other critical needs at the NRC as the work on SOT diminishes over the next three years until the time of SOT repeal.

TTB expects a savings of two FTE realized from the implementation of quarterly payment and return periods. Currently, TTB has 7 FTE at the NRC assigned as tax specialists who process payments and returns for approximately 4,200 taxpayers who are eligible to pay and file quarterly based upon their annual tax liability. Of these 4,200 taxpayers, TTB expects that, at a maximum, only 1,500 (37 percent, which consists of every qualified brewer) will opt to avail themselves of the quarterly payment and filing option. This projection is based upon the fact that, in contrast to other taxpayers, the brewers' bonds are based upon their annual tax liability. Consequently, their option to file on a quarterly basis has no effect on their required bond coverage. By contrast, other taxpayers' bonds are based upon their liability within their return period. If their return period is extended from the existing semi-monthly period to a quarterly period, their corresponding bond coverage must increase proportionately, or 5 times. TTB believes this increased bond requirement will dissuade otherwise eligible taxpayers from opting in to the quarterly payment and filing option.

TTB anticipates that it will require 37 percent fewer FTE in payment and return processing at the NRC. This equates to a savings of two FTE.

Base Reinvestment………………………………………………………. +$1,576,000

To meet the demands caused by the steady increase in permit activity and associated tax administration duties demonstrated over the last three years, TTB intends to reinvest the 12 FTE realized from the changes outlined above into Application Services and Tax Services, as follows.

a) *Process Wine, Beer and Wholesaler/Importer Applications $308,000/5 FTE.*

TTB intends to redeploy five FTE to Application Services, to be distributed between the Wine Applications Branch and the Beer and Wholesaler/Importer Application Branch to handle the increase workload associated with permit and applications work in the wine, beer and wholesaler/importer area. From FY 2000 to present, the number of original applications to establish new wine premises has grown dramatically, with over 3,900 applications processed during FY 2005, which represents a 25 percent increase from FY 2004. Also, the number of Beer and Wholesaler/Importer applications has grown, with nearly 9,000 applications processed during FY 2005, which represents a 12 percent increase from FY 2004.

b) *Administer Excise Tax Accounts for Wine, Spirits, and Tobacco $425,000 / 7 FTE*

- *Wine Excise Tax Group - Redeploy 4 FTE*

The Wine Excise Tax Group currently has a staff of eight specialists who administer roughly 4,200 taxpayer accounts. These specialists examine and conduct analyses of tax accounts including tax returns, operational reports, export documentation, and claims; initiate collection actions; and handle other tax-related transactions for the over 4,200 active wineries.

TTB has seen a proliferation in new wine permittees over the last several years, with 774 new accounts established during FY 2005. In order to administer the excise tax requirements relating to this growing number of permittees, and to handle related support activities to other components of the Bureau for the Collect the Revenue function, TTB intends to redeploy four FTE to this group (for a total staff level of 12 tax specialists). These additional FTE will reduce the number of accounts assigned to each specialist to 375 accounts per specialist, and enable this group to examine effectively wine tax accounts which ensures that TTB collects all the revenue that is rightfully due from these taxpayers and conducts necessary support functions for other Bureau components.

- *Spirits and Tobacco Excise Tax Group – Redeploy 3 FTE*

The Spirits and Tobacco Excise Tax Group currently has a staff of eight tax specialists who perform all tax related services for approximately 400 distilled spirits plants and 275 tobacco permittees who represent approximately 50 percent or $7.5 billion of the annual federal excise tax collections that TTB collects. Among other duties, these specialists administer the cover-over for Puerto Rico and the Virgin Islands, process monthly and quarterly claims for drawback of tax on spirits used to manufacture non-beverage products (MNBP); process disaster claims; process operational reports, notices, and claims for all 400 distilled spirits plants and 275 tobacco permittees; and reconcile these documents to ensure that TTB collects the revenue rightfully due. Where a taxpayer has failed to pay the tax or to file a report, these specialists conduct follow-up activities to bring the taxpayer into compliance and to protect the revenue. These specialists also perform a support function for other TTB and NRC components. For example, specialists in the Spirits and Tobacco Excise Tax Group investigate and respond to inquiries from the Applications Group on issues relating to the current tax payment status of particular taxpayers whose security or collateral bonds are proposed for cancellation or refund. As a result of their work, TTB collected $675,000 in unpaid tax liability in FY 2005 alone.

In the area of non-beverage drawback, TTB receives and processes approximately 3,000 MNBP claims involving an estimated $317 million each year. Because of the high dollar amount involved for the respective taxpayers, TTB set a goal of processing these claims within 30 days of their submission. While TTB currently meets this performance standard, it has required a realignment of existing resources and has caused a resulting drain on other branch functions, to include reconciliation and support activities. Redeployment of additional FTE to this group will enable the NRC to meet its performance goals for processing of drawback claims without a detrimental impact upon its tax collection and reconciliation activities or its support function to other Bureau components.

TTB intends to redirect three FTE to the Spirits and Tobacco Excise Tax Group to equip this group with the resources necessary to meet its revenue protection mission.

c) *Treasury Working Capital Fund for TCS and DTS (Telecommunications) - $503,000*

The Treasury Office of the Chief Information Officer for the Department of the Treasury Departmental Offices has acknowledged that costs for working capital telecommunications costs will increase by $503,000 for bureau specific costs related to new IT infrastructure. This increase is the result of having to add more circuits than originally planned as the bureau went from two computer rooms to four computer rooms as it separated its IT infrastructure from the Bureau of Alcohol Tobacco and Firearms (ATF). Additional circuit capacity was required to keep all four computer rooms synchronized and accessible by all TTB users. The reinvestment strategy is to absorb the costs with the savings from the anticipated non pay savings realized from the repeal of the SOT and change in tax filings.

d) *Bureau of the Public Debt Administrative Resource Center (BPD ARC) $340,000*

The Bureau of the Public Debt Administrative Resource Center provides administrative support services for TTB and has acknowledged that costs for these services will increase by $340,000 based on anticipated workload activity.

Program Increases ....$0/ 0 FTE

3.1 – Appropriation Detail Table

Appropriation Detail
Table 3.1
(Dollars in Thousands)

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007*	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Collect the Revenue	299	$45,285	299	$49,618	267	$45,376	-10.91%	-8.55%
Protect the Public 1/	245	$37,051	245	$40,597	109	$18,588	-55.47%	-54.21%
Subtotal Newly Appropriated Resources	544	$82,336	544	$90,215	376	$63,964	-30.96%	-29.10%
Other Resources:								
Recoveries								
User Fees 1/	0	$0	0	$0	168	$28,640	100.00%	100.00%
Offsetting Collections - Reimbursable 2/	15	$1,700	15	$1,700	15	$1,700	0.00%	0.00%
Transfers In/Out								
Subtotal Other Resources	15	1,700	15	1,700	183	30,340	1120.00%	1684.71%
Total Resources Available for Obligation	559	$84,036	559	$91,915	559	$94,304	-0.08%	2.60%

1/ The FY 2007 Protect the Public regulatory activity is to funded patially from new proposed user fees in the amount of $28,640. See proposed new user fee language.
2/ Reimbursable Funds from the "cover over" (return with Puerto Rico) covers the cost of the Puerto Rico Operations.
3/ Budget and FTE information covering estimates of staff participation in projects and programs under each activity is based on prior year budget experience.

3A – Budget Activity Description

<u>Collect the Revenue</u> (Total funding $46,209,000; direct portion $45,376,000 and reimbursable funding portion of $833,000)

TTB strategic goals supported by the "Collect the Revenue" budget activity include providing the most effective and efficient systems for the collection of all revenue that is rightfully due; eliminating or preventing tax evasion and other criminal conduct; and providing high quality service while imposing the least regulatory burden on taxpayers.

TTB will employ a number of strategies to ensure that the revenue that is rightfully due is collected. The Tax Audit Division (TAD) is establishing a baseline of risk data upon which taxpayers will be audited. In FY 2004, 54 audits were conducted and roughly 1/3 of the total federal excise tax revenues collected during a three-year period were audited and the amount of tax was established as rightfully due and collected. The goal is to complete an audit of all of the major taxpayers that contribute roughly 98 percent of the federal excise tax revenue within a 3-4 year cycle. The Office of Field Operations will continue to provide industry outreach to encourage compliance, investigate allegations/indications of tax fraud where a full tax audit is not contemplated, verify destruction of large quantities of taxable commodities, and conduct compliance inspections of non-taxpaying permittees who have substantial potential for tax liability. In FY 2005, TTB completed 400 permit application qualifications and 479 product integrity investigations/inspections. TTB expects the demand for these services to continue in FY 2007.

The goals of reducing taxpayer burden and improving service remain a priority at TTB. TTB will continue working to increase the number of taxpayers who can file their returns electronically. The ultimate goal is to allow permittees and taxpayers to file all payments, returns and applications online with the National Revenue Center. The FY 2007 budget request enables the continuation of efforts towards achieving the performance measures supporting TTB's strategic goal of providing the most effective and efficient system for the collection of all revenue that is rightfully due, eliminating or preventing tax evasion and other criminal conduct, and providing high quality service while imposing the least regulatory burden.

In FY 2005, TTB established an entire field structure for tax audit and trade investigation. This involved recruiting and hiring supervisors, auditors, investigators, and locating, equipping, and opening field offices. Several investigations and audits of large taxpayers were conducted. The goal by FY 2007 is to continue such audits of the major taxpayers that represent 98 percent of the federal excise tax collections.

TTB's FY 2007 budget request supports Treasury's financial strategic goal to "Manage the Government's Finances Effectively" by maintaining a level of funding that effectively collects nearly $15 billion in federal excise taxes through the following strategic objectives:

- Reduce taxpayer burden and improve service
- Use Electronic Government;
    - Reduce the taxpayer paperwork burden associated with collection of the revenue by creating alternative electronic filing methods
    - Increase online filing for permit applications and formula submissions, and payment of tax returns, business activity reports, claims, applications, COLAs, and other forms
    - Increase program effectiveness through partnerships with industry, States, and other Federal agencies
    - Continue to automate business applications at the National Revenue Center (NRC)
    - Improve collections and efficiency of service through information sharing efforts, such as seminars, publications, and industry meetings.
    - Ensure consistent tax administration
- Collect all the revenue that is rightfully due;
    - Account accurately for the revenue assessed and collected.
    - Increase review of taxpayer returns and collect delinquencies to ensure voluntary compliance
    - Ensure correct payment of taxes through audit of "at-risk" taxpayers
    - Implement and refine ways to identify potential tax jeopardy patterns
    - Through partnership with industry, States, and other Federal agencies, develop alternative methods of promoting voluntary tax compliance

- Prevent tax evasion and identify other criminal conduct in the regulated industries

- Investigate and assist with the prosecution of business entities suspected of being involved in tax evasion schemes, including diversion and smuggling of taxable commodities
- Forge partnerships with and provide training to Federal, State, local, tribal, and foreign governments to enforce tax laws

Protect the Public (Total funding $48,095,000; direct portion $18,588,000; $28,640,000 of reimbursable funding under proposed "User Fee" initiative; and reimbursable funding portion of $867,000)

TTB's Protect the Public strategy assures the integrity of products and industry members in the marketplace ensures compliance with laws and regulations by regulated industries, and provides information to the public as a means to prevent consumer deception. Under this activity, TTB enforces compliance with federal laws related to the labeling, advertising and marketing of alcohol products through education, investigation, and laboratory testing. TTB works with industry, other federal and state governments, and other interested parties to make it easier to comply with regulatory requirements, while maintaining the appropriate level of oversight to ensure the public's safety. Innovation, partnerships, and open communication are paramount to achieving this strategic goal. Pursuant to provisions of the Internal Revenue Code (IRC) of 1986, TTB has agreements with 40 States to share tax information.

TTB monitors trade practices of the alcohol industry and takes enforcement actions on violations or discrepancies, monitors and reviews international trade in alcoholic beverages to identify trade barriers, promotes free access to foreign markets, and suppresses incidents of international fraud and contaminated products. TTB also processes applications for certificates of label approval and proposed formulas for imported and domestic distilled spirits, beer, and wine products to ensure that products are manufactured in accordance with standards of identity, are properly classified for excise tax, and that labels and advertisements are not misleading.

TTB examines all alcohol labels prior to use and issues a certificate of label approval (COLA) to ensure alcohol beverage labels adequately identify the product and do not contain misleading information. The number of COLA submissions increases each year, while TTB staffing remains at a steady state. On May 21, 2003, TTB launched COLAs Online, the first facet of TTB's e-Gov initiative. This system enables the submission and processing of COLA applications via the Internet. The innovation improved the submission and review process for alcohol beverage labels by providing an expedient and paperless means of obtaining Federal label approval. The number of electronically filed COLAs is expected to increase in FY 2007.

Users of specially denatured alcohol (SDA) are required to submit a formula to the TTB Laboratory. Likewise, those using alcohol for non-beverage purposes, such as in the manufacture of flavorings or medicines, must also gain approval of their formula in order to file a claim for drawback of excise taxes previously paid. In both cases, the TTB Lab reviews the formula and analyzes samples to grant or deny the action requested by the applicant. TTB's Non-Beverage Products Laboratory (NPL) has pledged in its Customer

Service Plans to process 90 percent of the non-beverage and SDA formulas within 10 working days of receipt. The NPL is meeting the target of 10 days for non-beverage formulas and the FY 2007 budget initiative will ensure that with the steady increase in workload demand from industry and a steadfast number of chemists that this performance standard can continue to be achieved.

In order to protect the consumer, TTB will continue to document responses internally to unsafe conditions and product deficiencies related to alcohol products and labels. TTB does this through various methods including responding to consumer complaints, responding to referrals from foreign governments, market basket sampling at retail locations, and product integrity inspections conducted at domestic alcohol plants. Through these programs, TTB tests samples of alcoholic beverages sold at the retail level and obtained directly from producers to ensure that alcoholic beverages marketed in the United States meet formulation and labeling requirements, do not contain unauthorized substances or contaminants, and are properly classified for tax purposes.

Strategic Objectives:

- Assure the integrity of the products, people, and companies in the marketplace
- Ensure that only qualified applicants enter the regulated industries
- Perform appropriate testing, laboratory analyses, and review documents of regulated commodities to ensure product safety and integrity
- Review and act on labels and formulas for domestic and imported beverage alcohol products and maintain public access to approved COLAs
- Ensure compliance with laws and regulations through education, inspection, and investigation
- Respond to industry and consumer complaints. Investigate product contamination and adulteration
- Investigate thefts of regulated commodities
- Investigate violations of trade practices, labeling, and advertising in the beverage alcohol industry
- Inspect alcohol beverages at producer and importer premises to detect consumer deception on health issues
- Educate interested parties on the laws and regulations of the United States and other countries in areas concerning the regulated industries

3.2 – Budget and Performance Plan Table

Budget and Performance Plan
Table 3.2
(Dollars in Thousands)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)						
Resource Level	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective F4A:						
Budget Activities: Collect the Revenue						
Financial Resources						
Newly Appropriated Resources	$51,830	$56,431	$56,801	$45,285	$49,618	$45,376
Other Resources		$1,171	$1,700	$935	$935	$833
Total Operating Level	$51,830	$57,602	$58,501	$46,220	$50,553	$46,209
Human Resources						
Newly Appropriated FTE	363	363	363	299	299	267
Other FTE	15	15	15	8	8	7
Total FTE (direct and reimbursable)	378	378	378	307	307	274
Treasury Strategic Goal: Promote Stable U.S. and World Economies (E2)						
Resource Level	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective E2A:						
Budget Activities: Protect the Public						
Financial Resources						
Newly Appropriated Resources	$21,170	$23,049	$22,727	$37,051	$40,597	$18,588
Reimbursable User Fees	$0	$0	$0	$0	$0	$28,640
Other Resources	$0	$0	$0	$0	$765	$867
Total Operating Level	$21,170	$23,049	$22,727	$37,051	$41,362	$48,095
Human Resources						
Newly Appropriated FTE	181	181	181	245	245	109
Reimbursable User Fees/Full-time equivalents (FTE)	0	0	0	0	0	168
Reimbursable Full-time equivalents (FTE)	0	0	0	7	7	8
Total FTE (direct and reimbursable)	181	181	181	252	252	285

Strategic Objective: Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law - F4A

Budget Activity: Collect the Revenue

Performance Goal: Apply statistically valid state-of-the-art methods to measure and analyze compliance with tax laws, and identify any gaps in tax payment

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Cumulative percentage of excise tax revenue audited over 3 years (%) (Ot)						
Target				65	90	98
Actual				82		
Target Met?	N/A	N/A	N/A	Y		
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)(%) (Oe)						
Target				70	74	78
Actual				70		
Target Met?	N/A	N/A	N/A	Y		
Ratio of taxes collected vs. resources expended (Ot) [DISCONTINUED FY 2006]						
Target		211	257	250	Discontinued	Discontinued
Actual		242	368	367		
Target Met?	N/A	Y	Y	Y		
Resources as a percentage of revenue (%) (E)						
Target				.4	.34	.34
Actual				.37		
Target Met?	N/A	N/A	N/A	Y		
Unit cost to process an excise tax return based on new legislation ($) (E)						
Target				Baseline	Baseline	TBD
Actual				71		
Target Met?	N/A	N/A	N/A	Y		

Budget Activity: Collect the Revenue

Performance Goal: Reduce the paperwork burden by continuing to create alternative reporting and filing methods through electronic government

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (%) (Oe)						
Target		Baseline	82	84	86	88
Actual		80	81.2	86.3		
Target Met?	N/A	Y	N	Y		
Percentage of total tax receipts collected electronically (%) (Oe)						
Target	Baseline	98	98	98	98	98
Actual	98	98	97.3	98		
Target Met?	Y	Y	N	Y		

Strategic Objective: Increase Citizens Economic Security - E2A

Budget Activity: **Protect the Public**

Performance Goal: **Improve customer service by decreasing turn-around times for Certification and Label Approval (COLA) processing (electronic and paper). Promote use of COLAs Online in an effort to improve the completeness and accuracy of submitted COLA applications while allowing TTB and the regulated industry to exchange information instantly via electronic means, thus reducing the burden to industry**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of COLA approval applications processed within 9 calendar days of receipt (%) (E)						
Target		Baseline	60	30	55	57
Actual		57	23	50		
Target Met?	N/A	Y	N	Y		
Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days (%) (E)						
Target				67	80	82
Actual				81		
Target Met?	N/A	N/A	N/A	Y		

Budget Activity: **Protect the Public**

Performance Goal: **Protect the consumer**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percent of electronically filed Certificate of Label Approval applications (%) (Oe)						
Target		10	7	16	27	30
Actual		3	10	25		
Target Met?	N/A	N	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

TTB met all of its performance measures in FY 2005, and set ambitious targets for FY 2007. TTB plans to continue to improve its core business operations and provide high quality service to its industry members.

TTB continues 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. TTB met its FY 2005 performance target of 98 percent of tax receipts collected via electronic funds and plans to meet the goal again in FY 2007. Voluntary compliance is 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 and plans to meet its target of 78 percent set for FY 2007.

TTB will audit the largest 200 taxpayers who pay 98 percent of federal excise tax collections. This multi year effort is the driving force in measuring and closing the tax gap. Through FY 2005, TTB audited 113 of the largest taxpayers, and plans to finish audits of the remaining taxpayers in FY 2007 and FY 2008. Audit findings have resulted in an additional $4.3 million in unpaid revenue and an additional $10.2 million in tax penalties and interest. While the audit effort focuses on the major taxpayers, the remaining taxpayers are selected for audit 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 for the cumulative percentage of revenue that the audits have examined was met.

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. TTB conducted field inspections on 400 of these applications. The Bureau exceeded its FY 2005 performance target by completing 81 percent of the 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 prior to their introduction into interstate commerce. During FY 2005, TTB processed over 110,000 COLAs. In FY 2003, TTB launched an e-filing option for obtaining label approval. TTB 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 its 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 received an Effective rating (93 out of 100) on its FY 2005 Collect the Revenue Program Assessment Rating Tool (PART) evaluation. This was the first PART review conducted under the TTB umbrella. The results of the PART indicate that TTB has an effective program in place for the collection of federal excise taxes and the Bureau has developed an action plan that will address OMB's findings and recommendations resulting from this review.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

Human Capital

- TTB developed a Federal Employment Opportunity Recruitment Plan (FEORP) for FY 2005 – FY 2008 to promote the employment and advancement of minorities and women within the Bureau.

- TTB established its FY 2005 – FY 2008 Disabled Veterans Affirmative Action Plan to promote the hiring and advancement of disabled veterans within the Bureau.

- TTB published an Equal Employment Opportunity and Diversity Advancement policy statement.

- TTB conducted a total workforce diversity/affirmative employment analysis identifying barriers, goals, and measures of progress.

- TTB revised its Senior Executive Service performance plans to document the linkage with the Bureau's strategic objectives and cascaded to the next lower level of management.

- TTB implemented Career Connector for use in filling supervisory/managerial jobs as a tool to improve the hiring process.

- TTB established a performance workgroup to improve the TTB General Schedule performance management system.

- TTB established a flexi-place program that covers all TTB offices and most employees, and implemented a hoteling program at certain field offices. These initiatives save the bureau valuable dollars that were invested in improved services for stakeholders.

- TTB has established an annual awards ceremony as a tool for recognizing and retaining outstanding employees.

- TTB implemented the Demonstration Project (PAY DEMO) to enhance the Bureau's ability to effectively recruit, develop, and retain highly qualified employees. It seeks to attain these objectives by implementing changes in management, personnel, and compensation practices. The project focuses on designated occupations that are mission critical (e.g., chemists and information technology staff)

- Beginning in June 2004, TTB outsourced all of its human resource functions to the Bureau of the Public Debt (BPD). The human resource services provided by BPD include staffing and recruitment, personnel/payroll actions, employee benefits and retirement, time and attendance, official personnel records, classification, training, employee/labor relations, and performance management. Performance benchmarks and measures have been established to monitor contract performance.

- TTB has adopted a progressive five-tier performance management system that cascades throughout the organization. The new performance system holds employees and managers accountable for program results.

- TTB is in the process of developing succession plans for mission critical occupations and a comprehensive Human Capital Plan. The successful implementation of these two initiatives will contribute to TTB obtaining a green score.

Electronic Government

- TTB expanded the Pay.Gov program to allow all federal excise taxpayers to file and pay electronically.

- TTB launched an online system for Certificates of Label Approval (COLA) that allows industry members to file their applications for labels electronically.

- Security accreditation has been achieved for all TTB Information Technology systems.

- TTB has begun to consolidate its major databases into a single integrated system to promote greater efficiency and reduce costs.

- TTB has implemented enhancements to both its Internet and Intranet sites to provide greater benefits to external and internal customers.

- The Bureau is completing its enterprise architecture program, which was based on the use of the Enterprise Architecture Assessment tool, and TTB is confident that the program changes have now elevated the enterprise architecture score beyond the required standard level.

Competitive Sourcing

- In creating TTB, the executive leadership decided to create a lean organization by contracting with governmental and commercial sources for services that are not inherently governmental (e.g., Human Resources, Information Technology, Training, Property Management, Finance, Procurement, and Records Management). Contractors are providing TTB with all operational IT services except for Contracting Officers Technical Representative responsibilities, which were kept in-house. TTB is comprised of 88 percent inherently governmental services and 12 percent commercial, as substantiated by its FY 2005 FAIR Act Inventory.

- TTB has migrated its information technology operations from the Bureau of Alcohol, Tobacco, Firearms and Explosives and outsourced its Information Technology services to commercial firms.

Budget & Performance Integration

- TTB has migrated its financial operations to Bureau of Public Debt Administrative Resource Center (BPD ARC), including key legacy tax information.

- TTB has improved its tracking of activity based costing for its two budget activities

- Implementation of WebTA (time keeping) system allows TTB to track its direct labor costs for over ninety project codes under these two key activities.

- The Bureau is using performance information to make budget decisions, and has realigned its account code structure to capture and measure program and project costs.

- TTB has worked extensively to define performance measures and continues to strive to identify the right measures and mix of measures that portray the best picture of the Bureau's operations and performance. TTB is working with a contractor to refine its outcome-oriented performance measures and align them with business processes and budget submissions. The Bureau needs to improve its managerial cost accounting, and deciphering the cost of doing business and its relationship to TTB measures and goals will do this. By working closely with Treasury, TTB will identify some system changes that would provide the ability to provide marginal unit cost information on budget initiatives and performance.

Improving Financial Performance

- TTB continues to monitor its financial performance and improve its ability to interface with budget information.

- TTB has successfully migrated its accounting and financial data, including its legacy data to the Bureau of the Public Debt Administrative Resource Center repository for tax information.

- Improved classification and account coding of projects and activities.

- Benchmarks have been established on service provider's performance of financial operations.

- TTB has achieved green status in this initiative, because no unresolved internal control material weaknesses or reportable conditions were found and all audits have been unqualified. The bureau has successfully used financial management to meet financial deadlines and avoid Anti-Deficiency Act violations. TTB is working to integrate financial management into its management framework, which will facilitate the integration of all five PMA initiatives and align financial management closely with Budget and Performance Integration, in order to provide current and accurate information.

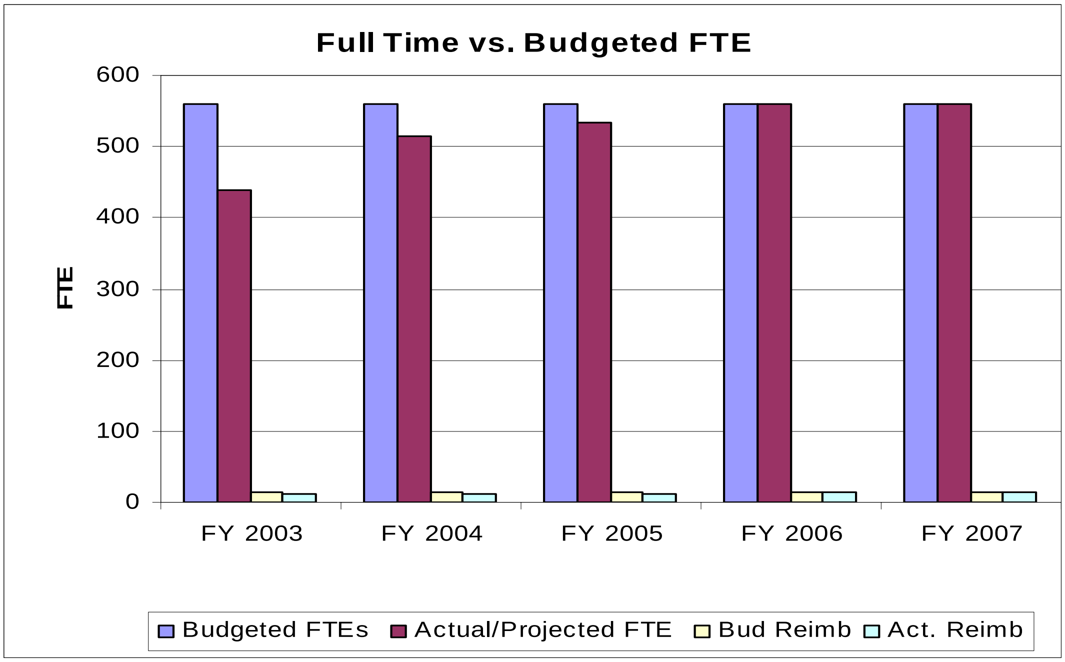
3.3 – PART Evaluation Table 3.3

PART Name:	Collect the Revenue
Strategic Goal:	Manage the Government's Finances Effectively (F4)
Rating:	Effective

OMB Major Findings/Recommendations
1. The Collect the Revenue program has a clear purpose and is well designed to achieve its goals. TTB administers and ensures compliance with portions of the Internal Revenue Code dealing with collection of excise taxes on alcohol, tobacco, firearms and ammunitions and regulation of those manufactures.
2. The program has developed adequate long-term performance measures with ambitious targets and timeframes. TTB measures the percent of voluntary compliance in filing tax payments and will increase this targets from 82% in 2004 to 92% in 2010.
3. The program has not developed adequate baselines for its annual performance measures. Three out of the four annual measures do not have baselines.

Bureau Actions Planned or Underway.
We are taking the following actions to improve the performance of the program
1. Developing baselines for annual performance measures.
2. Improving estimates of how funds are distributed across TTB's two lines of business to ensure that funds are obligated in accordance with planned schedules.
3. Developing a baseline to compare the incremental costs and net benefits of regulation.

4.1 – Human Resources Table



Base: Year-end Actual from Prior Year	FY 2005 514	FY 2006 523	FY 2007 559
Increases: *(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)*			
Reason #1:	9	36	
The Alcohol and Tobacco Tax and Trade Bureau was established January 24, 2003 as a result of the Homeland Security Act of 2002. A key strategic challenge for TTB was staffing the Division of Field Operations with auditors (Budget Activity: Collect the Revenue) and investigators (Budget Activity: Protect the Public) to establish a field presence with industry members. The Bureau currently has 539 full time positions on board and the remaining positions are in various stages of recruitment, but we anticipate to be fully staffed at 559 full time positions. TTB has created a streamlined organization by contracting with governmental and commercial sources for all services that are not inherently governmental (e.g., human resources, IT, accounting, etc.). The TTB E Gov strategy incorporates Treasury Enterprise Solutions and the President's twenty four government initiatives to the maximum extent possible.			
Subtotal, Increases	9	36	0
Decreases: *(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)*			
Reason #1:			
Subtotal, Decreases	0	0	0
Year-end Actual/Estimated FTEs	523	559	559
		1/	
Net Change from prior year SOY to budget year EOY			0
1/ Direct FTEs 544 and Reimbursable (Puerto Rico Cover Over) FTEs 15 = 559			

4A – Human Capital Strategy Description

By properly managing its human capital needs, TTB supports Treasury's strategic goals:

1. Increase Citizens' Economic Security, and;
2. Manage the U.S. Government's Finances Effectively,

To accomplish and fulfill both TTB's and Treasury's strategic plans, TTB has taken several steps in order to not only maintain its current professional workforce but also augment it. TTB has completed its first Human Capital Strategic Plan that is aligned with the Bureau Strategic Plan. The plan documents strategies to improve skill and competency gaps, demographics, workforce management and performance measurement efforts, and succession planning. The model for strategically assessing TTB's skills gap outlook for future years is predicated on assumptions regarding future changes in the workforce, including retirement eligibility rules and rates of attrition. The skills gap forecast will be developed by assessing and modeling the changing nature of TTB's mission critical occupations and the Bureau's mission.

The President's Budget is introducing legislative language to extend the Pay Demo Pilot Program for FY 2007. A recommendation will be made on the results of the evaluation of the pilot program. The Pay Demo program will continue to be used by the Bureau to develop and retain high caliber employees. TTB expects to lose 50 percent of its workforce between now and 2010 due to retirements and other attrition. To accommodate these losses from the baseline it is vital that TTB continue to have the use of the personnel interventions identified in the pay demonstration project to enable the Bureau to improve its capacity to recruit, develop, and retain high-caliber employees. TTB must have the flexibility to continue to utilize the tailored approaches designed, developed and implemented specifically to the Bureau's continuing and evolving needs in order to meet mission requirements and remain competitive with private industry and other Federal agencies for highly skilled talent. TTB has roughly 120 participants in the program that function in mission critical occupations such as chemists, industry analysts, auditors and information technology specialists.

The estimated pay for performance awards per participant covered under this program average $3,900 or 5 percent of the base pay, and at full hiring capacity TTB estimated 120-132 program participants with total payouts in FY 2007 estimated at roughly $550,000.

4.2– Summary of IT and Non-IT Resources Table

Summary of IT and Non-IT Resources
Table 4.2
(Dollars in Millions)

Major Investments	Budget Activity	FY 2005 Obligations	FY 2006 Enacted	FY 2007 Request
Information Technology:				
		$0.000	$1.700	$0.000
	Protect the Public and Collect the Revenue			
		0.000	0.000	0.000
Subtotal		$0.000	$1.700	$0.000
Non-Information Technology:				
		0.000	0.000	0.000
Subtotal		$0.000	$0.000	$0.000
Total Major Investments		$0.000	$1.700	$0.000

4B – Information Technology and Non-Information Technology Strategy

TTB has a modernization blueprint that focuses information technology (IT) investments on important bureau functions and defines how those functions will be measurably improved. All TTB systems and projects have business cases that have been approved by Treasury's Office of Chief Information Officer, and 100 percent of IT systems have certification and accreditation. The bureau will aggressively pursue all e-Gov opportunities that will reduce taxpayer burden for tax filing and increase all regulatory compliance. TTB has established its own investment review board that evaluates and makes preliminary selection decisions by addressing high level questions:

1) Does the initiative have value to TTB?
2) Is there a balance of benefits against costs and risks?
3) Are TTB eliminating duplication and stovepipe projects?

TTB's investment review board ensures compliance with guidance and legislation. A scoring criterion was developed to help ensure that only sound and viable initiatives that support the Bureau's mission and strategic goals are included in the portfolio.

4.3 – Operating Levels

Operating Levels
Table 4.3
(Dollars in Thousands)

Appropriation Title: TTB Salaries & Expenses	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted	FY 2006 Proposed OperatingLevel	FY 2007 Total Budget Estimate	FY 2007 Direct Funding	FY 2007 Reimbursable (Proposed User Fees)
FTE	544	544			544	544	544	376	168
Object Classification:									
11.1 Full-Time Permanent Positions........................	36044	39,013	-	1852	38348	40865	40693	28108	12585
11.1 Other than Full-Time Permanent Positions......	0	0	-	0	0	0	0	0	0
11.5 Other Personnel Compensation.......................	408	0	-	0	0	0	718	496	222
11.8 Special Personal Services Payments.............	0	0	-	0	0	0	0	0	0
11.9 Personnel Compensation (Total).....................	0	0	-	0	0	0	0	0	0
12.0 Personnel Benefits..	10257	10,799	-	-258	10799	10541	10868	7506	3362
13.0 Benefits to Former Personnel..........................	0	0	-		0	0	0	0	0
21.0 Travel...	3886	4,282	-	-1000	4282	3282	4410	3046	1364
22.0 Transportation of Things.................................	117	0	-	136	0	136	104	72	32
23.1 Rental Payments to GSA.................................	5248	5,405	-	-630	5405	4775	4725	3264	1461
23.2 Rent Payments to Others................................	0	0	-	314	0	314	0	0	0
23.3 Communications, Utilities, & Misc....................	3786	4,570	-	473	4570	5043	4806	3320	1486
24.0 Printing and Reproduction..............................	0	0	-	408	0	408	0	0	0
25.1 Advisory & Assistance Services.......................	0	0	-	0	0	0	0	0	0
25.2 Other Services..	20557	23,240	-	-568	22993	21761	23959	16549	7410
25.3 Purchase of Goods/Serv. from Govt. Accts....	0	0	-	0	0	0	0	0	0
25.4 Operation & Maintenance of Facilities............	0	0	-	0	0	0	0	0	0
25.5 Research & Development Contracts................	0	0	-	0	0	0	0	0	0
25.6 Medical Care..	0	0	-	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment..........	0	0	-	0	0	0	0	0	0
25.8 Subsistence & Support of Persons..................	0	0	-	0	0	0	0	0	0
26.0 Supplies and Materials....................................	661	661	-	-40	661	621	682	471	211
31.0 Equipment..	1222	2,656	-	-537	2656	2119	1639	1132	507
32.0 Lands and Structures......................................	150	500	-	-150	501	350	0	0	0
33.0 Investments & Loans......................................	0	0	-	0	0	0	0	0	0
41.0 Grants, Subsidies...	0	0	-	0	0	0	0	0	0
42.0 Insurance Claims & Indemn............................	0	0	-	0	0	0	0	0	0
43.0 Interest and Dividends…………………………	0	0	-	0	0	0	0	0	0
44.0 Refunds..	0	0	-	0	0	0	0	0	0
Total Budget Authority…………………………………	$82,336	$91,126	-	$0	$90,215	$90,215	$92,604	$63,964	$28,640
Budget Activities:									
Protect the Public………………………………………	$37,051	50,119	$0	$5,413	$40,597	$44,205	$47,228	$18,588	$28,640
Collect the Revenue……………………………………	45,285	41,007	0	(5,413)	49,618	46,010	45,376	45,376	0
Total Budget Authority…………………………………	$82,336	$91,126	$0	$0	$90,215	$90,215	$92,604	$63,964	$28,640

Excludes $1.7 million in Puerto Rico Reimbursable Funding "Cover Over"

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

Federal Funds

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*.)

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 [2006] 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.

<u>Treasury General Provisions:</u>

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

<u>JUSTIFICATION OF LANGUAGE CHANGES (EXHIBIT 1c)</u>

The Homeland Security Act of 2002 authorized the new Alcohol and Tobacco Tax and Trade Bureau. The Act provided for the continuation of the personnel management demonstration project, which is contained in the Treasury Department’s General Provision language. The Homeland Security Act of 2002 also provided for the establishment of the Bureau of Alcohol, Tobacco, Firearms, and Explosives under the Department of Justice.

[The Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 authorized by the Secretary of the Treasury to establish a Department of the Treasury demonstration project for designated critical occupations. This project was established to enhance Treasury’s ability to effectively recruit and retain highly qualified employees.]

Legislative Proposals on Pay Demo Program:

The FY 2006 President's Budget includes a general provision to extend the Pay Demonstration Program an additional year. The Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY 1999 authorized by the Secretary of the Treasury to establish a Department of the Treasury demonstration project for designated critical occupations. This project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. It seeks to do so by implementing changes in personnel management practices for designated occupations. For FY 2007, TTB proposes to continue the Pay Demonstration Program by amending the general provision language to extend the program an additional year.

The legislative authorization history to date on the Pay Demonstration Project:

- The Pay Demonstration Project was originally enacted for the Department of the Treasury and the Department of Justice for a three-year period in the Departments of Commerce, Justice, State, the Judiciary, and Related Agencies Appropriates, 1998, Public Law 105-119 (November 26, 1997). See section 122(g), 111 Stat. 2470, relating to the Department of the Treasury.
- The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Public Law 105-277 (October 21, 1998) continued the enactment of the project for three years from the date of the enactment. See section 102, 112 Stat. 2681-585.
- The Treasury and General Government Appropriations Act, 2002, Public Law 107-67 (November 21, 2001) extended the project by substituting four years for three years. See section 120, 115 Stat. 525.
- The Homeland Security Act of 2002, Public Law 107-296 (November 25, 2002), transferred the Pay Demonstration project to the Attorney General for the continued use by ATF and the Secretary of the Treasury for continued use by TTB. See section 1115, 116 Stat. 2274.
- The Omnibus Consolidated Appropriations Act, 2003, Public Law 108-7 (February 20, 2003) extended the project by substituting five years for four years. See section 119. Prior to the enactment of this appropriation for FY 2003, the project continued in place at ATF/TTB under numerous continuing resolutions.
- The Omnibus Consolidated Appropriations Act, 2004, Public Law 108-199 (January 23, 2004) extended the project by substituting six years for five years. See section 216, 118 Stat. 320.
- The Omnibus Consolidated Appropriations Act, 2005, Public Law 108-477 (December 4, 2004) extended the project by substituting seven years for six years.
- The Department of Transportation, Treasury, Housing and Urban Development, Judiciary, District of Columbia, and Independence Agencies, Public Law 109-115 (November 30, 2005) extended the project by substituting eight years for seven years.

Legislative Proposal on User Fees

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 (COLAs) for distilled spirits, wine and beer, American Viticultural Areas (AVA), proposed formulas, and new permit applications. This change would generate estimated user fee collections of $28,640,000 annually. Authorizing legislation will be proposed that amends the Internal Revenue Code (Title Internal Revenue Code of 1986, 26 U.S.C.) and the Federal Alcohol Administration Act (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.

Inclusions

The new user fees include administrative fees to cover the cost of processing claims for drawback of tax, processing applications for Certificate of Label Approvals (COLAs) for distilled spirits, wine and beer, applications for new American Viticultural Areas (AVA), submissions of proposed formulas, and applications for new permits. The industry would pay for the benefits it receives from TTB’s regulatory efforts. These efforts protect the public against misleading labels and adulterated alcohol products, and prevent dishonest persons from entering the alcohol and tobacco trade, while promoting fair competition among industry members.

- **Manufacturers of Non Beverage Products (MNBP)**

  - Under current law, manufacturers of non-beverage products may be eligible to claim a drawback of tax for the use of tax paid distilled spirits in its products (26 U.S.C. 5134). The net payment of $1 per proof gallon is intended to cover administrative costs in processing the claims. The proposal includes an increase in the net payment from $1 to $2 per proof gallon. This fee has not been increased in over fifty years.

- **COLA User Fee**

  - *Application Fees for COLAs/Certificates of Exemption*: Under 27 U.S.C. 205(e), producers, bottlers and wholesalers of alcohol beverage products must first obtain a COLA before bottling such alcohol beverage products. Those who will sell the alcohol beverage products intrastate must apply for a Certificate of Label Exemption. These requirements also apply to importers; a COLA must be obtained as a condition for removal of the alcohol beverage product from Customs custody. TTB must review each label submitted to determine compliance with its labeling regulations. The COLA user fee would cover the costs of reviewing and processing such COLA applications. A key feature of the proposal is to encourage businesses to file their applications electronically, so a two-tier (electronic vs. paper) fee structure would be introduced as an incentive for businesses to file their applications on an electronic basis rather than the traditional paper submission.

- **Petition for American Viticultural Areas (AVA) User Fee**

  - *Applications for new American Viticultural Areas (AVAs)*: A Viticultural area is a delimited place or region with boundaries that are recognized for use on labels of wine (27 C.F.R. 4.25(e)). Petitions may be made to TTB for recognition of new AVAs. TTB must review the petition and submit it for formal rulemaking.

- **Formula Reviews User Fees**

  - *Review of Formulas*: TTB regulations require industry members to submit various formulas and statements of process for certain alcohol beverage products (27 C.F.R. 5.25, et seq). In its review, TTB may also conduct lab analyses of such products. Such work is necessary for TTB to determine the proper labeling classifications of the products, and to determine whether a proposed manufacturing process results in a change of character, composition, class or type of product.

- **Lab Analysis for Sulfur Dioxide Waiver and/or Methanol in Grappa**

  - *Lab Analysis:* A user fee is proposed on work related to Lab analysis and issuance of a report for waiver of sulfur dioxide and/or methanol in grappa warning statement on the label.(Grappa may be generically defined as a spirit--dry and high in alcohol).

- **Permits Original Application User Fee**

  - *Applications for New Permits:* Under 27 U.S.C. 203(a), a person may not engage in the business of manufacturing or importing, bottling or warehousing alcohol beverage products without a permit. TTB must review and investigate the qualifications of the applicant, including the applicant’s potential criminal background and whether he or she is likely to operate in conformity with Federal law.

Fee Requirement:

The fee to be charged under the program required shall not in any event be less than the amount under the following table:

Category	**Minimum Fee**
Permit applications	$ 500
Certificate of label approval applications – electronic filing	$ 50
Certificate of label approval applications – paper filing	$ 100
American viticultural area petitions	$3,000
Formula review (with no laboratory analysis)	$ 200
Formula review (with laboratory analysis)	$ 600
Laboratory analysis (other than for formula review)	$ 150

Exclusions

Certain services and activities covered under the "Protect the Public" mission do not lend themselves to the user fee initiative. As a result, the following activities are not intended to be subject to user fees:

- **Enforcement of Regulatory Provisions.** Enforcement of TTB's laws and regulations is designed primarily to protect the public. Investigators conduct product integrity inspections and other fieldwork that provides an assurance to the general public that the product they purchase is what it is represented to be.

- **Market Compliance (including import/export activities).** TTB has excluded certain services provided under Advertising, Labeling and Formulation Division (ALFD), the International Trade Division (ITD), and the Trade Investigations Division on the basis that the underlying activities are directed more to protecting the public than benefiting any industry member. TTB has excluded those efforts of ALFD with regards to responding to consumer complaints. Activities that ALFD conducts with regard to case processing on product integrity inspections; the Alcohol Sampling Program; and the Alcohol Advertising Program have been excluded. In addition, activities covered under ITD that facilitate trade of alcohol beverages in the international area have also been excluded, because imposing user fees discourages free trade with other countries.

- **Lab Analysis Regarding Contaminants.** Lab analysis of beverage alcohol products to examine for contaminants provides benefits to the general public and provides no specific benefit to the user.

- **Permit Renewal Fees for Existing Permittees or for Amended Applications.** User fees on permits would not apply to existing permittees or amended applications. There are roughly 4,000 existing permittees that pay nearly $15 billion in excise taxes per year. Implementing user fees on existing members who pay excise taxes is contradictory to OMB Circular A-25. Amended applications occur when permittees change addresses, board members, etc.

Treasury
Office of Inspector General

Mission

The Treasury Office of Inspector General (OIG) conducts and supervises audits and investigations of Treasury programs and operations; provides leadership and coordination and recommends policies for activities designed to (a) promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations and (b) prevent and detect fraud, waste, and abuse in Treasury programs and operations; and keeps the Secretary and the Congress fully and currently informed about problems, abuses, and deficiencies in Treasury programs and operations.

Appropriation Summary
Table 1.1
(Dollars in Thousands)

OIG Salaries and Expenses Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Audit	$11,299	$11,549	$11,908	$359	3.1%
Investigations	5,069	5,281	5,444	163	3.1%
Total Appropriated Resources	$16,368	$16,830	$17,352	$522	3.1%

FY 2007 Priorities

- Complete 56 audits,
- Complete 100 percent of statutory audits on time, and
- Refer 85 fraud, waste or abuse investigative cases for criminal prosecution, civil litigation or administrative action.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Office of Inspector General (OIG) provides independent oversight of the Department of Treasury and eight bureaus. The OIG has two primary offices, the Office of Audit (OA) and the Office of Investigations (OI), that: (1) conduct and supervise audits and investigations of Treasury programs and operations; (2) provide leadership and coordination and recommend policies for activities designed to (a) promote economy, efficiency, and effectiveness in the administration of Treasury programs and operations and (b) prevent and detect fraud, waste, and abuse in Treasury programs and operations; and (3) keep the Secretary and the Congress fully and currently informed about problems, abuses, and deficiencies in Treasury programs and operations.

The OIG's requested funding will be used to provide critical audit and investigative services, ensuring the effectiveness and integrity of Treasury's programs and operations. While there are a number of critical areas where the OIG will provide oversight, highlights of three of the Department's most serious management challenges and where OIG would like to focus its work include:

Programs to Combat Terrorist Financing and Money Laundering -- The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA), but largely relies on other Treasury and non-Treasury regulatory agencies to enforce the requirements of the BSA, including the enhanced terrorist financing provisions in the USA PATRIOT Act. Past audits and a series of Congressional hearings have surfaced regulatory gaps in either the detection of BSA violations or its timely enforcement. This management challenge will continue to be a major focus of the OIG audit program.

Efforts to Ensure the Security of Treasury's Information Systems -- The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards and guidelines. In the FY 2005 Federal Information Security Management Act (FISMA) independent evaluation, OIG continued to report that the Department has significant deficiencies in information security that constitute substantial non-compliance with the FISMA requirements. A core issue continues to be the need to establish and maintain a system inventory. OIG reported that Treasury's system inventory was not accurate, complete, or consistently reported. OIG also identified deficiencies in the Department's certification and accreditation, contractor oversight, plans of action and milestones, tracking corrective actions, training and security configuration policies. The Department made some progress in addressing information security issues during the past year; however, major improvements are still needed in order to meet information security requirements.

Treasury's Management of Capital Investments -- Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. OIG reported significant cost escalations in the Department's HR Connect system and Treasury and Annex Repair and Restoration (TBARR) projects. OIG plans to focus on the Department's transition from the Treasury Communication System to the Treasury Communications Enterprise (TCE), where audit work is currently being performed on the business case for this investment. However, the transition to TCE has been delayed due in part to a successful protest of the bid award, and the Department changing course on how it plans to address the bid protest decision.

1.1 – Appropriation Summary Table

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1B – Previous Highlights and Accomplishments

In FY 2005, the OIG completed 54 audits and evaluations, and opened 168 new cases and referred 85 investigations for criminal prosecution, civil litigation, or corrective administrative action. During the fiscal year, OIG audits identified monetary benefits (cost savings and/or funds put to better use) totaling nearly $52 million, and the investigative efforts led to more than $6 million in fines, restitution, recoveries and settlements paid to the government or aggrieved parties.

OIG has continued to increase 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 the FY 2006 level, but will not permit expansion of audit or investigation efforts.

OIG has continued to redirect a significant portion of its limited resources to auditing Treasury programs that combat terrorist financing and money laundering, including a number of important audits at FinCEN. As a result of this work, the Under Secretary for Terrorism & Financial Crimes has requested that the Office of Audit also review the responsibilities and authorities of the Office of Terrorism and Financial Intelligence.

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.

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 cooperation 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 deficiencies were identified which are being addressed by the Department.

The Treasury OIG Office of Investigations prevents, detects and 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 is also responsible for performing quality assurance, oversight and spot check reviews of Treasury law enforcement and security, intelligence or national security. 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 at the level it was before the FY 2003 divestiture. Complaints of fraud, waste and abuse requiring investigative review have averaged about 7,000 per year. Thus fewer investigators handling the same caseload has caused some delays in completing investigations, including the more complex or high visibility investigations. However, 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 2 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 thirteen 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.
- Another investigation identified a BEP employee who allegedly removed at least $5,000, in increments of $50 Federal Reserve Notes, from the Western Currency Facility (WCF) in Ft. Worth, Texas. The employee circumvented and/or violated multiple BEP security policies and procedures. The suspect has been terminated from BEP, and indictments are expected in the Northern District of Texas.

1C – Future Outlook

OIG expects to complete 56 audits and evaluations and refer 85 investigations in both FY 2006 and FY 2007. The OIG continues to lack sufficient resources to comprehensively audit the Department's programs and operations, and complete an increasing number of investigations in a timely manner as envisioned by the Inspector General Act of 1978.

The audit priorities for FY 2007 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 (potentially more than $25 million) to the deposit insurance funds,
- Department's progress in addressing the President's 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.

OIG 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).

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 investigative priorities for FY 2007 are:

- 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,
- Performing oversight or quality assurance reviews of the Department's law enforcement programs and operations (BEP or Mint Police), 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 the improvements in the OIG's efforts to aggressively investigate, close and refer cases in a timely manner.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: OIG Salaries and Expenses	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	115	$16,500		
Rescission (P.L. 108-447)		(132)		
FY 2005 Enacted	115	$16,368		
FY 2006 Enacted (P.L. 109-115)	115	17,000		
Rescission (P.L. 109-148)		(170)		
FY 2006 Enacted	115	$16,830		
Changes to Base				
Non-Pay Inflation Adjustment		115		
Pay Annualization		92		
Proposed Pay Raise		315		
Total FY 2007 Base	115	$17,352		
Program Changes				
Subtotal FY 2007 Program Changes	0	0		
Total FY 2007 President's Budget Request	115	$17,352		M5

2A – Budget Increases and Decreases Description

Changes to Base.. +$522,000

Adjustments Necessary to Maintain Current Levels +$522,000/ 0 FTE: Funds are for: the FY 2007 cost of the January 2006 pay increase of $92,000; the proposed January 2007 pay raise of $315,000; other labor related benefits; and non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of $115,000.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Appropriation Detail Table
Table 3.1
(Dollars in Thousands)

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Audit	74	11,299	74	11,549	74	11,908	0.0%	3.1%
Investigations	41	5,069	41	5,281	41	5,444	0.0%	3.1%
Total - Newly Appropriated Resources	115	$16,368	115	$16,830	115	$17,352	0.0%	3.1%
Other Resources:								
Reimbursable Activities	6	2,342	5	2,342	5	2,342	0.0%	0.0%
Subtotal - Other Resources	6	2,342	5	2,342	5	2,342	0.0%	0.0%
Total - Resources Available for Obligation	121	$18,710	120	$19,172	120	$19,694	0.0%	2.7%

3A – Budget Activity Description

Audit: The Office of Audit conducts audits of eight Treasury bureaus and all non-IRS Treasury offices, and produces more than 50 reports annually; providing a firsthand, unbiased perspective and recommendations for improving the economy, efficiency and effectiveness of Treasury programs and operations. The Office of Audit often identifies significant cost savings to the government, principally through self-initiated audits.

The Office of Audit also responds to requests by Treasury officials and the Congress for specific work. While Congress requires certain audits be conducted every year, the number of additional congressionally-required audits has increased in recent years.

The work of the Office of Audit is subject to the availability of funding, so the number of projects the Office of Audit can take on is also limited. In FY 2005 the OIG undertook seven new self-initiated projects while completing work on nine self-initiated projects started during the prior fiscal year. During FY 2005, the self-initiated work identified nearly $52 million in potential monetary benefits.

Many audit benefits cannot be quantified in dollars but identify areas where improvement is critical to the success of Treasury programs and operations. For example, in FY 2005 the OIG reported that (1) FinCEN needed to address continued problems with the quality of suspicious activity reports filed under the BSA, (2) BEP's network and systems remained vulnerable to attacks even though progress has been made and (3) the Mint's A-76 competitive sourcing study for coin blank production was significantly delayed and required substantial revision before a legitimate competition could take place.

OIG's planning process identified significant Treasury activities that need audit attention, but are dependent on funds availability, such as:

- Treasury's Debt Issuance Process ($4 trillion in debt held by the public) – last audited in 1999,
- FMS' Controls Over Disbursements ($1.5 trillion annually)*,
- CDFI Fund's New Markets Tax Credit Program ($15 billion),
- TTB Tax Audit Division Targeting Program ($15 billion)*,
- OCC/OTS Examination Coverage of Financial Institutions Off-Shore Outsourcing*,
- Background Checks Over Individuals Handling Sensitive BSA Reports*, and
- Follow up work to verify that corrective actions for previously reported deficiencies were, in fact, implemented and effective.

* Program has never been audited.

In summary, to provide viable audit coverage to the Department and oversight on behalf of the Department's stakeholders, each of Treasury's most significant programs and operations should be audited on a regular basis apart from mandates, prior findings, or new programs and initiatives. However, due to higher priority work and limited resources, such regular audit coverage has not been possible for some time.

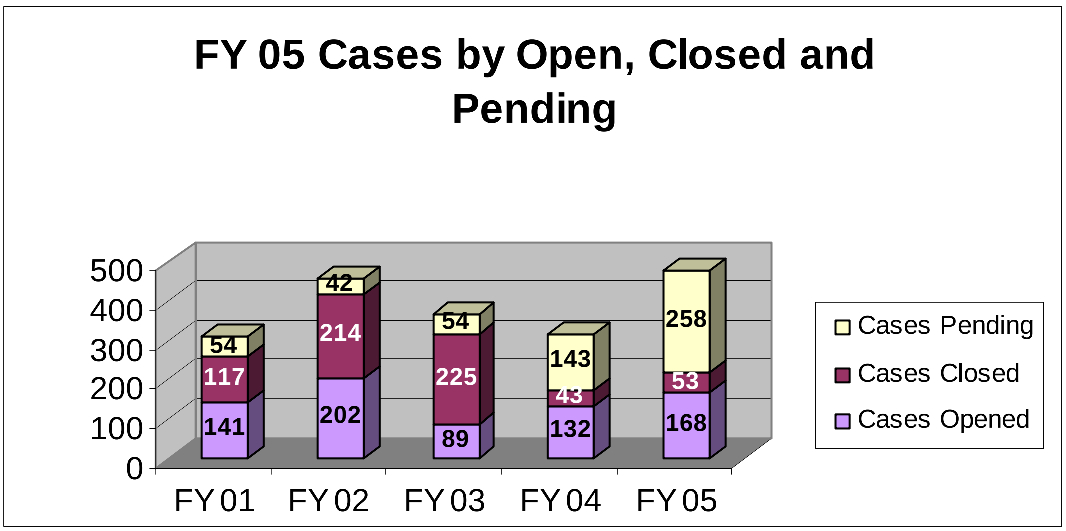
<u>Investigations:</u> The Office of Investigations prevents, detects and investigates complaints of fraud, waste and abuse at eight Treasury bureaus and all non-IRS Treasury offices. This includes the detection and prevention or deterrence of employee misconduct and fraud, or related financial crimes 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.

Complaints of fraud, waste, and abuse requiring investigative review have remained constant (at about 7,000 per year) since FY 2002, although the Office of Investigations, has had 60 percent fewer investigators to complete these reviews. In FY 2002, Investigations had 101 FTE and opened 202 new cases. In FY 2005, Investigations had 41 FTE and opened 168 new cases. This is a 59 percent reduction in staff, with only a 17 percent reduction in new cases.

Since the number of new cases has increased disproportionately to the number of criminal investigators, each OIG criminal investigator currently carries a caseload of about 14 active cases. This is almost triple the number of cases carried by criminal investigators across the federal law enforcement community and at other Offices of Inspector General, where most criminal investigators carry just five cases each. In comparison, prior to divestiture each OIG criminal investigator carried an average caseload of five to six cases.

The Office of Investigations prioritizes its workload by directing investigators to work on their most significant cases first. However, with the large caseloads, significant casework delays have occurred. For example, a recent trend analysis of cases has shown that investigators have been able to work on only 41 percent of their open cases each month.

The OIG has taken continuing steps to mitigate the impact of individual agents carrying unreasonably large caseloads. In 2005, OIG hired and trained additional investigators; restructured the Office of Investigations for more effective operations; and increased agent and case supervision to improve case direction, review and oversight. In total, these steps have had the affect of moderating investigator workload and enabling each investigator to bring more cases to timely completion and referral.



The total number of Investigations' open cases has increased more than threefold since 2003. This has led to an unreasonably large workload for the Office of Investigations workforce, with some resultant investigative delays. These delays have the potential to adversely affect successful completion of cases as evidence becomes stale, lost or potentially destroyed and witnesses become unavailable. Delays in investigating some of the more complex or high visibility allegations may exceed one year.

3.2 – Budget and Performance Plan Tables

Dollars in Thousands

Budget and Performance Plan Table
Table 3.2
(Dollars in Thousands)

Treasury Strategic Goal: Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury (M5)						
Resource Level	FY 2002 Enacted	FY 2003 Enacted /1	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective M5:						
Budget Activities: Audit and Investigations						
Financial Resources						
Newly Appropriated Resources	$35,424	$10,987	$14,158	$16,368	$16,830	$17,352
Other Resources						
Total Operating Level	$35,424	$10,987	$14,158	$16,368	$16,830	$17,352
Human Resources						
Newly Appropriated FTE	282	87	99	115	115	115
Other FTE						
Total FTE (direct only)	282	87	99	115	115	115

/1 Adjusted for divestiture of resources to Department of Homeland Security

Strategic Objective: Protect the Integrity of the Department of the Treasury - M5A

Budget Activity: Audit

Performance Goal: Complete 100 percent of audits required by statute by the required date.

Percent of statutory audits completed by the required date (%) (E)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Target	100	100	100	100	100	100
Actual	100	92	100	100		
Target Met?	Y	N	Y	Y		

Budget Activity: Audit

Performance Goal: Complete 53 audits

Number of completed audits and evaluations (Ot)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Target	130	146	48	53	56	56
Actual	130	116	49	54		
Target Met?	Y	N	Y	Y		

Budget Activity: Investigations

Performance Goal: Keep the Secretary of the Treasury and the Congress fully and currently informed about problems and deficiencies in Treasury programs and operations, and the need for and progress of corrective actions.

Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action. (Oe)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Target	15	24	15	72	85	85
Actual	15	26	23	85		
Target Met?	Y	Y	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3B – Description of Performance

The OIG has achieved the performance targets outlined above, and at current resource levels expects to meet the performance targets for FY 2006 and FY 2007. 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.

Since 2003, OIG has steadily increased 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.

OIG continued to redirect a significant portion of its limited resources to auditing Treasury programs that combat terrorist financing and money laundering, including a number of important audits at FinCEN, including the Bank Secrecy Act (BSA) program.

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.

The Treasury OIG 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. With the additional Special Agents, Special Agent in Charge (SAC)/Assistant Special Agent in Charge (ASAC) positions created in late FY05, the Office of Investigations realigned operations to better address the growing workload. This is a significant interim step, and has increased the Office of Investigations ability to re-assess, and close some cases OI was previously unable to complete. The result of this increased number of Special Agents is a reduction in caseload from approximately 25.7 cases per agent in FY 2003 to a projected 10.7 cases per agent in FY 2006. This in turn has resulted in greater productivity in bringing more cases to closure. In FY 2005 OIG referred 85 cases for criminal prosecution, civil litigation or administrative action, up from 68 in FY 2004.

The OIG also maximized its efficiency, productivity, and has significantly pared down its costs by partnering with the Bureau of Public Debt’s Administrative Resource Center, which provides common administrative 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 also implemented a paperwork management system to reduce the amount of valuable audit and investigative talent expended on document control.

3C – PMA Evaluation Description

OIG has attained a green status in each area.

Human Capital

The OIG identified two mission critical occupations that closely align to its two budget activities, audit and investigations, and has integrated workforce plans for these specialized professionals (auditors, criminal investigators) with strategic and annual plan goals and objectives.

The OIG has had exceptional recruitment success using automated tools to maintain its human capital pipeline for almost four years, with OIG job announcements attracting upwards of 1,000 applicants, and selections made and positions offered, all within a 30-day period.

Competitive Sourcing

The OIG completed the FAIR Act inventory, with 75 percent of OIG positions classified as inherently governmental. The remainder, though classified as commercial, has been determined to be non-competitive due to the nature and sensitivity of the inspector general function.

Financial Performance

The OIG meets all financial statement reporting deadlines. The OIG has no Anti-Deficiency Act violations, and no material internal control weaknesses, or non-compliance with laws or regulations.

E-Government

One hundred percent of all IT systems are secured (certified and accredited).

The OIG submits quarterly status reports on correcting IT security weaknesses; all steps being completed ahead of schedule.

Budget-Performance Integration

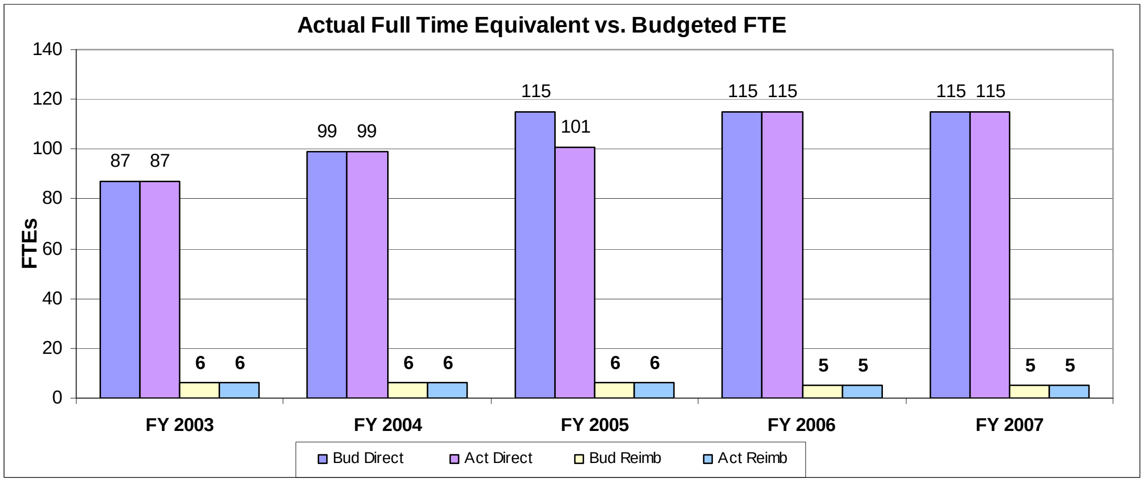
OIG senior managers examine reports that integrate financial and performance information every two weeks.

Strategic and annual plans, and performance appraisals and awards are directly linked to agency performance measures

3.3 – PART Evaluation Table

The OIG is not included in the PART process.

4.1 – Human Resources Information



CHANGES IN FULL-TIME EQUIVALENTS

	FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year (Note 1)	**99**	**101**	**115**
Increases:			
Reason #1: Congressional increase to the FY 2005 appropriation to assist OIG in further recovery from the 2003 divestiture	2	14	
Subtotal, Increases	**2**	**14**	**0**
Decreases:			
Subtotal, Decreases	**0**	**0**	**0**
Year-end Actual/Estimated FTEs (Note 1)	**101**	**115**	**115**
Net Change from prior year SOY to budget year EOY			**14**

Note 1 - Direct FTE only; does not include IGATI reimbursable FTE who perform no audit or investigative functions for OIG.

4A – Human Capital Strategy Description

OIG has identified two mission critical occupations that closely align to its two budget activities. Workforce plans for these specialized professionals (auditors, criminal investigators) integrate with strategic and annual plan goals and objectives. The OIG has had exceptional recruitment success using automated tools to maintain its human capital pipeline for almost four years. OIG job announcements attract upwards of 1,000 applicants. Selections are made and positions are offered, all within a 30-day period.

4.3 – Operating Levels Table

Dollars in Thousands

Operating Levels
Table 4.3
(Dollars in Thousands)

Appropriation Title: OIG Salaries & Expenses	FY 2005 Enacted	FY 2006 Enacted	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	115	115			115	115	115
Object Classification:							
11.1 Full-Time Permanent Positions	8,876	10,034	(130)		9,904	10,310	10,655
11.1 Other than Full-Time Permanent Positions	50	245			245	100	45
11.5 Other Personnel Compensation	100	600			600	200	90
11.8 Special Personal Services Payments	0	0			0	0	0
11.9 Personnel Compensation (Total)	9,026	10,879	(130)		10,749	10,610	10,790
12.0 Personnel Benefits	2,000	2,110	(40)		2,070	2,384	2,443
13.0 Benefits to Former Personnel	0	0			0	63	0
21.0 Travel	400	600			600	437	440
22.0 Transportation of Things	500	0			0	0	0
23.1 Rental Payments to GSA	1,400	1,652			1,652	1,365	1,410
23.2 Rent Payments to Others	0	0			0	0	0
23.3 Communications, Utilities, & Misc.	500	404			404	333	350
24.0 Printing and Reproduction	22	0			0	6	10
25.1 Advisory & Assistance Services	240	0			0	0	0
25.2 Other Services	150	100			100	280	285
25.3 Purchase of Goods/Serv. from Govt. Accts	850	550			550	880	900
25.4 Operation & Maintenance of Facilities	250	100			100	181	202
25.5 Research & Development Contracts	0	0			0	0	0
25.6 Medical Care	30	0			0	30	32
25.7 Operation & Maintenance of Equipment	300	67			67	106	200
25.8 Subsistence & Support of Persons	0	0			0	0	0
26.0 Supplies and Materials	100	135			135	75	90
31.0 Equipment	600	403			403	80	200
32.0 Lands and Structures	0	0			0	0	0
33.0 Investments & Loans	0	0			0	0	0
41.0 Grants, Subsidies	0	0			0	0	0
42.0 Insurance Claims & Indemn.	0	0			0	0	0
43.0 Interest and Dividends	0	0			0	0	0
44.0 Refunds	0	0			0	0	0
Total Budget Authority	$16,368	$17,000	($170)	$0	$16,830	$16,830	$17,352
Budget Activities:							
Audit	11,299	11,667	11,549		11,549	11,549	11,908
Investigations	5,069	5,333	5,281		5,281	5,281	5,444
Total Budget Authority	$16,368	$17,000	$16,830	$0	$16,830	$16,830	$17,352

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

OFFICE OF INSPECTOR GENERAL

Federal Funds

General and Special Funds:

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

Fiscal Year 2007 Budget Congressional Justification

Mission

The Treasury Inspector General for Tax Administration provides audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws.

Appropriation Summary
Table 1.1
(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Audit	$48,392	$49,761	$51,521	$1,760	3.5%
Investigations	79,701	82,192	84,948	2,756	3.4%
Total Appropriated Resources	$128,093	$131,953	$136,469	$4,516	3.4%

FY 2007 Priorities

- Issue 128 audit reports that will address the IRS' major management challenges and result in recommendations that lead to improvements in these areas,
- Audit reports will result in more than $130 million of total potential cost savings and potentially impact more than 14.5 million taxpayers,
- Conduct professional criminal and administrative investigations that lead to criminal prosecutions for both employees and non-employee perpetrators, and administrative disciplinary actions for IRS employees, and
- Attain a performance ratio of 70 percent of final closed cases with positive results in three core mission areas: IRS employee integrity, external attempts to corrupt tax administration and infrastructure security. Positive results are the investigative reports resulting in criminal, civil or administrative adjudication or the identification of matters of security or investigative interest.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Treasury Inspector General for Tax Administration (TIGTA) provides independent oversight of Internal Revenue Service (IRS) activities. TIGTA has two primary offices: the Office of Audit (OA); and the Office of Investigations (OI). TIGTA's audits and investigative services protect and promote the fair administration of the tax system and ensure that the IRS is accountable in its administration of internal revenue laws. TIGTA's purpose is to 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, and the need for corrective action.

TIGTA's requested funding will be used 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 primary priority areas include: 1) IRS' efforts to modernize technology; 2) TIGTA's ability to protect tax administration from corruption; 3) IRS' efforts to improve tax compliance; and 4) IRS' use of private debt-collection agencies. Information on each of these priorities is presented below.

IRS' Efforts to Modernize Technology - Modernizing the IRS' computer systems has been a persistent challenge for many years, and will likely remain a challenge for the foreseeable future. Through December 2005, the IRS has received appropriations of approximately $2 billion to support the Business Systems Modernization (BSM) program. It is estimated that the BSM program will last up to 15 years and cost more than $8 billion. Although progress is being made, the modernization program is behind schedule, over budget, and is delivering less functionality than originally planned. The IRS must demonstrate that it can effectively manage the BSM program before the program's chances for success improve. TIGTA will continue to assess the IRS' efforts at managing the risks involved in this significant area.

Protecting Tax Administration from Corruption - Corruption jeopardizes faith in the tax administration system, therefore, it must be eliminated to protect the IRS, its employees, and facilities. The goal of TIGTA's investigations is to produce high-quality products that promote IRS employee integrity, protect IRS employees and infrastructure and defend the IRS against external attempts to corrupt tax administration. TIGTA will continue its diligence in conducting investigations and protecting the integrity of tax administration.

Improving Tax Compliance Initiatives – The IRS continues to face challenges in ensuring that taxes owed are paid on time. The importance of this issue cannot be overstated. The Nation's ability to provide for the general welfare and protection of its citizens is based on the ability to raise revenue through taxes. The widely recognized tax gap, which consists of the amount of taxes that are owed but not collected each year, is unacceptably high. In the most recently updated estimate of the tax gap, released March 29, 2005, and developed for Tax Year 2001, the IRS estimated the annual gross tax gap to be between

$312 billion and $353 billion. Audit and investigative work in this area will address the vulnerabilities at the IRS that contribute to the tax gap, and will identify opportunities and make recommendations for improvement.

Use of Private Debt-Collection Agencies – The passage of the American Jobs Creation Act of 2004 cleared the path for the IRS to initiate a delinquent tax debt collection effort through the use of private contractors. This is an important and highly visible initiative requiring TIGTA's oversight throughout the process. When fully implemented, the IRS intends to have up to 12 private contractors handling delinquent tax debt collection cases. IRS estimates that the Treasury could receive approximately $2.7 billion over the next 10 years from this program. While the use of private collection agencies could result in significant recoveries of unpaid taxes, the potential for abuse of taxpayers' rights exists. Private debt collectors who abuse their authority while collecting taxes will be investigated, and appropriate civil and criminal sanctions will be imposed as warranted. In addition, TIGTA plays a key role in ensuring that the IRS utilizes this new authority effectively, while ensuring that taxpayers' due process and privacy rights are protected.

1.1 – Appropriation Summary Table

Dollars in Thousands

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Audit	48,392	49,761	51,521	1,760	3.5%
Investigations	79,701	82,192	84,948	2,756	3.4%
Total Appropriated Resources	$128,093	$131,953	$136,469	$4,516	3.4%

1B – Previous Highlights and Accomplishments

TIGTA has distinguished itself in the federal community as a leader in developing innovative approaches to maximize efficiency and productivity. For example, TIGTA's Telecommuting and Hoteling initiatives have been recognized as successes across the federal government. TIGTA has twice won awards for its initiatives in this area. The results of these initiatives have helped offset escalating GSA rent increases.

TIGTA has consistently used previous resources to successfully deliver program results. Specifically in FY 2005, TIGTA issued 180 audit reports, identifying $46.7 million in potential cost savings and $83.3 billion in potential increased or protected revenue. TIGTA's work provides recommendations that lead to improvements in significant areas such as systems modernization, tax compliance, tax-return processing and the implementation of tax-law changes.

There are numerous examples that demonstrate how TIGTA adds significant value to the IRS. For example:

- Each year the TIGTA audits the IRS' BSM program that addresses the design, development, and deployment of modernized systems, and the controls and effectiveness of the BSM contractor. These reviews have consistently identified the need to improve the BSM program. Audit reports related to the IRS' BSM program have contained recommendations that would improve the effective, timely delivery of BSM projects, which would result in cost savings and increased value to taxpayers. For example, based on TIGTA's 2004 annual BSM program assessment report, the IRS agreed to several overall recommendations, ensuring: the overall health of the BSM program was periodically subjected to a third-party assessment, modernization efforts were scaled back, and senior IRS business unit managers were held accountable for the success of modernization efforts related to business requirements.

- The audit work related to IT security, addresses such issues as: the IRS' compliance with the Federal Information Security Management Act, the IRS' progress in addressing material weaknesses in its computer systems, the use of audit trails to detect unauthorized actions, the security of external Web sites, the effective use of secure messaging, and the use of social engineering to obtain unauthorized information. The Office of Audit also reviewed the adequacy of security controls incorporated in the design and development of the IRS' modernized systems. These audit reports included numerous recommendations to IRS management that would improve both the physical and information technology security of the IRS. Specifically, one TIGTA review showed that the audit trails for detecting improper activities on modernized systems were not always functioning, thereby diminishing the IRS' ability to detect improper activity on computer systems. Another TIGTA review showed that while IRS employees have become more cognizant of security risks inherent in their daily activities, a hacker or disgruntled employee may still be able to obtain usernames and passwords to gain unauthorized access to IRS systems.

TIGTA also focused on IRS employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. In FY 2005, TIGTA received 8,012 complaints of alleged criminal wrongdoing or administrative misconduct, opened 3,513 investigations, and closed 3,468 cases. Investigations continue to prevent fraud and to enhance the integrity of the IRS tax administration. For instance, several FY 2005 investigations related to IRS contracts with lockbox facilities resulted in significant prosecutions:

- In one case, six former employees of Mellon Financial Services were indicted in for initially hiding, and then destroying, approximately 80,000 unprocessed federal tax returns, vouchers, and checks in an attempt to conceal their inability to fulfill their contractual requirements with the IRS.

- A second TIGTA investigation revealed that a former lockbox employee stole 26 taxpayer remittances totaling more than $2.7 million from an IRS lockbox facility.

Both investigations illustrate the importance of monitoring the IRS' use of private collection agencies to collect tax remittances or provide debt-collection services.

1C – Future Outlook

TIGTA will need to prioritize its discretionary funding and try to improve productivity to fulfill its mission.

In FY 2007, TIGTA will administer an audit program that strikes 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 the IRS may encounter as it implements new programs and rolls out 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 its strategic goals and eliminating identified material weaknesses. TIGTA will also provide audit coverage of the IRS' evolving private debt collection initiative.

TIGTA will continue to investigate complaints of wrongdoing that could potentially impact the integrity of tax administration. This includes continuing to conduct investigations that concentrate on three core areas: employee integrity; external attempts to corrupt tax administration; and employee and infrastructure security. TIGTA will also concentrate on heightening integrity awareness through the regular delivery of integrity awareness presentations to IRS employees, law enforcement agencies, tax practitioners and community groups. TIGTA will work together with the IRS, other government agencies, and the public to ensure that the Nation's taxes are collected fairly, lawfully, and free of corrupt interference.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: TIGTA Salaries and Expenses	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	862	$129,126		
Rescission (P.L. 108-447)	(10)	(1,033)		
FY 2005 Enacted	852	$128,093		
FY 2006 Appropriation (P.L. 109-115)	856	133,286		
Rescission (P.L. 109-148)	(6)	(1,333)		
FY 2006 Enacted	850	$131,953		
Changes to Base				
Pay Inflation Adjustment		2,965		
Non-Pay Inflation Adjustment		610		
Base Transfer from Internal Revenue Service		941		
Total FY 2007 Base	850	$136,469		
Program Changes				
Subtotal FY 2007 Program Changes	0	0		
Total FY 2007 Request	850	$136,469	Audit and Investigations	M5A

2A – Budget Increases and Decreases Description

Changes to Base .... +$4,516,000

<u>Adjustments to Maintain Current Levels +$4,516,000/0 FTE</u> - 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.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Audit	357	$48,392	355	$49,761	355	$51,521	0.0%	3.5%
Investigations	495	79,701	495	82,192	495	84,948	0.0%	3.4%
Subtotal Newly Appropriated Resources	852	$128,093	850	$131,953	850	$136,469	0.0%	3.4%
Other Resources:								
Recoveries								
Offsetting Collections - Reimbursable	9	$2,876	3	$1,200	3	$1,200	0.0%	0.0%
Available multi-year/no-year funds								
Transfers In/Out								
Subtotal Other Resources	9	2,876	3	1,200	3	1,200	0.0%	0.0%
Total Resources Available for Obligation	861	$130,969	853	$133,153	853	$137,669	0.0%	3.4%

3A – Budget Activity Description

TIGTA's operations are divided into two major budget activities: *audit and investigations*.

Audit *($51,521,000 from direct appropriations and $725,000 from reimbursements)* - The Office of Audit promotes the sound administration of the nation's tax laws through comprehensive, independent performance and financial reviews of the IRS' programs, operations and activities by assessing efficiency, economy, effectiveness and program accomplishments. The Office of Audit's reviews also help ensure compliance with applicable laws and regulations, and detect and deter fraud, waste and abuse. The IRS' implementation of audit recommendations results in cost savings and increased or protected revenue, reduction of taxpayer burden and protection of: taxpayer rights and entitlements; taxpayer privacy and security; and IRS resources.

Each fiscal year the Office of Audit prepares an audit plan that communicates audit priorities to Congress, the Department of the Treasury, and the IRS. The plan is organized around the IRS' core business activities. Emphasis is placed on mandatory coverage imposed by 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 focuses on the major management challenges facing the IRS, the IRS' progress in achieving its strategic goals and eliminating identified material weaknesses, and the IRS' response to the President's Management Agenda initiatives. Two examples of these major issues and their potential audit coverage follow.

Tax Compliance Initiatives - For some time, the IRS, Congress and other interested stakeholders have been concerned about the slow erosion of tax compliance. IRS tax compliance programs must ensure that noncompliant taxpayers are identified and penalized. The undermining of voluntary compliance begins when honest taxpayers believe that others are not paying their fair share. The challenge for the IRS is to establish a taxpayer compliance program that identifies those citizens who do not meet their tax obligations, either by not paying the correct amount of tax or not filing proper tax returns. TIGTA's audits in this area will concentrate on assessing the IRS' efforts to deal with issues such as obtaining timely and reliable data on the tax gap, helping taxpayers understand the tax laws, processing tax returns and enforcing compliance with tax laws, as well as other tax compliance issues.

Systems Modernization –The success of the IRS' systems modernization effort is critical, not only because of the amount of time and money at stake, but also to improve the level of service provided to taxpayers. TIGTA has recommended that the IRS slow the pace of the BSM program due to some of the risks that have surfaced. Specifically, the imbalance between the number and pace of BSM projects and available management capabilities has added significant cost, schedule and performance risks. In addition, TIGTA has identified four primary challenges that the IRS must meet for modernization to succeed:

1) Implement planned improvements in key management processes and commit necessary resources,
2) Manage the increasing complexity and risks of the modernization program,
3) Maintain continuity of strategic direction with experienced leadership, and
4) Ensure that the contractors' performance and accountability are effectively managed.

Without addressing these four challenges, modernization efforts will not succeed. TIGTA's audits will focus on the IRS' efforts to address these challenges as well as other issues related to BSM.

Other Resources - TIGTA receives approximately $725,000 in offsetting collections and reimbursements to support activity related to Defense Contract Audit Agency audits conducted on behalf of the IRS.

Investigations *($84,948,000 from direct appropriations and $475,000 from reimbursements)* - While most Offices of Inspector General focus primarily on fraud, waste and abuse, TIGTA's mission is more extensive. 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 do this, TIGTA conducts investigations in three core areas:

- Employee integrity – The IRS' ability to deliver taxpayer service, enforce tax laws effectively and collect the proper amount of taxes can be undermined by employee misconduct. TIGTA's investigations of employee misconduct allegations include extortion, theft, taxpayer abuses, false statements and financial fraud. In addition, an integral part of the employee integrity program involves investigations of unauthorized access, inspection and/or disclosure of confidential taxpayer records by IRS employees.

- External attempts to corrupt tax administration – External attempts to corrupt tax administration impede the IRS' ability to collect revenue. TIGTA's investigations of such attempts include bribes offered by taxpayers to compromise IRS employees, the use of fraudulent IRS documentation to commit crimes, impersonation of IRS officials and the corruption of IRS programs through procurement fraud.

- Employee and infrastructure security – The President designated IRS operations as a critical infrastructure. TIGTA meets the challenge of maintaining IRS employee and infrastructure security by conducting investigations in reaction to incidents in which IRS employees, facilities and infrastructure are sabotaged, threatened, or assaulted. Potential threats are identified by TIGTA's administration of a Criminal Intelligence Program that utilizes law enforcement and intelligence sources to proactively identify individuals and groups who may pose a threat to tax administration.

Investigative work in these areas is imperative for protecting the reputation and integrity of the IRS. Investigative results elevate the public's confidence in the IRS, and thereby promote voluntary compliance with federal tax laws.

Other Resources - TIGTA receives approximately $475,000 in offsetting collections and reimbursements to support activity related to the Inspector General Academy and other activity conducted on behalf of the Department of the Treasury.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Treasury Strategic Goal: Ensure professionalism, excellence, integrity and accountability in the management and conduct of the Department of Treasury (M5)						
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective M5A:						
Budget Activities: Audit						
Financial Resources						
Newly Appropriated Resources	50,318	48,781	48,347	48,392	49,761	51,521
Other Resources	50	709	50	1,092	725	725
Total Operating Level - Audit	$50,368	$49,490	$48,397	$49,484	$50,486	$52,246
Human Resources						
Newly Appropriated FTE	445	408	369	357	355	355
Other FTE	0	0	0	0	0	0
Total FTE (direct and reimbursable) - Audit	445	408	369	357	355	355
Treasury Strategic Objective M5A:						
Budget Activity: Investigations						
Financial Resources						
Newly Appropriated Resources	75,460	75,417	78,932	79,701	82,192	84,948
Other Resources	3,079	3,079	3,023	1,784	475	475
Total Operating Level - Investigations	$78,539	$78,496	$81,955	$81,485	$82,667	$85,423
Human Resources						
Newly Appropriated FTE	550	539	516	495	495	495
Other FTE	15	15	15	9	3	3
Total FTE (direct and reimbursable) - Investigations	565	554	531	504	498	498
Treasury Strategic Goal M5:						
Total Financial Resources						
Total Newly Appropriated Resources	125,778	124,198	127,279	128,093	131,953	136,469
Total Other Resources	3,129	3,788	3,073	2,876	1,200	1,200
Total Operating Level	$128,907	$127,986	$130,352	$130,969	$133,153	$137,669
Total Human Resources						
Total Newly Appropriated FTE	995	947	885	852	850	850
Total Other FTE	15	15	15	9	3	3
Total FTE (direct and reimbursable)	1,010	962	900	861	853	853

Strategic Objective: Protect the Integrity of the Department of the Treasury - M5A

Budget Activity: **Audit**

Performance Goal: Promote the Economy, Efficiency and Effectiveness of Tax Administration

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Average calendar days to issue final audit report (Ot)						
Target	250	250	300	300	325	325
Actual	308	317	338	358		
Target Met?	N	N	N	N		
Number of total taxpayer accounts potentially impacted as a result of audit activities (in Millions)(Ot)						
Target	14	14	13.4	13	14.5	14.5
Actual	7.5	47	49.7	2.8		
Target Met?	N	Y	Y	N		

Budget Activity: **Investigations**

Performance Goal: Protect the Integrity of Tax Administration

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of positive results from investigative activities (%) (Oe)						
Target			Baseline	67	70	70
Actual			64	82		
Target Met?	N/A	N/A	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3B – Description of Performance

TIGTA's performance target for the "Percentage increase in positive results from investigative activities" was baselined in FY 2004 (actual performance was 64 percent). Examples of the types of cases in the positive results category include: bribes offered by taxpayers to compromise IRS employees; manipulation of IRS systems and programs through the use of bogus liens and IRS financial reporting instruments; and impersonation of IRS officials. Examples of cases that do not achieve positive results concern allegations which TIGTA is required to investigate that are either closed with no action or do not meet administrative and/or criminal guidelines or criteria, such as: impersonation of an IRS official or theft of an IRS tax remittance where no perpetrator is identified; and bribes offered to IRS employees where something of value is not actually provided. At the conclusion of FY 2005, actual performance exceeded expectations (actual performance was 82 percent, while the target was 67 percent). These results are indicative of TIGTA's focus on quality results as defined during the baseline year.

In FY 2004, TIGTA achieved its target for "Increase in the total taxpayer accounts potentially impacted as a result of audit activities" (actual performance was 49.7 million taxpayer accounts potentially impacted, while the target was 13.4 million). At the conclusion of FY 2005, the number of taxpayer accounts potentially impacted was 2.8 million, while the target was 13 million. This measure includes the total number of taxpaying entities for whom rights and entitlements could be protected, taxpayer burden is reduced, or privacy and security of sensitive taxpayer data improved if TIGTA audit recommendations made in audit reports issued during a fiscal year were implemented.

In FY 2005, TIGTA did not achieve its target for the "Average calendar days to issue final audit report." The target was 300 average calendar days, while actual performance was 358 calendar days. Historically TIGTA has not been able to meet this goal due to the increased complexity of the audits. TIGTA must balance the goal of issuing timely reports with the need to provide the IRS with sufficient time to evaluate and respond to recommendations. As a result of these issues, TIGTA plans to change the target for this measure.

3C – PMA Evaluation Description

Competitive Sourcing

- The FAIR Act inventory is being completely revised to reflect reorganizations, significant FTE reductions and new Departmental guidance to ensure consistency in categorizing positions.

- TIGTA is participating in the Department's Shared Services initiative to provide common resources, procurement support, and expertise to support all competitive sourcing studies in the Department.

E-Government

- TIGTA successfully completed Certification and Accreditation (C&A) of its third and final information system. TIGTA is now 100 percent compliant, having successfully completed C&A activities on its other two systems in FY 2005. These requirements are taken seriously and TIGTA does its utmost to make sure TIGTA systems are safe and secure.

- TIGTA is fully cognizant of the benefits in efficiencies and economies that accrue to those government entities that engage in the E-Government initiatives of the President's Management Agenda. For example, TIGTA uses an approved human resource center of excellence, HRConnect, for all eHRI activities and NFC for ePayroll activity through an agreement with BPD for human resources, travel, and accounting support. TIGTA has also partnered with the IRS on major software licensing agreements since 1998.

- TIGTA serves as co-chair of the Treasury Department's sub-council on Enterprise Architecture, which is developing the Federal Enterprise Architecture compliant Treasury Architecture.

Human Capital Management

- TIGTA implemented a Strategic Human Capital Plan. All SES, manager and employee performance plans were or are being aligned with TIGTA's strategic goals and objectives.

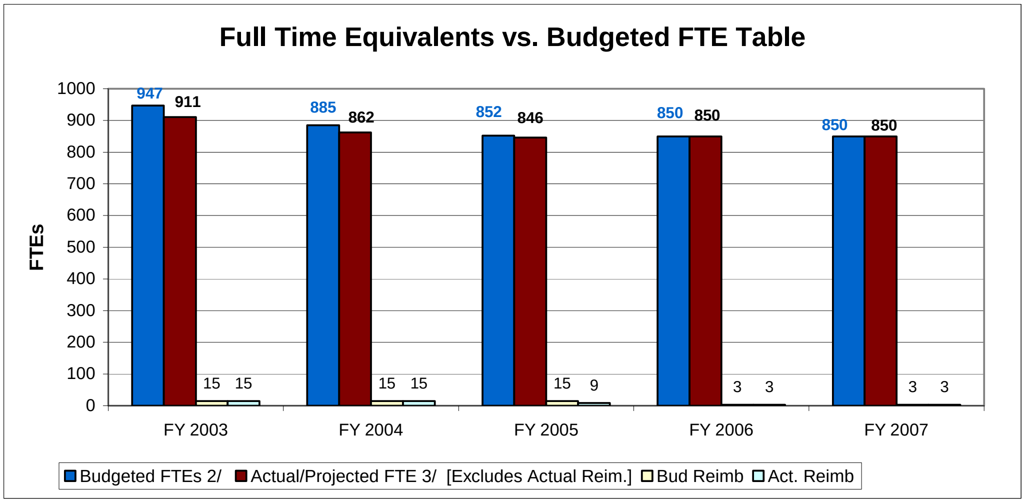
- TIGTA is developing a recruitment strategy to address succession planning, identify under-representation, and identify skills-gaps in mission-critical areas. The two major program offices have developed and implemented leadership and/or management development programs.

3.3 – PART Evaluation Table

TIGTA is not included in the PART process.

Section 4 – Supporting Materials

4.1 – Human Resources Table -



1/ Changes shown by year (increases and decreases) are the incremental changes for that year.
2/ Budgeted FTE - FTE requested in Congressional Justification.
3/ Actual/Projected FTE - For previous fiscal years, this number should agree with the number on the bureau SF-113G form submitted to OMB . The FY 2006 and FY 2007 amounts are projections.

CHANGES IN FULL-TIME EQUIVALENTS

			FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year			**877**	**855**	**853**
Increases:					
	Subtotal, Increases		**0**	**0**	**0**
Decreases:					
	Reason #1:	Rescission Reduction	-10	-6	
	Reason #2:	Reduce IRS reimbursable investigative activity	-6		
	Reason #3:	Attrition and Accession variances	-6	4	
	Subtotal, Decreases		**-22**	**-2**	**0**
Year-end Actual/Estimated FTEs			**855**	**853**	**853**
End of Year (EOY) Actual/Estimated FTEs					
Net Change from prior year SOY to budget year EOY					**-2**

4A – Human Capital Strategy Description

TIGTA is implementing the strategies outlined in its Strategic Human Capital Plan. This plan addresses the many mandates related to Human Capital management. A recruitment strategy is being developed to address succession planning and identify under-representation and skills-gaps in the mission-critical positions of Auditors, Special Agents, Attorneys, and Information Technology Specialists.

TIGTA revamped its performance management program for all employees (including managers) to differentiate levels of performance, to incorporate TIGTA's Strategic Goals and Objectives, and to hold employees accountable for performance.

TIGTA's leading role among federal agencies in the area of telecommuting has resulted in many positive workforce flexibilities. These flexibilities produce a work environment that values employees' differences, fosters clear communications, and ensures that TIGTA's Human Capital services meet the needs of customers and support TIGTA in carrying out its mission and responsibilities.

4.3 – Operating Levels Table

Dollars in Thousands

Appropriation Title: TIGTA Salaries & Expenses	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	852	856	(6)		850	850	850
Object Classification:							
11.1 Full-Time Permanent Positions	$70,547	$72,644	($399)		$72,245	$72,588	74,363
11.1 Other than Full-Time Permanent Positions	509	524			524	542	555
11.5 Other Personnel Compensation	8,330	8,624	(34)		8,590	8,599	8,809
11.8 Special Personal Services Payments	0	0			0	0	0
11.9 Personnel Compensation (Total)	79,386	81,792	(433)		81,359	81,729	83,727
12.0 Personnel Benefits	22,999	23,776	(131)		23,645	23,740	24,708
13.0 Benefits to Former Personnel	0	0			0	0	0
21.0 Travel	4,130	4,249			4,249	4,352	4,446
22.0 Transportation of Things	13	13			13	24	24
23.1 Rental Payments to GSA	8,887	10,206	(769)		9,437	9,337	9,562
23.2 Rent Payments to Others	242	246			246	270	275
23.3 Communications, Utilities, & Misc	2,128	2,167			2,167	1,913	1,960
24.0 Printing and Reproduction	8	9			9	8	8
25.1 Advisory & Assistance Services	1,089	1,105			1,105	1,100	1,124
25.2 Other Services	850	862			862	881	899
25.3 Purchase of Goods/Serv. from Govt. Accts	2,913	3,158			3,158	3,079	4,090
25.4 Operation & Maintenance of Facilities	174	219			219	393	398
25.5 Research & Development Contracts	0	0			0	0	0
25.6 Medical Care	0	0			0	0	0
25.7 Operation & Maintenance of Equipment	1,184	1,201			1,201	1,197	1,223
25.8 Subsistence & Support of Persons	0	0			0	0	0
26.0 Supplies and Materials	1,120	1,157			1,157	1,117	1,143
31.0 Equipment	2,871	3,025			3,025	2,618	2,685
32.0 Lands and Structures	0	0			0	0	0
33.0 Investments & Loans	0	0			0	0	0
41.0 Grants, Subsidies	0	0			0	0	0
42.0 Insurance Claims & Indemn	49	50			50	145	146
91.0 Confidential Expenditures	50	51			51	50	51
Total Budget Authority	$128,093	$133,286	($1,333)	$0	$131,953	$131,953	$136,469
Budget Activities:							
Audit	$48,392	$50,329	($568)		$49,761	$49,761	$51,521
Investigations	79,701	82,957	(765)		82,192	82,192	84,948
Total Budget Authority	$128,093	$133,286	($1,333)	$0	$131,953	$131,953	$136,469

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Federal Funds

General and Special Funds:

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.*)

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.

Appropriation Summary
Table 1.1
(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
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	N/A
Total Appropriated Resources	**$55,078**	**$54,450**	**$7,821**	**($46,629)**	**-85.6%**

FY 2007 Priorities

- Provide tax allocations supporting $3.5 billion of equity investments into low-income communities via the New Markets Tax Credit Program,
- Continue downsizing efforts to reach a level of 35 FTEs, and
- Provide oversight and management for the portfolio of existing Fund awards.

Table of Contents

Section 1 – Purpose

1A – Description of Fund Vision and Priorities

The mission of the Community Development Financial Institution Fund (the Fund) is to expand the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States. As part of the "Strengthening America's Communities" initiative, program funding for the Fund's three grant programs is being consolidated into the Departments of Housing and Urban Development and Commerce for FY 2007. This request discusses FY 2007 budget needs for the Fund's remaining activities, which are the making of allocations of tax credits under the New Markets Tax Credit Program and administering awards under the Fund's three prior grant programs.

The Fund has two priorities: (1) continue to provide allocations of tax credits under the New Markets Tax Credit (NMTC) Program and (2) manage the Fund's existing portfolio of awards.

NMTC Allocations – The NMTC Program attracts private sector capital into low-income communities through Community Development Entities (CDEs). CDEs raise funds by providing tax credits to private investors in exchange for equity investments which are then invested in low-income communities. CDEs apply for allocations of NMTCs through annual, competitive allocation rounds. This activity also includes monitoring CDE compliance with the terms of their allocation agreements.

Portfolio Management - While funding is no longer provided for the CDFI Fund's grant programs, the existing portfolio of grant awards must still be managed. Required activities include finalizing the terms of assistance agreements with recent awardees, making disbursements under awards not fully disbursed as of the end of FY 2006 and monitoring awardee compliance with the terms of their three year award assistance agreements. This latter step includes reviewing annual reports provided by awardees to ensure that their performance as stipulated in the assistance agreements is met and that unmet performance is explained.

1B – Previous Highlights and Accomplishments

The CDFI Fund administers both direct funding programs in support of Community Development Financial Institutions (CDFIs) and the New Markets Tax Credit Program.

In FY 2005, New Markets Tax Credit Program and CDFI program awardees reported creating or maintaining 23,656 full-time equivalent jobs. The Fund reviewed, evaluated and processed 338 grant applications, which will result in awards totaling approximately $45 million through the Fund's direct funding programs. CDFI Program awardees exceeded the Fund's $500 million leverage goal for Financial Assistance awards by leveraging $1.8 billion. Overall, the leverage ratio has increased from $20 in private sector and other investments to $27 for $1 awarded by the fund. The Fund also accepted, reviewed, evaluated and processed 208 applications to the New Markets Tax Credit program, for which 41 allocations totaling $2 billion were made. Since program inception, New Markets Tax Credit program allocatees reported raising a total of $1.5 billion in private equity and investing $1.3 billion in low-income communities.

The Fund makes extensive use of technology. First, in FY 2005 the New Markets Tax Credit Program became nearly an exclusively on-line, web-based process, from the application publication, submission of applications by applicants, the evaluation and management of the majority of the award and compliance and monitoring processes, including communications with allocatees on awards. Second, the Fund enhanced its mapping system. The mapping system enables applicants to geocode addresses, map census tracts and counties and determine the eligibility of census tracts and counties under the Fund's various program distress criteria. Third, the Fund released an updated version of its Community Investment Impact System, an electronic data gathering system which has been recognized by Federal Reserve Chairman Alan Greenspan as an example of a data collection system that has "produced insights into the markets that community economic development lenders serve and the characteristics and financial performance of the institutions providing these services."

Significant contracts expected to be entered into in FY 2006 will:

- Provide financial education to Native Americans,
- Evaluate the Financial Assistance, Technical Assistance, Training and Certification programs of the CDFI Fund, and
- Evaluate the New Markets Tax Credit Program.

1C – Future Outlook

For FY 2007 the CDFI Fund will be awarding an allocation of tax credits under the NMTC Program which will support $3.5 billion in private sector investment into low-income areas. The Fund will also continue to monitor its increasing portfolio of NMTC allocatees for compliance with the terms of their allocation agreements. Although no program funding is being requested for FY 2007, the Fund has an existing portfolio of grant awards which require closing, disbursement and monitoring for compliance with the terms of their assistance agreements.

The Fund will continue its downsizing to reach a level of 35 FTEs. Downsizing is necessary due to the elimination of new grant program funding and the decreasing portfolio of awards. The Fund anticipates a steadily decreasing number of awards to manage over the next few years, with FY 2009 being the last year for any significant management activities pertaining to its award portfolio.

One challenge the Fund faces in FY 2007 is that its lease expires during the year. With downsizing efforts in place, the Fund will need to locate and occupy a smaller amount of space with a minimum of interruption of operations.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: Community Development Financial Institutions Fund	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	**68**	**$55,522**		
Rescission (P.L. 108-447)		(444)		
FY 2005 Enacted	**68**	**55,078**		
FY 2006 Consolidated Appropriations (P.L. 109 - 115)	**68**	**55,000**		
Rescission (P.L. 109-148)		(550)		
FY 2006 Enacted		**54,450**		
Changes to Base				
Pay Inflation Adjustment		38		
Non-Pay Inflation Adjustment		76		
Proposed Pay Raise		100		
Total FY 2007 Base	**68**	**54,664**		
Program Changes				
Decreases				
Consolidation of Programs		(40,838)	Portfolio Management	E1A
Decrease in Administrative Costs due to consolidation of programs	-33	(6,005)		
Subtotal FY 2007 Program Changes	**-33**	**(46,843)**		
Total FY 2007 Request	**35**	**$7,821**		

2A – Budget Increases and Decreases Description

Changes to Base... +$214,000/ 0 FTE

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

Program Decreases..-$46,843,000/ -33 FTE

Consolidation of Programs -$40,837,500 / 0 FTE As part of the "Strengthening of America's Communities" initiative, program funding for the Fund's three grant programs is being consolidated into the Departments of Housing and Urban Development and Commerce.

Decrease in Administrative Costs Due to Consolidation of Programs -$6,005,500/ -33 FTE   This decrease in administrative costs is due to the consolidation of the Fund's three grant programs. With no need for providing grants, the Fund will no longer require all of the Fund's current program and administrative staff and the related costs.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Community Development Financial Institutions Program	33	$31,560	33	$30,969	0	$0	-100.0%	-100.0%
New Markets Tax Credit Program	19	$6,494	19	$4,254	19	$4,314	0.0%	1.4%
Bank Enterprise Awards Program	6	$11,132	6	$13,417	0	$0	-100.0%	-100.0%
Native Initiatives	10	$5,892	10	$5,810	0	$0	-100.0%	-100.0%
Portfolio Management	0	$0	0	$0	16	$3,507	NA	NA
Subtotal Newly Appropriated Resources	**68**	**$55,078**	**68**	**$54,450**	**35**	**$7,821**	**-48.5%**	**-85.6%**
Other Resources	**0**	**0**	**0**	**0**	**0**	**0**	**0.0%**	**0.0%**
Total Resources Available for Obligation	**68**	**55,078**	**68**	**54,450**	**35**	**7,821**	**-48.5%**	**-85.6%**

3A – Budget Activity Description

New Markets Tax Credit (NMTC) Program ($4,314,000 from direct appropriations) The NMTC Program spurs investment of private capital into a range of privately managed investment vehicles called Community Development Entities (CDEs). CDEs apply for allocations of NMTCs through annual, competitive allocation rounds. CDEs receiving an allocation of tax credits provide tax credits to private sector investors in exchange for equity investments in the CDEs. The CDEs then use the proceeds from these equity investments to make loans and equity investments in New Markets businesses located in and serving economically distressed communities. The investors in the CDEs receive a credit against Federal income taxes for making the qualified equity investments, which must in turn be used to invest in low-income communities. The credit provided to investors totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. A total of $15 billion in investor capital will be raised under the NMTC Program. Four funding rounds have been completed corresponding to tax credit allocations supporting $8 billion in private sector capital, with the final two rounds to occur during FY 2006 and FY 2007. Each of the last two allocation rounds are to provide tax credit allocations supporting $3.5 billion in investor capital ($7 billion in total).

Through FY 2005, the Fund projects that $1.5 billion in private sector capital was raised through this program of which $1.1 billion was invested in low-income areas (an additional $300 million has been raised but not yet invested) and 11,321 jobs were created or maintained.

The FY 2007 budget request will fund the costs required to administer the NMTC program (because it is a tax credit program, there is no required program funding such as would be for grant programs). Without this funding, which supports 19 FTEs and the related personnel and other administrative costs, the Fund will be unable to carry out the legislative mandate which established the NMTC Program.

Portfolio Management ($3,507,000 from direct appropriations) Portfolio Management refers to the activities necessary to administer the Fund's existing portfolio of grant awards. Although no new funding is requested for the related award programs, certain activities are still required with regard to awards made through FY 2006 (the last year of program funding). These activities consist of:

- Closing of awards – closing consists of agreeing on acceptable levels of performance with Fund awardees, obtaining all legal documents required of the awardee including documenting the receipt of matching funds and having the awardee sign the assistance agreement. A number of FY 2005 and FY 2006 awards are projected to close in FY 2007.
- Disbursement of awards - once awards close they are eligible for disbursement. The number of undisbursed awards decreases over time, but the Fund projects a number of disbursements to be made in FY 2007.
- Monitoring of awards – This will be the most significant portfolio management activity during FY 2007. Monitoring awards is a time-consuming activity which requires review and evaluation of performance and financial reports provided by awardees. Awardees considered to be non-compliant require additional time in which to communicate with the awardee, understand reasons for non-compliance and in some events, to develop revised performance measures. The Fund's assistance agreements cover a three-year period and so awards to be monitored during FY 2007 consist of those that closed from FY 2004 through FY 2006. While the number of awards to monitor will also decrease over time, the number to be monitored during FY 2007 is fairly significant.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Treasury Strategic Goal: Stimulate Economic Growth and Job Creation (E1A)						
Resource Level [1/]	**FY 2002 Enacted**	**FY 2003 Enacted**	**FY 2004 Enacted**	**FY 2005 Enacted**	**FY 2006 Enacted**	**FY 2007 Requested**
Treasury Strategic Objective E1A:						
Budget Activities: CDFI, NMTC and BEA Programs, Native Initiatives						
Financial Resources						
Newly Appropriated Resources	$80,000	$75,000	$61,000	$55,078	$54,450	$7,821
Other Resources	$0	$0	$0	$0	$0	$0
Total Operating Level	**$80,000**	**$75,000**	**$61,000**	**$55,078**	**$54,450**	**$7,821**
Human Resources						
Newly Appropriated FTE	57	68	65	68	68	35
Other FTE	0	0	0	0	0	0
Total FTE (direct and reimbursable)	**57**	**68**	**65**	**68**	**68**	**35**

Strategic Objective: Stimulate Economic Growth and Job Creation - E1A

Budget Activity: **Bank Enterprise Award Program**

Performance Goal: **Increase FDIC-insured institutions' investments in community development and economic revitalization in distressed communities.**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Administrative costs per number of Bank Enterprise Award (BEA) Applications processed ($) (E)						
Target				Baseline	1280	0
Actual				1280		
Target Met?	N/A	N/A	N/A	Y		
Increase in community development activities over prior year for all BEA program applicants ($ in millions) (Oe)						
Target		Baseline	307	134	81	0
Actual		138	307	103		
Target Met?	N/A	Y	Y	N		

Budget Activity: **New Markets Tax Credit Program**

Performance Goal: **To attract private sector capital into low-income communities through CDEs.**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed ($) (E)						
Target				Baseline	5390	5390
Actual				5390		
Target Met?	N/A	N/A	N/A	Y		
Amount of investments in low-income communities that Community Development Entitites (CDEs) have made with capital raised through their New Markets Tax Credit (NMTC) tax credit allocations ($ in billions)(Oe)						
Target			Baseline	1.4	1.6	2.1
Actual			.1	1.1		
Target Met?	N/A	N/A	Y	N		

Budget Activity: **Native Initiatives**

Performance Goal: **To build the capacity and coverage of CDFIs and other institutions to provide credit, captial, and related servies to Native communities.**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Administrative costs per number of Native American CDFI Assistance (NACA) applications processed ($)(E)						
Target				Baseline	10050	0
Actual				10050		
Target Met?	N/A	N/A	N/A	Y		
Annual percentage increase in the total assets of Native CDFIs (%) (Oe)						
Target			Baseline	35	33	33
Actual			39	103		
Target Met?	N/A	N/A	Y	Y		

Budget Activity: **Community Development Financial Institutions Program**

Performance Goal: **To build the capacity and coverage of CDFIs to provide credit, capital, and related services to otherwise underserved markets.**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Administrative costs per Financial Assistance (FA) application processed (E)						
Target				Baseline	5,130	0
Actual				5,130		
Target Met?	N/A	N/A	N/A	Y		
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance. (in millions) (Oe)						
Target	Baseline	1,150	669	500	1,100	861
Actual	660	1,623	1,300	1,800		
Target Met?	Y	Y	Y	Y		
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI Program Awardees and New Markets Tax Credit (NMTC) Allocatees (Oe)						
Target	40,230	33,830	5,852	26,995	29,158	34,009
Actual	36,275	9,141	9,212	23,656		
Target Met?	N	N	Y	N		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

Fund awardees reported 23,656 full-time equivalents (FTEs) created or maintained in underserved communities in FY 2005, compared to the target of 26,995. The primary factor for this shortfall is that fewer awardees reported data in FY 2005 than in previous years. In the future, the Fund intends to work more closely with awardees regarding the importance of reporting in a timely and accurate manner and may initiate administrative sanctions for such non-compliance. The Fund's expectations are based on historic actual performance of CDFIs and CDEs.

Even though FY 2006 is to be the last year in which program funding is provided to the Fund, the number of FTEs created or maintained during FY 2006 through FY 2007 is projected to increase with most of the increase coming from the NMTC program. The only funding required under the NMTC Program is for administrative costs to operate the program. During FY 2006 and FY 2007, the NMTC Program is projected to create or maintain 24,508 and 30,924 jobs, respectively. The remaining jobs reported for the Fund result from those created or maintained under the CDFI Program, which results from the deployment of funds disbursed to awardees in prior years.

The Fund's FY 2005 target that CDFI Program awardees would be able to leverage $500 million using the Fund's awards was exceeded by $1.3 billion (total leverage was $1.8 billion). The amount leveraged is based on the amount of awards disbursed by the Fund multiplied by a computed leverage ratio. Awardees have increased the ability to leverage debt by showing a higher ratio of liabilities to net assets. Furthermore, awardees have reported a greater project leverage by partnering with other entities to finance projects. Overall, the leverage ratio reported in FY 2004 of $20:$1 was increased to $27:$1 in FY 2005.

Dollars leveraged as a result of the Fund's awards is projected to decrease between FY 2006 and FY 2007. Amounts leveraged pertain to Financial Assistance (FA) award amounts disbursed by the Fund. FA award disbursements usually begin a year after the award is made due to the time it takes to get a signed assistance agreement in place and the fact that Fund awards are not disbursed to the awardee until the awardee provides evidence of matching funds. Starting in FY 2007, the amounts of undisbursed award amounts will decrease each year due to the lack of any additional program funding. Accordingly, a smaller amount of FA disbursements will be made each year, resulting in a reduction in the amount of dollars leveraged.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

Competitive Sourcing

- During FY 2005 the Fund completed its FAIR Act inventory and identified 5 FTEs (10 percent of the total workforce) that are considered suitable for a cost comparison.

E-Government

- The Fund participates in the Grants Streamlining Initiative (P.L. 106-107) whereby all Federal agency grant opportunities can be accessed via a single web-based portal administered by the Department of Health and Human Services. A description of the Fund's grant programs are included, with a link to the Fund's website enabling interested applicants to review a more detailed description of the program requirements and the ability to apply for a grant electronically by completing an application form.

Improved Financial Performance

- For FY 2005 (and for the prior six fiscal years), the Fund has received an unqualified opinion on its financial statements, with no reportable conditions or instances of non-compliance with laws and regulations.

3.3 – PART Evaluation Tables

PART Name:	CDFI Fund: Finance and Technical Assistance
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Adequate

OMB Major Findings/Recommendations

1. The CDFI Program is not unique because several states administer similar programs and CDFIs can use private sector equity investments to accomplish activities they otherwise would accomplish with CDFI Fund awards.
2. Set a target and timeframe for the second long-term measure
3. Establish a baseline for the efficiency measure, set a target, and measure progress in achieving this target.
4. Make disaggregated program performance data available to the public.
5. Conduct an independent evaluation of the program.

Bureau Actions Planned or Underway

1. The Fund is not taking any action related to the duplication / redundancy finding because:

   a. Fewer than 10 states administer CDFI programs and none of these state programs fully meet the capital needs of the CDFIs in its state. Furthermore, CDFIs in 40 states do not have access to any state CDFI program.
   b. There are too few private sector equity investments available to meet CDFIs' need for capital.

2. The Fund is building the IT system needed to set a target for the second long-term measure. The Fund anticipates the system being completed in FY 2005, data entered in early FY 2006, and the target being set in the second quarter of FY 2006.
3. Conduct the analysis needed to set the efficiency measure baseline and target by the end of FY 2005 and measure progress starting in FY 2006.
4. The Fund made disaggregated data available to the public in January 2005 and will continue to do so annually.
5. A contract to evaluate the program is anticipated to be awarded in FY 2005.

PART Name:	New Markets Tax Credit
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Adequate

OMB Major Findings/Recommendations

1. The program is not unique because other federal, state and local tax credit programs are available, and because numerous programs at HUD (CDBG) and Commerce (EDA) augment the NMTC Program goal of improving low-income communities.
2. Set targets for the annual performance measures and measure performance in achieving them.
3. Establish a baseline for the efficiency measure, set a target, and measure progress in achieving this target.
4. Conduct an independent evaluation of the program.

Bureau Actions Planned or Underway

1. The Fund is not taking any action on the duplicative/redundancy finding because in the Fund's opinion the other available program complement rather than duplicate the NMTC Program.
2. NMTC Program allocatees will submit data in June 2005 that the Fund needs to set performance measure targets. The Fund will set targets and measure its achievement in FY 2005.
3. Conduct the analysis needed to set the efficiency measure baseline and target by the end of FY 2005 and measure progress starting in FY 2006.
4. Put out a bid for an independent evaluation by the end of FY 2005 and begin the multi-year evaluation in FY 2006.

PART Name:	Bank Enterprise Award Program
Strategic Goal:	Promote Prosperous U.S. and World Economies
Rating:	Results Not Demonstrated / Measures Adequate

OMB Major Findings/Recommendations
1. While there is some evidence that BEA awardees use awards to reinvest in community development initiatives, program results are hard to measure because it cannot be determined how awardees would behave in the absence of the program.
2. As the award is for past performance, there are no prospective performance requirements on how awardees spend award funds. This prevents the Fund from ensuring that program awardees commit to the long-term goals of the program.
3. Conduct an independent evaluation of the program.
4. Measure progress in meeting long-term outcome goals and annual performance goals.
5. Make statutory changes to the authorizing legislation that would clearly distinguish this program from the mandates of the Community Reinvestment Act and would insure that award funds are spent on community development activities.

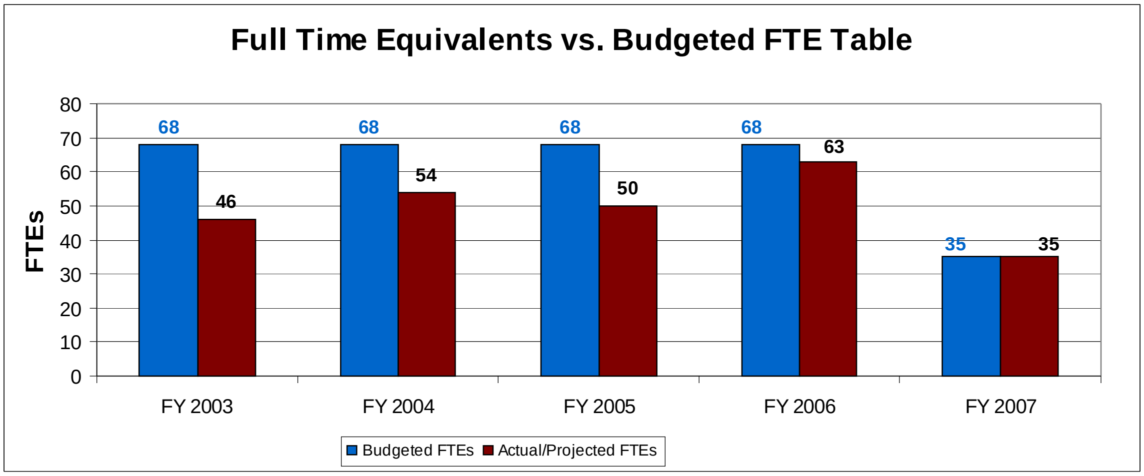
Bureau Actions Planned or Underway
1. The Fund determined that it could more effectively achieve its strategic objectives if the BEA Program regulations and NOFA were revised to target awards: (1) to CDFIs with a greater need for the incentive provided by the BEA Program award, and (2) to “personal wealth” and “community asset” building activities. The BEA Program revised interim rule and subsequent NOFAs contain several revisions to ensure that the program: better targets awards to community development activities in distressed areas; and achieves greater operational efficiencies for applicants and the Fund.
2. The Fund had been planning to conduct an evaluation of the BEA Program in FY 2006, but has discontinued that planning as it will discontinue the BEA Program in FY 2006.
3. The Fund began measuring progress toward meeting long-term and annual goals in FY 2003, and has measured progress annually since then.
4. The Fund considered amending the BEA statute to allow it to make awards abased on prospective commitments to engage in innovative investment activities, but determined that it was not politically feasible.

One recommendation in each of the three OMB PART evaluations was for the Fund to conduct an independent evaluation of the three programs. The Fund has reserved approximately $3.5 million of FY 2005 funding to conduct evaluations of the CDFI and NMTC Programs. The Fund has a vendor under contract to conduct the evaluation of the CDFI Program and has completed a statement of work for the evaluation of the NMTC Program to be awarded during the first half of FY 2006. The Government Accountability Office will be conducting a similar evaluation of the BEA Program during FY 2006.

No additional budget resources to carry out OMB’s PART recommendations are considered necessary.

Section 4 – Supporting Materials

4.1 – Human Resources Information



(Note – the Fund has no reimbursable FTEs)

BASE: Start of Year (SOY) Actual or Estimated FTEs				**PY**	**CY**	**BY**
(Note: SOY 2003 will be equal to End of Year (EOY) Actuals 2002)		**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
	Actual/Projected FTE	50	46	54	50	63
INCREASES [1/]						
Increase #1:						
Description:	Increase additional hires in appropriated fund; backfilling positions vacated in prior year		8		13	
DECREASES [1/]						
Decrease #1:		-4				
Description:	Positions vacated during the year.					
Decrease #2:	Reduction due to potential transfer of Fund's					0
Description:	appropriation to Dept of Commerce			-4		
Decrease #3:						0
Description:	Reduction in Force due consolidation of programs.					-28
Subtotal, Decreases		-4	0	-4	0	-28
End of Year (EOY) Actual/Estimated FTEs						
		FY 2003	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
	Budgeted FTEs [2/]	68	68	68	68	35
	Actual/Projected FTE [3/]	46	54	50	63	35
Net Change from prior year (PY) SOY base to budget year (BY) EOY estimate:						-19

1/ Changes shown by year (increases and decreases) are the incremental changes for that year.
2/ Budgeted FTE - FTE requested in Congressional Justification.

4A – Human Capital Strategy Description

The Fund's Human Capital challenge over the next several years is to be able to retain qualified staff to complete the Fund's business. Existing staff are more likely to leave the Fund to seek other career opportunities since they know that their positions are short-term. Attracting new hires will be a challenge since their period of employment with the Fund is known to be limited. To help attract and retain the staff necessary, the Fund will consider offering retention incentives, hire term employees and where necessary, to contract out work. Any additional funds required to implement this strategy will come from savings in personnel costs resulting from employees leaving the Fund earlier than anticipated.

Since FY 2006 is the final year of requested program funding, the Fund's main focus is to administer the remaining portfolio of awards. These awards consist of those made under the Community Development Financial Institutions Fund (CDFI) Program, the Bank Enterprise Award (BEA) Program and Native Initiatives which either have not yet closed, or have closed but are not fully disbursed. BEA Program awards do not have a formal closing and so the only activity to be performed for this program is to disburse the remaining amounts of the awards during FY 2007 – FY 2010. Accordingly, the Fund anticipates a decreasing number of FTEs required to administer the remaining grant program portfolio, dropping from 16 in FY 2007, to 0 FTEs sometime in FY 2011.

The Fund estimates that 19 FTEs will be required in FY 2007 for the New Markets Tax Credit (NMTC) Program.

4.3 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Community Development Financial Institutions Fund	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	**68**	**35**	**33**		**68**	**68**	**35**
Object Classification:							
11.1 Full-Time Permanent Positions........................	5,400	3,556	1,793		5,349	5,349	3,681
11.1 Other than Full-Time Permanent Positions......	-	-	-		-	-	-
11.5 Other Personnel Compensation......................	-	-	-		-	-	-
11.8 Special Personal Services Payments..............	-	-	-		-	-	-
11.9 Personnel Compensation (Total).....................	5,400	3,556	1,793		5,349	5,349	3,681
12.0 Personnel Benefits..	1,389	906	466		1,372	1,372	942
13.0 Benefits to Former Personnel..........................	-	-	-		-	-	
21.0 Travel...	171	73	30		103	103	70
22.0 Transportation of Things.................................	50	16	4		20	20	20
23.1 Rental Payments to GSA................................	1,216	1,125	(7)		1,118	1,118	898
23.2 Rent Payments to Others...............................	75	72	(24)		48	48	15
23.3 Communications, Utilities, & Misc....................	243	123	139		262	262	172
24.0 Printing and Reproduction..............................	87	43	(33)		10	10	10
25.1 Advisory & Assistance Services......................	2,559	1,464	2,258		3,722	3,722	1,566
25.2 Other Services..	508	185	208		393	393	169
25.3 Purchase of Goods/Serv. from Govt. Accts....	555	281	812		1,093	1,093	206
25.4 Operation & Maintenance of Facilities............	-	-	-		-	-	
25.5 Research & Development Contracts................	2,300	-	-		-	-	
25.6 Medical Care..	-	-	-		-	-	
25.7 Operation & Maintenance of Equipment..........	-	-	-		-	-	
25.8 Subsistence & Support of Persons.................	-	-	-		-	-	
26.0 Supplies and Materials...................................	131	44	3		47	47	18
31.0 Equipment..	345	12	63		75	75	54
32.0 Lands and Structures......................................	-	-	-		-	-	
33.0 Investments & Loans......................................	2,364	-	1,802		1,802	1,802	
41.0 Grants, Subsidies...	37,685	-	39,036		39,036	39,036	
42.0 Insurance Claims & Indemn............................	-	-			-	-	
43.0 Interest and Dividends………………………….	-	-			-	-	
44.0 Refunds..	-	-			-	-	
Total Budget Authority…………………………………	**$55,078**	**$7,900**	**$46,550**	**$0**	**$54,450**	**$54,450**	**$7,821**
Budget Activities:							
Community Development Financial Institutions Program	31,560	3,600	27,369		$30,969	$30,969	$0
New Markets Tax Credit Program	6,494	4,300	(46)		$4,254	$4,254	$4,314
Bank Enterprise Awards Program	11,132	0	13,417		$13,417	$13,417	$0
Native Initiatives	5,892	0	5,810		$5,810	$5,810	$0
Portfolio Management	0	0	0		$0	$0	$3,507
Total Budget Authority…………………………………	**$55,078**	**$7,900**	**$46,550**	**$0**	**$54,450**	**$54,450**	**$7,821**

4C – Appropriations Language

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.)

Internal Revenue Service Summary

Mission: *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.*

Appropriation Summary

(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006[1] Enacted	FY 2006 Operating Plan	FY 2007[2] Request	$ Change FY 2006 Oper. Plan to FY 2007	% Change FY 2006 Oper. Plan to FY 2007
Processing, Assistance, and Management	$4,056,857	$4,095,212	$4,095,212	$4,045,122	($50,090)	-1.22%
Tax Law Enforcement	$4,363,539	$4,678,498	$4,678,498	$4,762,327	$83,829	1.79%
Information Systems	$1,577,768	$1,582,977	$1,582,977	$1,602,232	$19,255	1.22%
Business Systems Modernization	$203,360	$197,010	$197,010	$167,310	($29,700)	-15.08%
Health Insurance Tax Credit Administration	$34,562	$20,008	$20,008	$14,846	($5,162)	-25.80%
Total Appropriated Resources	$10,236,087	$10,573,706	$10,573,706	$10,591,837	$18,131	0.17%

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

[2] 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.

Numbers may not add due to rounding.

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
- Focus on technology issues to ensure the IRS is utilizing technological advances to optimize both taxpayer service and enforcement programs

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Strategic Context

Strategic Context

The Internal Revenue Service (IRS) administers America's tax laws and collects revenue to fund 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 recently established several long-term goals that will measure its progress over the span of the IRS Strategic Plan. A discussion of IRS' long-term goals is included in Section 1D.

IRS Contributes to the Administration's Efforts to Reduce the Federal Deficit

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.

Improve IRS Operations through Legislative Changes

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

1. *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.

2. *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.

3. *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.

4. *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.

5. *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

1. *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.

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

3. *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.

4. *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 Section 4C and in the FY 2007 Treasury Blue Book, which contains all of the Administration's legislative proposals.

The Appropriations Account Structure and the Strategic Alignment of Taxpayer Service and Enforcement Programs

The IRS' funding is appropriated among five accounts (see chart 1.1). 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 FY 2007 Budget request for each of these accounts, including descriptions of each budget activity, is presented under separate tabs within this document.

The IRS programs and supporting functions appropriated in the three operating accounts – PAM, TLE and IS – strategically align with either taxpayer service or tax law enforcement. The budgets for these two strategic areas – taxpayer service and enforcement – are funded by allocating direct and overhead resources from the three operating accounts (see chart 1.2). For example, salaries for direct tax enforcement are funded and paid from the TLE account and the rent is funded from the PAM account; and IT systems, computers and telecommunications from the IS account. 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 Request	% Change FY 2006 to FY 2007
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%

- *Taxpayer Services* – The request for taxpayer service programs is $3,448 million in direct appropriations and $135 million from new user fee revenue, 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 high-quality taxpayer services through improvements to information technology and other targeted efficiencies.

  The IRS will continue to identify opportunities to provide quality taxpayer service at a lower cost, such as providing and marketing expanded services to increase use of the Internet. For example, taxpayers can now access a vast amount of information on the IRS website (www.irs.gov) , including frequently asked tax law questions, tax publications, and verification of taxpayers' refund status. The growth in electronic filings also improves efficiency and accuracy, ultimately reducing tax administration costs. Electronic filing is fast, easy, and less prone to error than are paper-filed returns. Taxpayers benefit from filing electronically because they receive rapid verification that the IRS received their return, and they get their refunds sooner. Moreover, the proposed legislative changes summarized in Section 4C will increase the proportion of electronically filed returns.

- *Enforcement* – The request for enforcement activities is $6,961 million, a 2.01 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 (See Section 1B).

> 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 2007 President's Budget).

The Administration continues to support the restructuring of the three operating accounts into an appropriation structure that facilitates the reporting of the full costs dedicated to each service or enforcement program. The IRS intends to work with Congress to develop a mutually acceptable budget structure that supports the Appropriators' requirements and achieves the Administration's goals.

Budget Increases and Decreases Table for Taxpayer Service
Dollars in Thousands

Taxpayer Service	FTE	Amount	Treasury Strategic Objective
FY 2006 President's Budget	37,581	$3,567,455	
Congressional Adjustment		$846	
1% Rescission	(215)	($35,683)	
FY 2006 Enacted	37,366	$3,532,618	
Base Realignment			
FTE Adjustment	(348)		
FY 2006 Operating Level	37,018	$3,532,618	
Maintaining Current Levels (MCLs)			
Pay Annualizations		$19,380	
Proposed Pay Raise		$47,244	
Non-Pay Inflation		$21,989	
Sub-total, Maintaining Current Levels (MCLs)	0	$88,613	
Base Reinvestment			
Increase Returns Processing Efficiencies	11	$12,237	F4A
Sub-total, Base Reinvestment	11	$12,237	
Program Cost Savings			
E-File Savings	(174)	($6,760)	F4A
Improvement Project Savings	(122)	($7,553)	F4A
Competitive Sourcing Savings		($10,000)	F4A
Taxpayers Service Efficiencies	(825)	($32,200)	F4A
Sub-total, Program Cost Savings	(1,121)	($56,513)	
Transfers Out			
Transfer to TIGTA		($304)	F4A
Sub-total, Transfers Out	0	($304)	
Total, FY 2007 Base	35,908	$3,576,651	
Program Changes			
Program Increases			
Consolidate Philadelphia Campus		$6,685	F4A
Sub-total, Program Increases	0	$6,685	
FY 2007 Request	35,908	$3,583,336	
Offsetting Fees			
New User Fees Revenue		($135,000)	
Total, FY 2007 President's Budget Request	35,908	$3,448,336	

Numbers may not add due to rounding

Budget Increases and Decreases Table for Enforcement
Dollars in Thousands

Enforcement	FTE	Amount	Treasury Strategic Objective
FY 2006 President's Budget	59,411	$6,892,596	
Congressional Adjustment	0	$404	
1% Rescission	(390)	($68,930)	
FY 2006 Enacted	59,021	$6,824,070	
Base Realignment			
FTE Adjustment	(670)		
FY 2006 Operating Level	58,351	$6,824,070	
Maintaining Current Levels (MCLs)			
Pay Annualizations		$42,602	
Proposed Pay Raise		$102,517	
Non-Pay Inflation		$38,161	
Sub-total, Maintaining Current Levels (MCLs)	0	$183,280	
Program Cost Savings			
Improvement Project Savings	(13)	($662)	F4A
Competitive Sourcing Savings		($7,000)	F4A
Enforcement Efficiencies	(1,271)	($51,921)	F4A
Sub-total, Program Cost Savings	(1,284)	($59,583)	
Transfers Out			
Transfer to TIGTA		($637)	F4A
Sub-total, Transfers Out	0	($637)	
Total, FY 2007 Base	57,067	$6,947,129	
Program Changes			
Program Increases			
Consolidate Philadelphia Campus		$14,215	F4A
Sub-total, Program Increases	0	$14,215	
FY 2007 Request	57,067	$6,961,345	
Offsetting Fees			
New User Fees Revenue		$0	
Total, FY 2007 President's Budget Request	57,067	$6,961,345	

Numbers may not add due to rounding

1.1 – Appropriation Summary Table

Dollars in Thousands

Appropriation	FY 2005 Enacted	FY 2006[1] Enacted	FY 2006[2] Operating Plan	FY 2007[3] Request	$ Change FY 2006 Oper. Plan to FY 2007	% Change FY 2006 Oper. Plan to FY 2007
Processing, Assistance, and Management						
Pre-Filing Taxpayer Assistance and Education	$539,374	$517,707	$330,536	$329,557	($979)	-0.30%
Filing and Account Services	$1,710,368	$1,679,688	$1,678,132	$1,618,784	($59,348)	-3.54%
Shared Services Support	$1,210,874	$1,285,181	$1,484,366	$1,504,247	$19,881	1.34%
General Management & Administration	$596,241	$612,636	$602,178	$592,534	($9,644)	-1.60%
Subtotal, PAM	$4,056,857	$4,095,212	$4,095,212	$4,045,122	($50,090)	-1.22%
Tax Law Enforcement						
Compliance Services	$4,104,471	$4,415,063	$4,414,935	$4,496,735	$81,800	1.85%
Research and Statistics of Income	$94,474	$95,954	$96,754	$97,542	$788	0.81%
Earned Income Tax Credit	$164,594	$167,481	$166,809	$168,050	$1,241	0.74%
Subtotal, TLE	$4,363,539	$4,678,498	$4,678,498	$4,762,327	$83,829	1.79%
Information Systems						
Improvement Programs	$49,002	$48,960	$49,302	$49,302	$0	0.00%
Information Services	$1,528,766	$1,534,017	$1,533,675	$1,552,930	$19,254	1.26%
Subtotal, IS	$1,577,768	$1,582,977	$1,582,977	$1,602,232	$19,255	1.22%
Business Systems Modernization	$203,360	$197,010	$197,010	$167,310	($29,700)	-15.08%
Subtotal, BSM	$203,360	$197,010	$197,010	$167,310	($29,700)	-15.08%
Health Insurance Tax Credit Administration	$34,562	$20,008	$20,008	$14,846	($5,162)	-25.80%
Subtotal, HITCA	$34,562	$20,008	$20,008	$14,846	($5,162)	-25.80%
Total Appropriated Resources	$10,236,087	$10,573,706	$10,573,706	$10,591,837	$18,131	0.17%

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

[2] The FY 2006 Operating Level includes alignment of printing and postage from Pre-filing Taxpayer Assistance and Education to Shared Services Support as proposed in the FY 2006 Operating Plan.

[3] 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.

Numbers may not add due to rounding

1B – Previous Highlights and Accomplishments

The following is a summary, outlined by the IRS' strategic goals, of significant accomplishments and 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 ─** One-stop service for accessing key forms, what's new in the tax code, and answers to frequently asked questions.
  - **Free File ─** Free tax preparation software and free e-filing to individuals who earn approximately $50,000 or less. Users must access Free File through IRS.gov to qualify.
  - **Alternative Minimum Tax Assistant (AMT) ─** A simple test for taxpayers to determine whether they may be subject to the AMT. The IRS estimates most taxpayers can make entries and get an answer in five to ten minutes using the new application.
  - **Earned Income Tax Credit (EITC) Assistant ─** An aid to determine eligibility for the tax credit and provides an estimate on the amount of the credit.
  - **Where's My Refund? ─** Status of refund tool that enabled more than 22 million taxpayers to check on the status of their refunds this past filing season, a 49 percent increase over the year before. A new feature provides taxpayers the capability to generate replacement checks if the first one has been lost; the taxpayer provides an updated address if the U.S. Post Office was unable to deliver a refund check due to an out-of-date address.
  - **Employer Identification Number (EIN) ─** Internet application enables taxpayers to apply for and receive an EIN via the Internet in under five seconds.

- 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 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 costs, 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.

1C – Future Outlook

Challenges

Delivering cost effective and efficient services to meet the demands of diverse taxpayer segments within a constrained budget environment is a challenge for the IRS. As the IRS continues to seek alternative, less costly ways of improving taxpayer service and bolstering enforcement, it remains committed to identifying efficient and effective alternatives to administering our nation's tax laws. Leveraging the use of the Internet by providing the capability for taxpayers to quickly access information and services is one innovative means to increase efficiency. Another is the use of contractors to help collect known tax debt and reimbursing them through a percentage of the collections.

Additional challenges over the next several years include reducing the tax gap and achieving the 80 percent e-filing goal set by the IRS Restructuring and Reform Act of 1998 (RRA 98).

Tax Gap

Tax gap reduction remains a key challenge for the IRS. Increasing the tax receipts to the Treasury remains at the heart of the IRS' emphasis on enforcement. The IRS will continue to address the gap by bolstering compliance through new, targeted reporting requirements, other tax code statutory changes, and expanded enforcement. The IRS will continue to analyze tax information and results of compliance research studies to better define and quantify the tax gap. The IRS will use the results of these efforts to counter methods used by those taxpayers who fail to report or pay what they owe. The IRS is also focusing its efforts on discouraging and deterring non-compliance with an emphasis on corrosive activity by corporations, high-income individual taxpayers, and other contributors to the tax gap. Using the data collected in the National Research Program study of individual taxpayers will help the IRS better target its audits of individuals on the most non-compliant returns. Targeting high-risk taxpayers should improve IRS efficiency and reduce the burden on compliant taxpayers. It will also increase and focus the IRS' enforcement presence where it is most needed.

Achieving 80 Percent E-Filing

The IRS continues to work toward achieving the goal of having taxpayers electronically submit 80 percent of all filings by 2007. While the e-filing rates continue to increase, it was only in 2005 that the IRS received more than half of all tax returns electronically. Today, many taxpayers use tax preparation software to prepare their returns, but continue to mail in paper returns. Without a legislative change, as proposed, to expand IRS' authority to mandate electronic filing in some cases, encouraging more of the taxpaying public to e-file remains a challenge.

The Complexity of the Tax Code

The Internal Revenue Code contains well over a million words creating complexity for taxpayers. Provisions such as the "alternative minimum tax" and the "earned income tax credit" create additional computational work for taxpayers and can be hard to interpret.

The IRS must explain the Code in a way that taxpayers can understand if they are to comply with their tax obligations.

1D – IRS' Long-Term Goals

This FY 2007 Congressional Budget Justification introduces a series of crosscutting, "enterprise" and "programmatic" long-term goals that link directly to the IRS' strategic goals: Improve Taxpayer Service; Enhance Enforcement of the Tax Laws; and Modernize the IRS Through its People, Processes and Technology. The inclusion of long-term goals in the FY 2007 Congressional Budget Justification represents the first update to the IRS Strategic Plan since its release in June 2004.

The "enterprise-wide" and "programmatic" long-term goals are highlighted below and included in the performance tables. These long-term goals combined with the program related efficiency and outcome measures, serve as indicators of achieving long-term objectives that support the IRS' mission critical programs. The long-term goals are intended to provide focus and rigor to measuring the outcome of IRS programs' effectiveness in managing the nation's tax system

Enterprise-wide Long-Term Goals

The IRS recently began developing enterprise-wide long-term goals that will measure progress over the span of the IRS Strategic Plan. These goals, when completed, will represent the three components of the IRS' balanced measurement system, highlighting customer satisfaction, business results, and employee engagement. The enterprise-wide long-term goals will be measured quantitatively. The IRS will update its targets periodically based on the available resources and the appropriate balance necessary to provide services to taxpayers and reduce the tax gap.

The IRS remains committed to identifying and implementing opportunities to increase the number of taxpayers who file their tax returns electronically. The Service will continue to target improvement and track its progress in increasing the rate of electronically filed returns, while striving to improve the overall satisfaction of its customers. As a measurement of its customer satisfaction the IRS will evaluate improvement based on the annual scores assigned from the American Customer Satisfaction Index.

The IRS selected *Improve Voluntary Compliance* and *Non-revenue Enforcement* as the main areas of focus for its enforcement programs. These long-term goals will measure and target the activities performed in the major revenue generating enforcement activities, Examination and Collection - and those enforcement activities that do not have a direct impact on tax revenue, such as Criminal Investigation and Tax Exempt and Government Entities. The IRS has established an aggressive target for its *Improve Voluntary Compliance* goal, from the 83.0 percent reported in its 2001 study to 85.0 percent by 2009. The IRS plans to achieve this goal by deploying multiple approaches, including targeted changes in the tax code, increased usage and improved access to taxpayer assistance through the Internet, and a continued emphasis on tax enforcement. The performance results from these goals will provide indicators of the IRS' effectiveness in leveraging taxpayer behavior in terms of compliance and influencing public opinion relating to the need for compliance with the nation's tax laws.

The IRS also established long-term goals to evaluate its success in improving the public's perception of the IRS' ability to treat taxpayers fairly and equitably while enforcing the tax laws. The IRS will use the results of Question 1 (How much, if any, do you think is an acceptable amount to cheat on your income taxes?) from the IRS Oversight Board's annual Taxpayer Attitude Survey to measure its progress against *reducing the percentage of taxpayers who think it is acceptable to cheat on their taxes.*

To balance the suite of enterprise-wide goals, the IRS will evaluate its progress in engaging and gaining maximum productivity from employees. To measure progress in this area the IRS intends to use results from its established employee survey process.

IRS Long-Term Goals - Enterprise

Performance Level	FY 2004 Actual	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance	FY 2008 Planned Performance	FY 2009 Planned Performance	FY 2010 Planned Performance
Improve Voluntary Compliance - Oe *	N/A	83.0%	N/A	N/A	N/A	85.0%	N/A
Reduce the Precent of Taxpayers Who Think it is OK to Cheat on Their Taxes - Oe	12.0%	10.0%	10.0%	10.0%	9.0%	<9.0%	<9.0%

Key: Oe - Outcome Measure

* FY 2005 projection based on findings from Tax Year 2001.

N/A: Not applicable for the particular fiscal year.

Programmatic Long-Term Goals

Consistent with the requirements of the Government Performance Results Act (GPRA) outlined in OMB Circular A-11, the IRS established long-term, outcome-oriented goals and annual targets for its major programs. These programmatic goals support the achievement of the IRS enterprise-wide long-term goals. The IRS' long-term goals and targets are outlined in the table that follows.

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. Given the complexity of the tax code, there is an expectation that taxpayers will contact the IRS with questions regarding their filing and payment obligations. The long-term goal for Taxpayer Self-Assistance, introduced in FY 2006, is consistent with the IRS strategic strategy to match the services offered to taxpayers participating in the tax system to meet a wide range of technological literacy. The self-assistance rate measures the IRS' effectiveness in providing certain cost effective services including those for telephone automation and Internet automation.

The IRS long-term goals for increasing the number of individual and business returns filed electronically show the importance the Service places on broadening the range of e-file offerings for taxpayers. In FY 2006 and beyond, the IRS plans to continue the expansion of electronic tax products for businesses by providing new forms and schedules for estates, trusts, and partnership tax returns; accepting amended returns; and accepting the new annualized employment tax returns. For FY 2006, the IRS enhanced its website with new features, such as improved search capabilities, tax applications and/or calculators, and has increased the accessibility and services it offers to the Spanish language community.

Enforcement

The overarching long-term objective for all IRS programs is to increase the rate of voluntary compliance among taxpayers. While all IRS programs serve to promote voluntary compliance with the tax law, Examination, Automated Underreporter, Collection and Criminal Investigation are the major IRS enforcement activities that interact directly with potentially non-compliant taxpayers.

- *Examination and Automated Underreporter* ─ Two of the major IRS activities intended to minimize revenue loss through document matching and audits of individuals, businesses, and special purpose entities through the verification of income, deductions, exemptions, and credits reported on tax returns. After dropping substantially in the late 1990s, the IRS' examination enforcement results have begun to improve. The IRS plans to continue to increase audit rates largely through productivity growth.

  The Automated Underreporter program has continued to make substantial strides in both the efficiency of its use of resources and the coverage of its activities in comparison to steady increases in tax return filings.

  The IRS commitment to maintaining robust underreporter and examination programs are demonstrated by its efforts to increase enforcement results, efforts reflected in the IRS long-term goals and corresponding performance targets.   In FY 2006 and beyond, the IRS will continue efforts to identify additional long-term goals for the Examination program, in particular those that insure that the IRS is focusing on the right types of audits, and that IRS examiners are conducting the audits in an effective and efficient manner.

- *Collection* ─ The collection of taxes due is a high priority for the IRS, which in FY 2005 collected $47.3 billion in revenue through Servicewide direct enforcement action. The long-term objectives for the Collection activity emphasize: (a) steps to draw down the potentially collectible inventory; (b) improving Field Collection's ability to address complex payment avoidance tactics; and (c) enhancing the efficiency and effectiveness of Collection personnel through technology, systems, and support structure improvements. Another long-term objective for the Collection activity is increasing collections of known tax debt by using private collection agencies ─ an action that also will increase the speed and timeliness of service to taxpayers.

- *Criminal Investigation* ─ The program focuses on tax cases, particularly abusive tax schemes, refund crimes, non-filers, and employment tax fraud. The Investigations program has maintained a consistently high case acceptance rate from the Justice

Department and has achieved equally impressive conviction rates of approximately 91 percent in both FY 2004 and 2005.

In 2005, the IRS introduced three Criminal Investigation program goals that collectively demonstrate the IRS' long-term commitment to promoting taxpayer compliance. The goals are: *Number of Convictions*, *Conviction Rate,* and *Conviction Efficiency Rate*. The *Number of Convictions* is used as a proxy measure for Criminal Investigation's impact on compliance. While this impact cannot be directly measured, academic research suggests that higher levels of convictions/criminal sentences lead to higher compliance. *Conviction Rate* demonstrates the quality of IRS' investigative work as only properly investigated cases will lead to a conviction. *Conviction Efficiency Rate* measures the overall efficiency of the IRS Investigation program.

The comprehensive list of programmatic long-term goals is shown on the following page.

IRS Long-Term Goals - Programmatic

Performance Level	FY 2004 Actual	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance	FY 2008 Planned Performance	FY 2009 Planned Performance	FY 2010 Planned Performance
Taxpayer Service							
Taxpayer Self Assistance Rate Oe *	46.4%	42.5%	45.7%	47.5%	49.8%	55.7%	59.1%
Percent Individual Returns Processed Electronically Oe ‡	46.5%	51.1%	55.0%	58.8%	62.0%	64.7%	67.0%
Percent of Business Returns Processed Electronically Oe ‡	17.4%	17.8%	18.6%	20.6%	22.7%	24.9%	26.9%
Enforcement							
Examination Coverage - Individual Oe ^	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%	0.9%
Field Exam Embedded Quality (EQ)	N/A	N/A	Baseline	TBD	TBD	TBD	TBD
Office Exam Embedded Quality (EQ)	N/A	N/A	Baseline	TBD	TBD	TBD	TBD
Examination Quality (LMSB) - Industry Oe	74.0%	77.0%	80.0%	84.0%	87.0%	90.0%	90.0%
Examination Quality (LMSB) - Coordinated Industry Oe	87.0%	89.0%	92.0%	93.0%	95.0%	95.0%	95.0%
Examination Coverage - Business (Corps. > $10 M) Oe †††	7.5%	7.8%	7.5%	8.4%	8.0%	7.4%	7.3%
Examination Efficiency - Individual E ^ ^	N/A	121	121	128	129	130	131
AUR Efficiency **	1,514	1,701	1,759	1,834	1,873	1,905	1,938
AUR Coverage **	1.9%	2.2%	2.3%	2.4%	2.4%	2.4%	2.4%
Collection Coverage - Units Oe †	N/A	53.0%	52.0%	52.0%	53.0%	54.0%	55.0%
Collection Efficiency - Units Oe ††	N/A	1,514	1,650	1,717	1,771	1,796	1,824
Field Collection Embedded Quality Oe	N/A	N/A	Baseline	TBD	TBD	TBD	TBD
Criminal Investigations Completed Ot	4,387	4,104	3,945	3,960	4,045	4,175	4,260
Number of Convictions Ot	2,008	2,151	2,260	2,305	2,350	2,400	2,485
Conviction Rate E	91.2%	91.2%	92.0%	92.0%	92.0%	92.0%	92.0%
Conviction Efficiency Rate ($) E	362,849	295,316	339,565	341,334	341,755	342,332	338,227

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

* FY 2004-2005 data based on methodology developed in FY 2005.

** Measure includes data for SBSE and W&I. Total W & I Closures include Non-EITC and EITC Closures for FY 2004 - 2007.

^ Methodology change - FY 2004 and FY 2005 performance previously reported as 2.3% and 1.4% (respectively)

^ ^ Methodology change - prior performance reported as 222

† Methodology change - prior performance reported in PAR and PARTas 39%

†† Methodology change - prior performance reported as 510

†††Variance from PART in 2007 reflects a recent increase in the Examination plan for LMSB

‡ 80% remains the long-term goal for electronic filing as identified by statute. It will not be achieved in the legislative timeframe

N/A: Not applicable for this fiscal year.

Explanation of Budget Increases and Decreases

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.

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: All	FTE	Amount	Treasury Strategic Objective
FY 2006 President's Budget	97,009	$10,679,261	
Congressional Adjustment	0	$1,250	
1% Rescission	(605)	($106,805)	
FY 2006 Enacted	96,404	$10,573,706	
Base Realignment			
FTE Adjustment	(1,018)		
FY 2006 Operating Level	95,386	$10,573,706	
Maintaining Current Levels (MCLs)			
Pay Annualizations	0	$61,994	
Proposed Pay Raise	0	$149,819	
Non-Pay Inflation	0	$60,418	
Sub-total, Maintaining Current Levels (MCLs)	0	$272,231	
Program Reduction			
Business Systems Modernization Program Reduction	0	($29,700)	F4A
Sub-total, Program Reduction	0	($29,700)	
Base Reinvestment			
Increase Returns Processing Efficiencies	11	$12,237	F4A
Sub-total, Base Reinvestment	11	$12,237	
Program Cost Savings			
E-File Savings	(174)	($6,760)	F4A
Improvement Project Savings	(135)	($8,215)	F4A
Competitive Sourcing Savings	0	($17,000)	F4A
Program Efficiencies	(2,096)	($84,121)	F4A
HITCA Program Efficiency	0	($5,500)	F4A
Sub-total, Program Cost Savings	(2,405)	($121,596)	
Transfers Out			
Transfer to TIGTA	0	($941)	F4A
Sub-total, Transfers Out	0	($941)	
Total, FY 2007 Base	92,992	$10,705,937	
Program Changes			
Program Increases			
Consolidate Philadelphia Campus	0	$20,900	F4A
Sub-total, Program Increases	0	$20,900	
FY 2007 Request	92,992	$10,726,837	
Offsetting Fees			
New User Fees Revenue	0	($135,000)	
Total, FY 2007 President's Budget Request	92,992	$10,591,837	

FY 2006 enacted level excludes rescission of unobligated balances ($20 million from PAM and $9 million from HITCA).

Numbers may not add due to rounding

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs)…………….……………..+$272,231,000 / 0 FTE

The IRS is a labor intensive organization (72 percent). To maintain current operations ─ protect the integrity of the filing season and oversee tax administration programs ─ the IRS must have the resources to pay for the increased costs associated with statutory pay and other required increases. The request funds the estimated cost of pay and benefit increases and non-pay inflation. This amount includes:

- Annualization of the FY 2006 Federal Pay Raise (3.1%) in FY 2007, +$61,994,000
- Proposed FY 2007 Federal Pay Raise (2.2%), +$149,819,000
- Non-Pay Inflation (2.2%), +$60,418,000

Program Reductions …………………………………………...- $29,700,000 / 0 FTE

Business Systems Modernization 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 Reinvestment ……………………………………………+ $12,237,000 / +11 FTE

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 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.

The ramp down for both Philadelphia and Andover submission processing sites should not affect taxpayers and IRS will retain a strong employment presence in both areas. Benefits to the IRS include aligning the workforce with processing demands and technology and increasing returns processing efficiency.

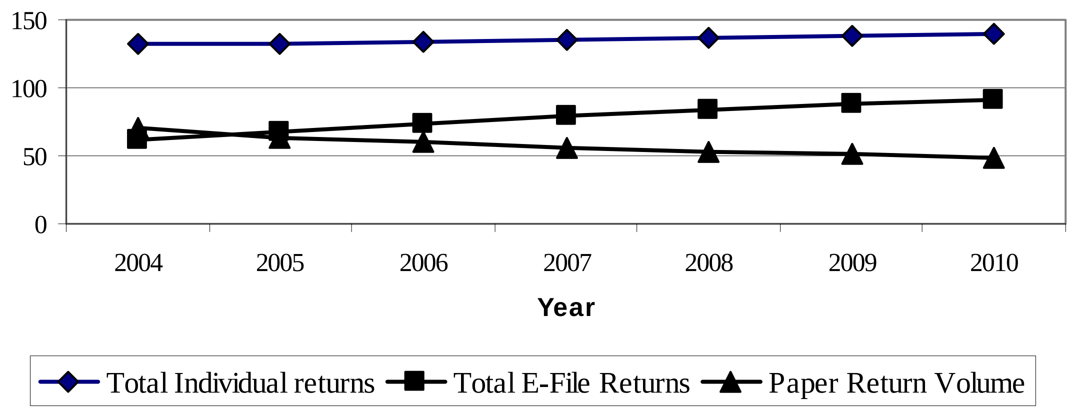
Program Cost Savings ……………………………………- $121,596,000 / -2,405 FTE

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.

Title II of the Restructuring and Reform Act of 1998 (RRA '98) provides the IRS with a policy statement regarding electronic filing. Paperless filing should be the preferred and most convenient means of filing federal tax and information returns as the IRS supports its goal of at least 80 percent of all such returns filed electronically by the year 2007. The IRS should collaborate with and encourage the private sector to promote and increase electronic filing of such returns.

The percent of individual returns processed electronically for FY 2004 is 47 percent and 51.1 percent in FY 2005, targeted to be 55 percent in FY 2006, 59 percent in FY 2007, and 62 percent in FY 2008. Paper return volume is expected to be down to 53 million by year 2008 with e-filed returns increasing to 84 million by year 2008. This decrease is a direct result of the increase of electronically filed returns from 74 million (or 55 percent) in 2006 to 80 million (or 59 percent) in 2007.



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. These reviews support performance documentation, employee development, quality measurement, and overall program improvement. The National Quality Review System will continue to collect data on customer accuracy. Improved productivity and accuracy will result in the reduction of: call length, return calls based on wrong or incomplete answers to taxpayers, assistor-to-assistor transfers, and attrition/assistor turnover. Fewer Customer Service

Representatives (CSRs) will answer the same number of calls. Savings include 83 FTE in Accounts Management and 13 FTE in Compliance.

- The Queuing Management System (Q-Matic) is an on-line system available at TACs to facilitate workload and resource distribution for improved workflow and timeliness of service. Q-Matic provides three major benefits: (1) increased usable space in TACs through improved traffic management, (2) increased management information to support program planning and control, and (3) reduced taxpayer burden and increased confidentiality by managing wait areas more efficiently. Q-Matic's improved data gathering and customer traffic management capabilities support the delivery of standardized services in all TACs and develop quality measures for gathering and validating data. Q-Matic reports will eliminate the need for manual daily recordation of contact information by each employee and subsequent manual consolidation of such information to generate resource management reports. The system will identify peak periods, customer wait times, number of customers served and, most frequently requested services.

- The Correspondence Imaging System will allow CSRs to work from a stored image to streamline case resolution. The system will allow the Imaging Control Unit to batch, control, and assign cases more efficiently. CSRs will receive correspondence more quickly and start to work it sooner. The system saves images of the correspondence and related documentation after the case is closed. There will be reductions in printing, routing, mailing and handling of mail for both outgoing and incoming responses for each campus.

- End-to-End Publishing will provide technology solutions to streamline business processes associated with publishing and distribution. This will include procurement and integration of multiple commercial off-the-shelf products to improve value and address document creation, document management, printing procurement, electronic publishing, order fulfillment, warehouse management, and transportation management.

Competitive Sourcing Efficiencies -$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.

Competitive Sourcing Savings by Project

Project	Savings
National Distribution Center	$19,000
Integrated Document Solutions Enterprise	$2,472,000
Building Delegation	$1,655,000
Files Activity[1/]	$6,060,000
Logistics Services[1/]	$2,548,000
Fuels Compliance[1/]	$4,246,000
TOTAL	$17,000,000

[1/] Savings may vary based upon actual award date and level of efficiency achieved.

There are four projects that will make substantial progress in FY 2007. The first, already awarded, is Building Delegation, which provides functions identified in agreements between the General Services Administration and the IRS to include responsibilities to operate and maintain building systems. The second, Files Activity, receives, controls, shelves, and maintains all returns/documents for retention and retirement. The third, Logistics Services, provides warehousing and transportation, mainly at the ten campus sites. Finally, Fuels Compliance monitors 1,400 terminals, all fuel wholesalers, thousands of retail motor fuel outlets, and U.S. border crossings.

Program Efficiencies -$84,121,000 / -2,096 FTE
The IRS continues to improve efficiencies for taxpayer service and enforcement programs. Productivity efficiencies applying to both programs are from infrastructure savings and improvements and consolidation of central management functions.

Improvement efficiencies directly applying to each program include:

- ***Taxpayer Service (-$32,200,000 / -825 FTE)*** **—** Operations will be improved through a variety of efforts, including the judicious distribution of workload and the automation of certain taxpayer assistance functions. For example, the Service monitors case inventories centrally. This process improves the case processing workload by redirecting cases from offices with excessive inventory levels to those with a more manageable workload. Subsequently, existing staff work more cases.

  The Service will improve Taxpayer Service operations through a Systemic Advocacy effort. It involves analyzing the causes of past taxpayer cases and monitoring current program activities dealing with taxpayers to prevent future Taxpayer Service case receipts. Systemic Advocacy also encompasses legislative proposals included in the National Taxpayer Advocate's Annual Report to Congress. These proposed statutory changes, if enacted, also can reduce the number of cases.

  Another effort to improve Taxpayer Service efficiency is through the use of the Individual Taxpayer Identification Number Real Time System (ITIN RTS). The ITIN RTS will save time and resources for both the Service and taxpayers, as it will automate the process of providing a Taxpayer Identification Number (TIN) to those taxpayers ineligible for a Social Security Number but required to provide identifying information on a tax return. In addition, the Service will continue to improve telephone operations through expansion of scripts, automated services, and leveraging of service delivery to improve the toll-free experience for the taxpayer.

- ***Enforcement (-$51,921,000 / -1,271 FTE)*** **─** In FY 2007, the IRS' enforcement operations will enhance productivity and efficiency through the reduction of resources allocated to overhead and internal support functions, and the redirection of those resources to front-line compliance activities. As the enforcement personnel hired in FY 2006 complete their training cycles, they will spend less time in training and will spend more time performing their roles as Examiners. In addition, those veterans, who were pulled offline to conduct on-the-job training, will focus on their exam cases, resulting in increased productivity.

  The Service also will identify processes that can be reengineered and centralized and will improve workload selection techniques in examination and collection cases. These procedural improvements will help the IRS resolve simple cases quickly while simultaneously allowing the Service to concentrate resources on addressing the most egregious examples of abuse.

  The IRS will maintain audit coverage levels for large organizations with improved data collection techniques and enhanced work processes. To accomplish this, the IRS will leverage increased financial reporting requirements under the Sarbanes Oxley provisions, the implementation of the Schedule M-3, (Net Income [Loss] Reconciliation for Corporations with Total Assets of $10 Million or More), Modernized E-File, scanning and imaging of tax returns and other documents, and improved management systems to collect data and focus work processes. They will provide more rapid access to data for quicker risk analysis, thereby allowing the IRS to focus earlier on the highest non-compliance risks and reduce the amount of time required to place returns in the hands of Field Agents for compliance review.

  The Service will use new approaches to expand its enforcement presence in the regulated communities. For example, the Employee Plan and Exempt Organization (EP/EO) will provide a mechanism for the IRS to resolve return and other filing errors among EP/EO filers through correspondence contact. This in turn will permit the IRS to conserve future enforcement resources because these compliance checks take less time. As a result, the Service will improve coverage at a lower cost than traditional examinations.

  In addition to improvements in existing examination and collection activities, the IRS will focus on improving investigative efficiencies through enhanced managerial oversight and the streamlining of business procedures. The Service will continue to enhance investigations through improvements in the technological capability to process electronic data and evidence. The Service will also increase its oversight of the tax practitioner community and take appropriate enforcement actions against those practitioners and enrolled agents who flagrantly disregard or manipulate the tax code.

Health Insurance Tax Credit Administration (HITCA) Program Efficiency -$5,500,000 / 0 FTE
This funding adjustment reflects the program's effort to align fiscal year costs with contract year expenditures. In addition, HICTA is using a comprehensive plan outlining cost reduction initiatives to improve customer service and reduce information technology support to achieve these savings. This plan also includes further business process enhancements to the program to assure continued delivery of high quality service while keeping program costs down.

Transfer to Treasury Inspector General for Tax Administration (TIGTA) …………………………- $941,000 / 0 FTE

Transfer to TIGTA -$941,000 / 0 FTE
This base transfer is comprised of (1) TIGTA's portion of the Working Capital Fund (WCF), 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 (GPO) for TIGTA activities (-$15,000).

Program Increases...…………………..…………………………+ $20,900,000 / 0 FTE

Consolidate the 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.

Tangible savings will be the reduced costs for redundant support services, security, and the elimination of transportation between sites (nine buildings). This investment will result in cost avoidance of additional maintenance and repair costs on the old, leased buildings that are already beyond their useful life. Employees serve taxpayers better when they work in a quality environment. The IRS' service to taxpayers hinges on the effectiveness of its employees and the Service's investment in their development and work environment.

Processing, Assistance, and Management (PAM)

Processing, Assistance, and Management

The FY 2007 request 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 all functions related to processing of tax returns, including providing services to the taxpayer before a return is filed, accounting for tax revenues, issuing refunds and tax notices. In addition, this appropriation provides direct support resources for management to provide leadership and direction to IRS personnel and administrative services such as facilities and procurement services.

Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: Processing Assistance and Management	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2006 President's Budget	38,839	$4,136,578		
Congressional Adjustment				
1% Rescission	(43)	($41,366)		
FY 2006 Enacted	38,796	$4,095,212		
Base Realignment				
FTE Adjustment	(488)			
FY 2006 Operating Level	38,308	$4,095,212		
Maintaining Current Levels (MCLs)				
Pay Annualizations		$21,148		
Proposed Pay Raise		$51,090		
Non-Pay Inflation		$32,168		
Sub-total, Maintaining Current Levels (MCLs)	0	$104,406		
Base Reinvestment				
Increase Returns Processing Efficiencies		$7,696	Filing, Shared Services, General Management	F4A
Sub-total, Base Reinvestment	0	$7,696		
Program Cost Savings				
E-File Savings	(174)	($6,640)	Filing, Shared Services, General Management	F4A
Improvement Project Savings	(122)	($7,000)	All BACs	F4A
Competitive Sourcing Savings		($10,206)	General Management	F4A
Program Efficiencies	(2,063)	($23,946)	All BACs	F4A
Sub-total, Program Cost Savings	(2,359)	($47,792)		
Transfers Out				
Transfer to TIGTA		($272)	Pre-Filing, General Management	F4A
Sub-total, Transfers Out	0	($272)		
Total, FY 2007 Base	35,949	$4,159,250		
Program Changes				
Program Increases				
Consolidate Philadelphia Campus		$643	Shared Services	F4A
Sub-total, Program Increases	0	$643		
FY 2007 Request	35,949	$4,159,893		
Offsetting Fees				
New User Fees Revenue		($114,771)		
Total, FY 2007 President's Budget Request	35,949	$4,045,122		

FY 2006 enacted level excludes rescission of unobligated balances ($20 million).

Numbers may not add due to rounding

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs)………….………......+$104,406,000 / 0 FTE

This request funds the estimated cost of statutory pay and benefit increases and non-pay inflation. This amount includes:

- Annualization of the FY 2006 Federal Pay Raise (3.1%) in FY 2007, +$21,148,000
- Proposed FY 2007 Federal Pay Raise (2.2%), +$51,090,000
- Non-Pay Inflation (2.2%), +$32,168,000

Base Reinvestment ……………………………………………...+ $7,696,000 / 0 FTE

Increase Returns Processing Efficiencies +$7,696,000 / 0 FTE
This base reinvestment will provide funding to continue consolidating Individual Master File returns processing into fewer Submission Processing sites. (For more information on this base reinvestment, see page 22.)

Program Cost Savings ……………………………………- $47,792,000 / -2,359 FTE

E-File Savings -$6,640,000 / -174 FTE
This savings results from increased electronic filing and a reduction in Individual Master File paper returns. (For more information on this savings, see page 22.)

Improvement Project Savings -$7,000,000 / -122 FTE
These are savings generated by the following projects: Contact Recording, Queuing Management, Correspondence Imaging Systems, and End-to-End Publishing. (For more information on this savings, see page 23.)

Competitive Sourcing Savings -$10,206,000 / 0 FTE
These savings are the result of six different competitive sourcing projects, which reduce costs through the development of a most efficient organization (MEO) or through private vendor efficiencies. (For more information on this savings, see page 24.)

Program Efficiencies -$23,946,000 / -2,063 FTE
Efficiencies are generated by a Servicewide reevaluation of overhead staffing and an increase of management's span of control, as well as production efficiencies associated with improved processes, redistributing workload, and leveraging technology. (For more information on this savings, see page 25.)

Transfer to Treasury Inspector General for Tax Administration (TIGTA) …………………………- $272,000 / 0 FTE

Transfer to TIGTA -$272,000 / 0 FTE

This base transfer is comprised of (1) TIGTA's portion of the Working Capital Fund (WCF), which is currently paid directly by the IRS (-$257,000) and (2) printing funds currently paid directly by the IRS to the GPO for TIGTA activities (-$15,000).

Program Increases ...………………...……………….…………+ $643,000 / 0 FTE

Consolidate the Philadelphia Campus +$643,000 / 0 FTE

This initiative requests funding 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. (For more information on this initiative, see page 27.)

3.1 – Appropriation Detail Table

Dollars in Thousands

Processing Assistance and Management

Resources Available for Obligation	FY 2005 Enacted FTE	FY 2005 Enacted AMOUNT	FY 2006[1] Enacted FTE	FY 2006[1] Enacted AMOUNT	FY 2006[2] Operating Level FTE	FY 2006[2] Operating Level AMOUNT	FY 2007 Request FTE	FY 2007 Request AMOUNT	% Change FY 2006 Oper. to FY 2007 FTE	% Change FY 2006 Oper. to FY 2007 AMOUNT
Newly Appropriated Resources:										
Pre-Filing	3,200	$539,374	2,812	$517,707	2,920	$330,536	2,847	$329,557	-2.50%	-0.30%
Filing and Account Services	28,843	$1,710,368	28,181	$1,679,688	27,507	$1,678,132	25,229	$1,618,784	-8.28%	-3.54%
Shared Service Support	3,591	$1,210,874	3,567	$1,285,181	3,609	$1,484,366	3,609	$1,504,247	0.01%	1.34%
General Management	4,267	$596,241	4,236	$612,636	4,272	$602,178	4,264	$592,534	-0.18%	-1.60%
Subtotal Newly Appropriated Resources	39,901	$4,056,857	38,796	$4,095,212	38,308	$4,095,212	35,949	$4,045,122	-6.16%	-1.22%
FY 2007 New Resources:										
Mandatory Approp. - New User Fees								$114,771		
Subtotal FY 2007 New Resources							35,949	$4,159,893		
Other Resources										
Unobligated Balances Available, SOY		$10,754		$13,236		$13,236				
Offsetting Collections - Reimbursable	569	$46,225	934	$62,150	934	$62,150	1,040	$71,473	11.35%	15.00%
Mandatory Approp. - Existing User Fees		$0		$30,000		$30,000		$30,229		0.76%
50% Carryover		$14,281		$0		$0				
Recoveries		$392		$0		$0				
Available multi-year/no-year funds		$2,107		$0		$0				
Transfers In/Out		($7,892)		$0		$0				
Subtotal Other Resources	569	$65,867	934	$105,386	934	$105,386	1,040	$101,702	11.35%	-3.50%
Total Resources Available for Obligation	40,470	$4,122,724	39,730	$4,200,598	39,242	$4,200,598	36,989	$4,261,595	-5.74%	1.45%

[1] FY 2006 enacted level includes 1% across the board rescission and excludes rescission of unobligated balance ($20 million).

[2] The FY 2006 Operating Level includes alignment of printing and postage from Pre-filing Taxpayer Assistance and Education to Shared Services Support as proposed in the FY 2006 Operating Plan.

Numbers may not add due to rounding

Pre-Filing Taxpayer Assistance and Education

3A – Budget Activity Description

<u>Pre-Filing Taxpayer Assistance and Education</u> *($329,557,000 from direct appropriation and $4,120,000 from new user fees)* This activity 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. This activity funds the following programs:

- *Pre-Filing Services Management* to manage pre-filing, taxpayer assistance, and education programs,
- *Tax Law Interpretation and Published Guidance* to interpret the tax law through published guidance, technical advice, and other technical legal services,
- *Taxpayer Communication and Education* to research customer needs, prepare tax forms and publications, develop and manage educational programs, establish partnerships with stakeholder groups, and disseminate tax information to taxpayers and the general public through a variety of media including publications and mailings, web sites, broadcasting, and advertising,
- *Media and Publications* to develop understandable notices, produce forms and publications for printed and electronic tax materials, and to supply media production services to taxpayers,
- *Rulings and Agreements* to apply the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements and other pre-filing determinations and advice,
- *Taxpayer Advocacy* to ensure that taxpayers have an advocate to prevent future problems by identifying the underlying causes of taxpayer problems and participating in the development of systemic and/or procedural remedies (The vast majority of resource funding for Taxpayer Advocate Service (TAS) program is in the TLE appropriation), and
- *National Distribution Center* to receive and process orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Pre-Filing Taxpayer Assistance and Education (BAC 21)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006[2] Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$610,969	$624,160	$624,790	$539,374	$517,707	$330,536	$329,557
New User Fees							$4,120
Total New Resources	$610,969	$624,160	$624,790	$539,374	$517,707	$330,536	$333,677
Existing User Fees [1]							$1,085
Offsetting Collection (Reimbursable)	$503	$741	$1,335	$1,357	$1,831	$1,831	$2,106
Total Operating Level	$611,472	$624,901	$626,125	$540,730	$519,538	$332,367	$336,868
Human Resources							
Newly Appropriated FTE	4,179	4,055	3,884	3,200	2,812	2,920	2,847
Other FTE	0	3	7	6	28	28	31
Total FTE (direct and reimbursable)	4,179	4,058	3,891	3,205	2,840	2,948	2,878

[1] User Fees data is excluded for FY 2002 through FY 2004

[2] The FY 2006 Operating Level includes alignment of printing and postage to Shared Services Support as proposed in the FY 2006 Operating Plan.

Numbers may not add due to rounding

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Timeliness of Critical Filing Season Tax Products to the Public - Oe	N/A	N/A	76.0%	80.0%	91.4%	92.0%	93.0%
Timeliness of Critical Other Tax Products to the Public - Oe	N/A	N/A	76.0%	80.0%	80.0%	85.0%	86.0%
Taxpayer Self Assistance Rate - Oe * (L)	N/A	51.0%	46.4%	Baseline	42.5%	45.7%	47.5%
Refund Timeliness - Individual (paper) - E	98.2%	98.8%	98.3%	98.4%	99.2%	99.2%	99.2%

Key: Oe - Outcome Measure, E - Efficiency Measure, and (L) - Long-term Goal

*FY 2003-2004 data based on a methodology for calculating performance developed in FY 2005

N/A: Not Applicable for this fiscal year

3B – Description of Performance

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 administering the tax laws. The IRS improved its service over the last several years and improved the efficiency and effectiveness of the tax administration system. The IRS continued to expand electronic filing for businesses by increased marketing; expanded e-file programs, including the acceptance of new forms and schedules; leveraging partner organizations such as state taxing authorities; and increased volunteer presence to better serve taxpayer needs.

The FY 2007 Budget supports the IRS' continued efforts to deliver high-quality service to taxpayers through:

- Simplification of tax forms and publications to make them more suitable for use on computer-based systems. All published products will be accessible in electronic format. The IRS also will continue to work with partners to provide effective access and support to more taxpayers.

- Improved quality and accuracy of responses from its call centers and extended taxpayer service through increased self-service enhancements. Self-service enables taxpayers to get immediate answers to questions.

In FY 2006 and continuing in FY 2007, the IRS will research and evaluate taxpayer service needs through surveys and focus groups to obtain feedback from taxpayers and tax practitioners about ways to improve tax forms, instructions and publications. The IRS will seek opportunities to improve processes and training to achieve consistent, repeatable quality service with reduced unit delivery costs. In addition, the IRS plans to improve the quality and clarity of computer-generated notices issued to taxpayers to reduce the need for follow-up telephone contacts and make it easier for taxpayers to understand and comply with their tax requirements.

Filing and Account Services

3A – Budget Activity Description

Filing and Account Services *($1,618,784,000 from direct appropriation and $110,651,000 from new user fees)* This activity 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. This activity funds the following programs:

- *Filing and Account Services Management* to manage filing and account services in the program,
- *Submission Processing* to process paper and electronically submitted tax returns and supplemental documents, account for tax revenues, and issue refunds and tax notices,
- *Account Management and Assistance – Electronic/Correspondence Assistance* to furnish assistance, education and compliance services to taxpayers through telephone, correspondence, and electronic means and to resolve account and notice inquiries, either electronically or by telephone,
- *Account Management and Assistance – Field Assistance* to provide face-to-face assistance, education, and compliance services to taxpayers. It includes preparing returns, answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers, and
- *Files Most Efficient Organization* to store the administrative files and the most recent tax returns in-process which are most likely to be requested for research by various IRS organizations until they are forwarded to the federal records centers.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Filing and Account Services (BAC 22)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$1,657,342	$1,652,261	$1,705,742	$1,710,368	$1,679,688	$1,678,132	$1,618,784
New User Fees							$110,651
Total New Resources	$1,657,342	$1,652,261	$1,705,742	$1,710,368	$1,679,688	$1,678,132	$1,729,435
Existing User Fees [1]				$6,200	$30,000	$30,000	$29,144
Offsetting Collection (Reimbursable)	$19,472	$17,444	$28,290	$36,813	$49,697	$49,697	$57,152
Total Operating Level	$1,676,814	$1,669,705	$1,734,032	$1,753,381	$1,759,385	$1,757,829	$1,815,731
Human Resources							
Newly Appropriated FTE	31,123	31,581	30,990	28,843	28,181	27,507	25,229
Other FTE	453	393	503	562	746	746	832
Total FTE (direct and reimbursable)	31,576	31,974	31,493	29,405	28,927	28,253	26,061

[1] User Fees data is excluded for FY 2002 through FY 2004

Numbers may not add due to rounding

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Percent Individual Returns Processed Electronically - Oe (L)‡‡	35.6%	40.3%	46.5%	51.0%	51.1%	55.0%	58.8%
Percent of Business Returns Processed Electronically - Oe (L) ‡‡	N/A	N/A	17.4%	17.0%	17.8%	18.6%	20.6%
Customer Accuracy - Tax Law Phones - Oe	N/A	82.0%	80.0%	82.0%	89.0%	90.0%	90.5%
Customer Accuracy - Accounts (Phones) - Oe	N/A	88.0%	89.0%	89.8%	91.5%	92.0%	92.6%
Customer Contacts Resolved per Staff Year - E	N/A	8,318	8,015	7,261	7,585	7,477	7,555
Customer Service Representative (CSR) Level of Service - Oe	68.0%	80.0%	87.3%	82.0%	82.6%	82.0%	82.0%

Key: Oe - Outcome Measure, E - Efficiency Measure

‡‡ 80% remains the long term goal for electronic filing as identified by statute. It will not be achieved in the legislative timeframe

N/A: Not Applicable for this fiscal year

3B – Description of Performance

In FY 2005, the IRS set a record with more than 68 million individual taxpayer returns (more than half) filed electronically, representing an 11 percent increase over FY 2004. Home computer usage by individuals to e-file tax returns also increased 17 percent over FY 2004 to more than 17 million returns. Tax professional use of e-file increased by almost 11 percent, with 47 million filing electronically. Five million taxpayers e-filed for free through the *Free File Alliance*, a partnership between the IRS and a consortium of tax software companies, a 46 percent increase from 2004. To assist taxpayers in filing their returns, the IRS answered 33.4 million telephone calls, and the automated telephone system handled nearly 25.7 million calls. The IRS correctly responded to 89 percent of tax law questions and 91.5 percent of account questions.

Additionally, tens of millions of taxpayers visited the IRS website to obtain forms, publications, and answers to their many tax questions. IRS employees made millions of contacts, improving service to American taxpayers and businesses by reducing response times to taxpayer inquiries, improving communications with taxpayers, providing taxpayers and their paid preparers with needed resources, and reducing the paperwork burden.

Beginning in FY 2006 and continuing in FY 2007, the IRS will increase the number of electronic interactions, including those with small business taxpayers, and will increase the number of practitioners that offer taxpayers electronic filing and paying options. Efforts to increase electronic filing will include adding new forms and schedules to the business electronic portfolio, leveraging partner organizations such as state taxing authorities, and increasing volunteer presence to better serve taxpayer needs.

Shared Services Support

3A – Budget Activity Description

Shared Services Support *($1,504,247,000 from direct appropriation)* This activity provides administrative services to all IRS employees, including facilities services, rent payments, printing, postage, and security. This activity funds the following programs:

- *Facilities Services* to provide services and supplies required to manage IRS facilities,
- *Personnel* to support human resource programs including recruitment, labor and employee relations, workforce planning and evaluation, performance management, employee benefits, personnel security, and transaction processing,
- *Procurement* to support the procurement function of the IRS,
- *EEO Field Operations* to plan and manage the IRS EEO and Diversity Program,
- *Rent* to provide resources for all of the IRS rent needs,
- *Space and Housing/Non-ADP Equipment* to manage all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and non-ADP equipment,
- *Customer Support* to plan and manage financial services including Travel Reimbursement and Accounting System, relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances,
- *Treasury Complaint Centers* to plan and manage the Treasury Complaint Centers,
- *Shared Support not provided by Agency Wide Shared Services (AWSS)* to provide resources for shared cross-functional support not provided by AWSS, such as copiers, postage meters, shredders, courier services, P. O. Boxes, etc.,
- *Building Delegation* to provide resources for all of the Service's GSA delegated buildings, including cleaning, maintenance, utilities, protection, administrative, recurring and one-time repair costs,
- *Printing and Postage reside in the Media and Publication organization* to provide printing and postage including shipping of taxpayer and internal use materials for all business operating divisions,
- *Security* to support for the protection of IRS employees, facilities and assets, the availability of taxpayer services, and the confidentiality of taxpayer information, and
- *Shared Services not in Rent or Space and Housing* to provide for more detailed tracking of costs not identified in *Space and Housing* and *Rent* such as Public Transit Subsidy and Career Counselor Contract.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Shared Services Support (BAC 24)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006[1] Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$1,010,209	$1,185,842	$1,242,893	$1,210,874	$1,285,181	$1,484,366	$1,504,247
Offsetting Collection (Reimbursable)	$8,417	$8,623	$8,697	$7,325	$9,712	$9,712	$11,169
Total Operating Level	$1,018,626	$1,194,465	$1,251,590	$1,218,198	$1,294,893	$1,494,078	$1,515,416
Human Resources							
Newly Appropriated FTE	4,968	4,917	4,710	3,591	3,567	3,609	3,609
Other FTE	63	70	37	0	146	146	163
Total FTE (direct and reimbursable)	5,031	4,987	4,747	3,591	3,713	3,755	3,772

[1] The FY 2006 Operating Level includes alignment of printing and postage from Pre-Filing Taxpayer Assistance and Education as proposed in the FY 2006 Operating Plan.

Numbers may not add due to rounding

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
There are no externally reported performance measures associated with this activity (see 3B for related performance data)							

3B – Description of Performance

The IRS will expand and improve services to its employees through programs that promote employee development and continuity such as training, succession planning, and workplace conflict prevention. Beginning in FY 2006 and continuing in FY 2007, the IRS will make the following improvements and adjustments:

- Rent Management – Restrain rent cost increases by: 1) designing, developing, and delivering rent reduction projects that promote space efficiency; 2) establishing partnership with GSA to ensure best value; and 3) finalizing delivery plan and implementing Treasury-delegated leasing authority.

- Safety and Health – Successfully deliver Safety Health and Return to Employment (SHARE) initiatives that will result in a three percent reduction for both total case rates and lost time case rates.

- IT Systems Implementation – Complete the implementation of the Strategic Accounting of IRS records and several other systems, such as the Electronic Project Investment Process and the Graphic Database Interface-Portal (GDI/Portal). A GDI/Portal database infrastructure will improve the collection, retention and management of the vast amounts of data associated with Real Estate and Facilities Management (REFM) programs. The system will integrate existing standalone legacy systems/ applications and deliver new functionality as needed (data warehouse). This improvement project will reduce administrative burden to customers and employees, streamline processes, integrate support systems, and allow point-to-point information sharing, ultimately improving service to customers.

- Competitive Sourcing Studies: The IRS will continue to use public-private competition to achieve transformational change. Shown below is the status of studies currently underway:

Phase	Project
Preliminary Planning	Real Estate and Facilities Management
	Seat Management
Solicitation	Files Activity
	Fuel Compliance
	Logistics
Implementation	Building Delegation
Post Competition Accountability and Monitoring	Integrated Document Solutions Enterprise
	National Distribution Center

General Management and Administration

3A – Budget Activity Description

<u>General Management and Administration</u> *($592,534,000 from direct appropriation)*
This activity 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. This activity funds the following programs:

- *Unit General Management and Administration* to operate unit headquarters' management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, and business systems planning and embedded training,
- *National HQ Management and Administration* to provide leadership and direction for the IRS and help build partner relationships with key stakeholders. It provides IRS policy guidance for conducting planning and budgeting strategies; analysis of programs and investments to support strategic decision making; and developing and managing of the human resources required to fulfill the IRS' mission, including career management, leadership and organizational development, and education and learning. It provides resources for official reception and representation expenses,
- *Communications and Liaison* to set strategic direction IRS-wide for Communications, Governmental Liaison and Disclosure, Legislative Affairs and Public Liaison; coordinate local government and liaison relationships and initiatives with the Operating Divisions; handle Congressional, state and national stakeholder relationships and issues; represent the IRS to local Congressional offices to coordinate cross-cutting issues including managing audits and legislative implementation; handle national media contacts and local media relationships; develop marketing campaigns, messages and products; and handle Disclosure requests and ensure IRS compliance with Disclosure and Privacy Laws,
- *General Legal Services* to provide advice to IRS on non-tax legal issues including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics, and conflicts of interest, and
- *Benefit Payments* to fund Workers' Compensation benefits and Unemployment Compensation payments.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

General Management and Administration (BAC 25)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$613,451	$521,286	$464,780	$596,241	$612,636	$602,178	$592,534
Offsetting Collection (Reimbursable)	$2,529	$2,508	$2,411	$730	$910	$910	$1,046
Total Operating Level	$615,980	$523,794	$467,191	$596,972	$613,546	$603,088	$593,580
Human Resources							
Newly Appropriated FTE	3,504	3,242	3,258	4,267	4,236	4,272	4,264
Other FTE	23	15	13	1	14	14	15
Total FTE (direct and reimbursable)	3,527	3,257	3,271	4,268	4,250	4,286	4,279

Numbers may not add due to rounding

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
There are no externally reported performance measures associated with this activity (see 3B for related performance data)							

3B – Description of Performance

In FY 2005, the IRS developed and expanded educational products and communication efforts to assist taxpayers and practitioners in fulfilling their tax obligations; implemented multimedia strategic communications and marketing plans to encourage compliance and increase electronic filing of returns; and using customer satisfaction surveys to refine objectives and critical measures. The IRS also increased media coverage of the benefits and availability of e-filing.

The IRS will continue to devote budget resources toward maintaining an effective relationship with taxpayers through communication and outreach activities, and creating a long-term vision for the Nationwide Tax Forums.

Tax Law Enforcement (TLE)

Tax Law Enforcement

The FY 2007 request 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 activities related to the equitable application and enforcement of the tax laws. The TLE appropriation funds services to taxpayers, after returns are filed, to identify and correct possible errors through document matching, examinations of returns, field examinations, and enforcement of criminal statutes related to other financial, interagency crime and drug enforcement programs. In addition, this appropriation funds the Research and Statistics of Income program, which includes tax data and market-based research to identify compliance issues; and the Earned Income Tax Credit (EITC) program, which continues to provide EITC-eligible taxpayer services, outreach, support, and research to reduce erroneous filings.

Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: Tax Law Enforcement	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2006 President's Budget	51,121	$4,725,756		
Congressional Adjustment				
1% Rescission	(561)	($47,258)		
FY 2006 Enacted	50,559	$4,678,498		
Base Realignment				
FTE Adjustment	(838)			
FY 2006 Operating Level	49,721	$4,678,498		
Maintaining Current Levels (MCLs)				
Pay Annualizations		$34,879		
Proposed Pay Raise		$84,284		
Non-Pay Inflation		$8,183		
Sub-total, Maintaining Current Levels (MCLs)	0	$127,346		
Base Reinvestment				
Increase Returns Processing Efficiencies		$4	Research & SOI	F4A
Sub-total, Base Reinvestment	0	$4		
Program Cost Savings				
E-File Savings		($56)	Research & SOI	F4A
Improvement Project Savings	(13)	($674)	Compliance Services, Research & SOI	F4A
Competitive Sourcing Savings		($4,246)	Compliance Services	F4A
Program Efficiencies	(33)	($35,714)	All BACs	F4A
Sub-total, Program Cost Savings	(46)	($40,690)		
Transfers Out				
Transfer to TIGTA		($204)	Compliance Services	F4A
Sub-total, Transfers Out	0	($204)		
Total, FY 2007 Base	49,675	$4,764,954		
FY 2007 Request	49,675	$4,764,954		
Offsetting Fees				
New User Fees Revenue		($2,627)		
Total, FY 2007 President's Budget Request	49,675	$4,762,327		

Numbers may not add due to rounding

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) …………………………+$127,346,000 / 0 FTE

This request funds the estimated cost of statutory pay and benefit increases and non-pay inflation. This amount includes:

- Annualization of the FY 2006 Federal Pay Raise (3.1%) in FY 2007, +$34,879,000
- Proposed FY 2007 Federal Pay Raise (2.2%), +$84,284,000
- Non-Pay Inflation (2.2%), +$8,183,000

Base Reinvestment ……………………………………………………..+ $4,000 / 0 FTE

Increase Returns Processing Efficiencies +$4,000 / 0 FTE
This base reinvestment will provide funding to continue consolidating Individual Master File returns processing into fewer Submission Processing sites. (For more information on this base reinvestment, see page 22.)

Program Cost Savings ……………………………………………- $40,690,000 / 46 FTE

E-File Savings -$56,000 / 0 FTE
This savings results from increased electronic filing and a reduction in Individual Master File paper returns. (For more information on this savings, see page 22.)

Improvement Project Savings -$674,000 / -13 FTE
These are savings generated by the following projects: Contact Recording, Queuing Management, Correspondence Imaging Systems, and End-to-End Publishing. (For more information on this savings, see page 23.)

Competitive Sourcing Savings -$4,246,000 / 0 FTE
These savings are the result of six different competitive sourcing projects, which reduce costs through the development of a most efficient organization (MEO) or through private vendor efficiencies. (For more information on this savings, see page 24.)

Program Efficiencies -$35,714,000 / -33 FTE
Efficiencies are generated by a Servicewide reevaluation of overhead staffing and an increase of management's span of control, as well as production efficiencies associated with improved processes, redistributing workload, and leveraging technology. (For more information on this savings, see page 24.)

Transfer to Treasury Inspector
General for Tax Administration ……………………………………… - $204,000 / 0 FTE

Transfer to TIGTA -$204,000 / 0 FTE
This base transfer is comprised of TIGTA's portion of the Working Capital Fund (WCF), which is currently paid directly by the IRS.

Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Tax Law Enforcement

Resources Available for Obligation	FY 2005 Enacted		FY 2006[1] Enacted		FY 2006 Operating Level		FY 2007 Request		% Change FY 2006 Oper. to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:										
Compliance Services	45,686	$4,104,471	47,133	$4,415,064	46,344	$4,414,935	46,315	$4,496,735	-0.06%	1.85%
Research and SOI	866	$94,474	863	$95,954	845	$96,754	835	$97,542	-1.13%	0.81%
EITC	2,580	$164,594	2,563	$167,481	2,532	$166,809	2,525	$168,050	-0.30%	0.74%
Subtotal Newly Appropriated Resources	49,132	$4,363,539	50,559	$4,678,498	49,721	$4,678,498	49,675	$4,762,327	-0.09%	1.79%
FY 2007 New Resources:										
Mandatory Approp. - New User Fees								$2,627		
Subtotal FY 2007 New Resources							49,675	$4,764,954		
Other Resources										
Unobligated Balances Available, SOY		$2,495		$2,289		$2,289				
Offsetting Collections - Reimbursable	443	$105,189	376	$86,670	376	$86,670	418	$99,671	11.17%	15.00%
Mandatory Approp. - Existing User Fees		$6,200								
50% Carryover		$12,450								
Recoveries		$8								
Transfers In/Out		$211						$4,409 [2]		
Subtotal Other Resources	443	$126,554	376	$88,959	376	$88,959	418	$104,080	11.17%	17.00%
Total Resources Available for Obligation	49,575	$4,490,093	50,935	$4,767,457	50,097	$4,767,457	50,093	$4,869,034	-0.01%	2.13%

[1] FY 2006 enacted level includes 1% across the board rescission.

[2] Mandatory Transfer In - $4,409,000 - IRS estimated cost related to the Spectrum Relocation of all Treasury and Bureau wireless operations in the 1710 to 1755 Megahertz band.

Numbers may not add due to rounding

Spectrum Relocation
In December 2004, the Congress passed and the President signed the Commercial Spectrum Enhancement Act (CSEA, Title II of P.L. 108-494), creating the Spectrum Relocation Fund (SRF) to streamline the relocation of federal systems from certain spectrum bands to accommodate commercial use by facilitating reimbursement to affected agencies of relocation costs. The Federal Communications Commission has allocated this spectrum for Advanced Wireless Services, and plans to auction it as early as June 2006. Funds will be made available to agencies following the crediting of auction receipts to the SRF, anticipated in fiscal year 2007. Following the transfer of funds from the SRF to agency accounts, system relocation efforts will commence. The amounts reported here are the agency's estimated relocation costs, as approved by the Office of Management and Budget, and as reported to the Congress by the Department of Commerce in December 2005. Funds are mandatory and will remain available until expended, and agencies will return to the SRF any amounts received in excess of actual relocation costs.

Compliance Services

3A – Budget Activity Description

Compliance Services *($4,496,735,000 from direct appropriation and $2,627,000 from new user fees)* This activity includes resources to provide services to a taxpayer after a return is filed and to identify and correct possible errors or underpayment. This activity funds the following programs:

- *Compliance Services Management* to support management associated with compliance program activities,
- *Payment Compliance - Electronic/Correspondence Collection* to support the IRS' centralized collection activities via correspondence in the Compliance Services Collection Operation. It initiates contact and collects delinquent taxpayer liabilities through written notices and other means,
- *Automated Collections and Support* to support the IRS' centralized Automated Collection System (ACS). It initiates contact and collects delinquent taxpayer liabilities through automated means,
- *Payment Compliance - Field Collection* to conduct field investigations and collection efforts associated with delinquent taxpayer and business entity liabilities, including direct taxpayer contact and outreach programs to protect the government's interest in delinquent tax liability situations,
- *Tax Reporting Compliance - Document Matching* to execute the Automated Underreporter (AUR), Combined Annual Wage Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other Document Matching Programs,
- *Tax Reporting Compliance – Electronic/Correspondence Exam* to operate the service center's examination function which initiates correspondence with taxpayers related to tax issues arising from claims on their tax returns,
- *Tax Reporting Compliance - Field Exam* to determine taxpayers' correct income levels and corresponding tax liabilities,
- *Criminal Investigations* to provide for the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. It investigates cases of suspected intent to defraud involving both legal and illegal sources of income and recommends prosecution as warranted. This activity also includes the investigation and prosecution of tax and money laundering violations associated with narcotics organizations,
- *Fraud/Bank Secrecy Act* to provide resources for enforcing the anti-money laundering provision of the Bank Secrecy Act (BSA) of 1970 and the USA Patriot Act of 2001. It supports the Fraud program aimed at following the "money trail" to support the criminal investigation of tax evasion operations,
- *Appeals* to oversee an administrative review process that provides a channel for impartial case settlement prior to cases being docketed in a court of law,
- *Litigation* to represent the IRS in litigation and to provide all other legal support for the IRS,

- *Taxpayer Advocate Case Processing* to ensure that taxpayers have an advocate to represent their interests within the IRS, to resolve taxpayers' problems through prompt identification, referral, and settlement (a small amount of resource funding for TAS programs is in the PAM appropriation),
- *Specialty Programs – Exams* to examine federal tax returns of businesses and individual responsible for filing and payment of employment, excise and estate and gift taxes,
- *Specialty Programs – Collection* to support international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g. Foreign Tax Credit, Foreign Earned Income Exclusion), and
- *Office of Professional Responsibility* to set, communicate, and enforce standards of competence, integrity, and conduct as outlined in Treasury Circular 230 among those who represent taxpayers before the IRS.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Compliance Services (BAC 37)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$3,684,170	$3,555,233	$3,790,455	$4,104,471	$4,204,544	$4,204,416	$4,283,013
New User Fees							$2,627
Total New Resources	$3,684,170	$3,555,233	$3,790,455	$4,104,471	$4,204,544	$4,204,416	$4,285,640
Offsetting Collection (Reimbursable)	$2,239	$9,945	$10,599	$37,876	$71,388	$71,388	$82,637
Total Operating Level	$3,686,409	$3,565,178	$3,801,054	$4,142,347	$4,275,932	$4,275,804	$4,368,277
Human Resources							
Newly Appropriated FTE	45,362	43,730	44,451	45,686	47,674	45,034	45,005
Other FTE	487	532	555	443	369	369	410
Total FTE (direct and reimbursable)	45,849	44,262	45,006	46,129	48,043	45,403	45,415
Treasury Strategic Goal: Preserve the Integrity of Financial Systems (F3)							
Treasury Strategic Objective F3A:							
Financial Resources							
Newly Appropriated Resources	$103,005	$91,514	$111,965	$131,116	$210,519	$210,519	$213,722
Offsetting Collection (Reimbursable)	$95,757	$93,147	$105,293	$66,245	$13,600	$13,600	$15,099
Total Operating Level	$198,762	$184,661	$217,258	$197,361	$224,119	$224,119	$228,821
Human Resources							
Newly Appropriated FTE	1,131	933	802	917	1,310	1,310	1,310
Other FTE	468	450	469	341	0	0	0
Total FTE (direct and reimbursable)	1,599	1,383	1,271	1,258	1,310	1,310	1,310
Total:							
Total Financial Resources							
Total Newly Appropriated Resources	$3,787,175	$3,646,747	$3,902,420	$4,235,587	$4,415,063	$4,414,935	$4,496,735
Total Offsetting Collection (Reimbursable)	$97,996	$103,092	$115,892	$66,245	$84,988	$84,988	$97,736
Total Mandatory Appropriation - User Fees (New and Existing)							$2,627
Total Operating Level	$3,885,171	$3,749,839	$4,018,312	$4,301,832	$4,500,051	$4,499,923	$4,597,098
Total Human Resources							
Total Newly Appropriated FTE	46,493	44,663	45,253	46,603	48,984	46,344	46,315
Total Other FTE	955	982	1,024	784	369	369	410
Total FTE (direct and reimbursable)	47,448	45,645	46,277	47,387	49,353	46,713	46,725

Numbers may not add due to rounding

3.2 – Budget and Performance Plan Table (Continued)

Dollars in Thousands

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Examination Coverage - Individual Oe ^	N/A	N/A	N/A	1.4%	1.4%	Discontinued	Discontinued
Examination Coverage - Individual Oe (L)	N/A	N/A	0.8%	0.9%	0.9%	0.9%	1.0%
Examination Quality - Field	74.0%	75.0%	78.0%	80.0%	84.0%	Discontinued	Discontinued
Field Exam Embedded Quality (EQ) *** (L)	N/A	N/A	N/A	N/A	N/A	Baseline	TBD
Examination Quality - Office	71.0%	76.0%	76.0%	77.0%	81.0%	Discontinued	Discontinued
Office Exam Embedded Quality (EQ) *** (L)	N/A	N/A	N/A	N/A	N/A	Baseline	TBD
Examination Quality (LMSB) - Industry Oe (L)	69.0%	74.0%	74.0%	78.0%	77.0%	80.0%	84.0%
Examination Quality (LMSB) - Coordinated Industry Oe (L)	78.0%	89.0%	87.0%	90.0%	89.0%	92.0%	93.0%
Examination Coverage - Business (Corps. > $10 Million) Oe ††† (L)	N/A	6.1%	7.5%	7.1%	7.8%	7.5%	8.4%
AUR Efficiency † (L)	N/A	N/A	1,514	N/A	1,701	1,759	1,834
AUR Coverage † (L)	N/A	N/A	1.9%	2.5%	2.2%	2.3%	2.3%
Examination Efficiency - Individual E	N/A	N/A	N/A	219	222	Discontinued	Discontinued
Examination Efficiency - Individual E *† (L)	N/A	N/A	N/A	N/A	121	121	128
Reduce the % of Taxpayers Who Think it Ok to Cheat on Their Taxes Oe (L)	N/A	17.0%	12.0%	N/A	10.0%	10.0%	10.0%
Improve Voluntary Compliance Oe (L)	N/A	N/A	N/A	N/A	83.0%	N/A	N/A
Collection Coverage - units Oe	N/A	N/A	N/A	32%	39%	Discontinued	Discontinued
Collection Coverage - units Oe *† (L)	N/A	N/A	N/A	57.0%	53.0%	52.0%	52.0%
Collection Efficiency - units E	N/A	N/A	N/A	497	510	Discontinued	Discontinued
Collection Efficiency - units E *† (L)	N/A	N/A	N/A	N/A	1,514	1,650	1,717
Field Collection Quality of Cases Handled in Person	84.0%	84.0%	82.0%	84.0%	81.0%	Discontinued	Discontinued
Field Collection Embedded Quality Oe **** (L)	N/A	N/A	N/A	N/A	N/A	Baseline	TBD
Automated Collection System (ACS) Accuracy Oe	N/A	N/A	87.8%	88.0%	88.5%	88.0%	89.0%
Criminal Investigations Completed Ot (L)	3,201	3,766	4,387	3,895	4,104	3,945	3,960
Number of Convictions Ot (L)	1,926	1,824	2,008	2,048	2,151	2,260	2,305
Conviction Rate E (L)	91.5%	91.5%	91.2%	92.0%	91.2%	92.0%	92.0%
Conviction Efficiency Rate ($) E (L)	330,282	363,932	362,849	332,194	295,316	339,565	341,334
TEGE Determination Case Closures Ot	129,680	171,812	143,877	131,700	126,481	112,400	128,500

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and (L) - Long-term Goal

***Embedded Quality (EQ) represents a re-structuring of measures for "Collection Quality Management System (CQMS) and Examination Quality" Management System (EQMS) in FY 2007. EQ will be baselined in FY 2006 and will run concurrently with CQMS and EQMS during that year.

****Field Collection Embedded Quality represents a re-structuring of "Field Collection Quality of Cases Handled in Person Oe" in FY 2007

*† The FY2005-2007 data provided for these measures represents a change in definition and methodology effective in FY2006.

† Measure includes data for SBSE and W&I. Total W & I Closures include Non-EITC and EITC Closures for FY 2004 - 2007.

^ Methodology Change - FY 2004 and FY 2005 performance reported as 2.3% and 1.4% (respectively) under old methodology

††† Variance from PART in 2007 reflects a recent increase in the Exam plan for LMSB

3B – Description of Performance

The IRS collected more than two trillion dollars in revenue in FY 2005, with $47.3 billion collected through enforcement activities, a 10 percent increase from FY 2004. While most tax revenue is paid voluntarily, some of the revenue is collected through concerted efforts to detect and deter non-compliance of the tax code. The IRS enforcement efforts are targeted to reduce the tax gap – the difference between what taxpayers legally owe and what they voluntarily pay on time.

The IRS completed more than 219,000 high-income audits, 33 percent more than the previous year, and more than twice as many as in FY 2001. Total audits of all taxpayers exceeded one million for the second consecutive year, a 20 percent increase from FY 2004. The IRS audited 81 percent more small businesses and 15 percent more corporations, a significant achievement given the size (more than $10 million) and complexity of these corporate entities. The IRS generated more than $4.7 billion in revenue through two prominent settlement initiatives aimed at reducing examination and litigation expenses while deterring the use of abusive tax shelters.

The FY 2007 Budget supports the IRS' continued efforts to improve its enforcement through 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 will enhance coverage of high-risk compliance areas as well as address the tax gap associated with small business and self-employed taxpayers. Focused enforcement efforts in reporting, filing and payment compliance programs, highlighting abusive tax avoidance transactions and high-income individual examinations involving pass-through entities (e.g. partnerships, trusts) will result in more examinations. Increased emphasis on high-risk taxpayers in the collection program will result in the closing servicewide of an additional 163,000 delinquent accounts and resolution of more than 40,000 delinquent investigations. In addition, the Private Collection Agency (PCA) effort will provide a cost-effective and efficient manner to increase revenue collection. The IRS will ensure that taxpayer rights are safeguarded.

Research and Statistics of Income

3A – Budget Activity Description

<u>*Research and Statistics of Income*</u> *($97,542,000 from direct appropriation)* This activity funds research and statistical analysis support for the Service. This activity funds the following programs:

- *Research* to provide resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations, and
- *Statistics of Income* to provide 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.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Research and Statistics of Income (BAC 38)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$102,631	$88,671	$91,938	$94,474	$95,954	$96,754	$97,542
Offsetting Collection (Reimbursable)	$1,041	$1,118	$1,140	$1,068	$1,682	$1,682	$1,934
Total Operating Level	$103,672	$89,789	$93,078	$95,542	$97,636	$98,436	$99,476
Human Resources							
Newly Appropriated FTE	913	906	896	866	863	845	835
Other FTE	14	16	13	0	7	7	8
Total FTE (direct and reimbursable)	927	922	909	866	870	852	843

Numbers may not add due to rounding

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
There are no externally reported performance measures associated with this activity (see 3B for related performance data)							

3B – Description of Performance

The information gathered, analyzed, and published by the IRS is used internally and by a variety of federal agencies, academics, researchers, and other interested parties. Information generated by annual studies of individual, corporate, and other types of taxpayers is presented via the TaxStats website and in various IRS publications. The information is used to analyze tax policy, project tax revenues, and estimate the overall impact of tax law changes and their effects on tax collections. Research also produces environmental scan data critical to production of the strategic assessment.

The IRS uses its National Research Program (NRP) data to develop filing and payment compliance measures. Underreporting of income taxes, employment taxes and other taxes represents about 80 percent of the tax gap, as noted in the March 2005 release of the IRS' preliminary tax gap estimates for Tax Year 2001. The single largest sub-component of underreporting involves the individual income tax, resulting from individuals understating their incomes, taking improper deductions, overstating business expenses or erroneously claiming credits. The NRP study further confirmed that the majority of understated income comes from business activities, not wage or investment income.

In FY 2006 and continuing in FY 2007, the IRS will continue its NRP to provide critical information on the tax gap. This research offers the IRS insight into the types of income reporting that have the greatest compliance problems. The NRP data provides the misreporting rates, but also the data for annually updating the statistical formulas that assist IRS in selecting returns for examination.

The IRS will continue to target its case work and enforcement activities to more effectively deliver results and drive down the tax gap through analysis of tax information and data from compliance research studies. The IRS will use the results of these efforts to better understand and counter the methods and means of those taxpayers who fail to report or pay what they owe.

Earned Income Tax Credit

3A – Budget Activity Description

<u>*Earned Income Tax Credit*</u> *($168,050,000 from direct appropriation)* This activity 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).

The EITC provides low-income taxpayers with a refundable credit, which is claimed by 22 million families each year, and has proven effective in lifting families out of poverty. IRS is working to reduce the erroneous payment rate for this program, which is too high. In support of the program and the taxpayers who use it, the IRS provides dedicated toll-free assistance, community-based volunteer tax preparation services, and coordinated marketing and educational programs to help individuals determine their eligibility. The IRS also monitors credit claimant characteristics to look for patterns of non-compliance, allowing the Service to improve program products and mitigate EITC abuse.

The IRS is striving to minimize the burden of program administration and usage on the taxpayer through enhanced communication and improved audit processes. It is hoped that by increasing outreach efforts and making the requirements for claiming the credit easier to understand, the Service can encourage more eligible taxpayers to claim the EITC. Compliance in the program is also a priority for the IRS. Through a focus on ineligible filers and programs such as the pilot effort to certify qualifying child residency, the IRS is making an effort to ensure that the program is fairly and consistently applied to all, while avoiding abuse by a small minority of taxpayers at the expense of the rest of the American public.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Earned Income Tax Credit (BAC 80)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
<u>Treasury Strategic Objective F4A:</u>							
Financial Resources							
Newly Appropriated Resources	$153,940	$145,051	$201,142	$164,594	$167,481	$166,809	$168,050
Offsetting Collection (Reimbursable)							
Total Operating Level	$154	$145	$201	$164,594	$167,481	$166,809	$168,050
Human Resources							
Newly Appropriated FTE	2,353	2,353	2,823	2,580	2,563	2,532	2,525
Other FTE							
Total FTE (direct and reimbursable)	2,353	2,353	2,823	2,580	2,563	2,532	2,525

Numbers may not add due to rounding

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Percent of Eligible Taxpayers Who File for EITC - Ot	N/A	N/A	80.0%	80.0%	*	80.0%	80.0%

Key: Ot - Output/Workload Measure

* Performance reported after close of calendar year

3B – Description of Performance

Beginning in FY 2006 and continuing in FY 2007, the IRS will combat EITC program error while increasing participation among eligible taxpayers. Additional effort will include:

- Conducting approximately 500,000 examinations of EITC returns each of the two years based on enhanced case selection systems,
- Issuing 617,000 math error notices during 2006 – automatically adjusting tax returns to prevent $270 million in incorrect refunds in 2006 by detecting and correcting errors during return processing,
- Identifying paid tax return preparers with high EITC error rates and using education and enforcement procedures to improve their performance,
- Studying the effectiveness of potential alternative treatment for noncompliance issues and testing the use of soft notices to prevent repeat behavior,
- Conducting a nationwide marketing and education campaign for the 2006 filing season with emphasis on reducing EITC errors,
- Continuing the third year of the Qualifying Child test to better understand the effect of certification on EITC participation, claim accuracy, and burden,
- Conducting the second phase of the return preparer compliance strategy designed to identify and deter preparers of large numbers of erroneous EITC returns,
- Implementing data sharing and other partnering activities with states to improve compliance and prevent erroneous payments, and
- Improving the methods used to select, assign, and examine returns and identify taxpayer groups that are at higher risk of noncompliance. This will help the IRS to target education and outreach where it is most needed.

Information Systems (IS)

Information Systems

The FY 2007 request is $1,602,232,000 in direct appropriation, supplemented 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 information systems improvement projects and information services. Information systems support every aspect of tax administration and are essential tools for every taxpayer communication and transaction with the IRS. A detailed description of the budget and program activities is presented in Sections 3A and 3B.

Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: Information Systems	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2006 President's Budget	7,032	$1,597,717		
Congressional Adjustment		$1,250		
1% Rescission	0	($15,990)		
FY 2006 Enacted	7,032	$1,582,977		
Base Realignment				
FTE Adjustment	308			
FY 2006 Operating Level	7,340	$1,582,977		
Maintaining Current Levels (MCLs)				
Pay Annualizations		$5,954		
Proposed Pay Raise		$14,388		
Non-Pay Inflation		$19,799		
Sub-total, Maintaining Current Levels (MCLs)	0	$40,141		
Base Reinvestment				
Increase Returns Processing Efficiencies	11	$4,537	Information Services	F4A
Sub-total, Base Reinvestment	11	$4,537		
Program Cost Savings				
E-File Savings		($63)	Information Services	F4A
Improvement Project Savings		($541)	Information Services	F4A
Competitive Sourcing Savings		($2,548)	Information Services	F4A
Program Efficiencies		($24,461)	All BACs	F4A
Sub-total, Program Cost Savings	0	($27,613)		
Transfers Out				
Transfer to TIGTA		($465)	Information Services	F4A
Sub-total, Transfers Out	0	($465)		
Total, FY 2007 Base	7,351	$1,599,577		
Program Changes				
Program Increases				
Consolidate Philadelphia Campus		$20,257	Information Services	F4A
Sub-total, Program Increases	0	$20,257		
FY 2007 Request	7,351	$1,619,834		
Offsetting Fees				
New User Fees Revenue		($17,602)		
Total, FY 2007 President's Budget Request	7,351	$1,602,232		

Numbers may not add due to rounding

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ……………………………+$40,141,000 / 0 FTE

This request funds the estimated cost of statutory pay and benefit increases and non-pay inflation. This amount includes:

- Annualization of the FY 2006 Federal Pay Raise (3.1%) in FY 2007, +5,954,000
- Proposed FY 2007 Federal Pay Raise (2.2%), +$14,388,000
- Non-Pay Inflation (2.2%), +$19,799,000

Base Reinvestment …………………………………………….+ $4,537,000 / 11 FTE

Increase Returns Processing Efficiencies +$4,537,000 / 11 FTE
This base reinvestment will provide funding to continue consolidating Individual Master File returns processing into fewer Submission Processing sites. (For more information on this base reinvestment, see page 22.)

Program Cost Savings …………………………………………- $27,613,000 / 0 FTE

E-File Savings -$63,000 / 0 FTE
This savings results from increased electronic filing and a reduction in Individual Master File paper returns. (For more information on this savings, see page 22.)

Improvement Project Savings -$541,000 / 0 FTE
These are savings generated by the following projects: Contact Recording, Queuing Management, Correspondence Imaging Systems, and End-to-End Publishing. (For more information on this savings, see page 23.)

Competitive Sourcing Savings -$2,548,000 / 0 FTE
These savings are the result of six different competitive sourcing projects, which reduce costs through the development of a most efficient organization (MEO) or through private vendor efficiencies. (For more information on this savings, see page 24.)

Program Efficiencies -$24,461,000 / 0 FTE
Efficiencies are generated by a Servicewide reevaluation of overhead staffing and an increase of management’s span of control as well as production efficiencies associated with improved processes, redistributing workload, and leveraging technology. (For more information on this savings, see page 25.)

Transfer to Treasury Inspector General for Tax Administration …………………………………… - $465,000 / 0 FTE

<u>Transfer to TIGTA -$465,000 / 0 FTE</u>
This base transfer is comprised of TIGTA's portion of the Working Capital Fund (WCF), which is currently paid directly by the IRS.

Program Increases ………………………………………………+ $20,257,000 / 0 FTE

<u>Consolidate the Philadelphia Campus +$20,257,000 / 0 FTE</u>
This initiative requests funding 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. (For more information on this initiative, see page 27.)

Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Information Systems

Resources Available for Obligation	FY 2005 Enacted		FY 2006[1] Enacted		FY 2006 Operating Level		FY 2007 Request		% Change FY 2006 Oper. to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:										
IS Improvement Programs	0	$49,002	0	$48,960		$49,302	0	$49,302		0.00%
Information Services	7,385	$1,528,766	7,032	$1,534,017	7,340	$1,533,675	7,351	$1,552,930	0.15%	1.26%
Subtotal Newly Appropriated Resources	7,385	$1,577,768	7,032	$1,582,977	7,340	$1,582,977	7,351	$1,602,232	0.15%	1.22%
FY 2007 New Resources:										
Mandatory Approp. - New User Fees								$17,602		
Subtotal FY 2007 New Resources							7,351	$1,619,834		
Other Resources										
Unobligated Balances Available, SOY		$8,659		$37,704		$37,704				
Offsetting Collections - Reimbursable	5	$5,478	40	$10,000	40	$10,000	45	$11,500	12.50%	15.00%
Mandatory Approp. - Existing User Fees		$112,800		$70,000		$70,000		$69,398		
50% Carryover		$3,000								
Recoveries		$1,028								
Transfers In/Out		$7,500								
Subtotal Other Resources	5	$138,465	40	$117,704	40	$117,704	45	$80,898	12.50%	-31.27%
Total Resources Available for Obligation	7,390	$1,716,233	7,072	$1,700,681	7,380	$1,700,681	7,396	$1,700,732	0.22%	0.00%

[1] FY 2006 enacted level includes 1% across the board rescission.
Numbers may not add due to rounding

Information Systems Improvement Programs

3A – Budget Activity Description

Information Systems Improvement Programs *($49,302,000 from direct appropriation)* This budget activity funds improvements or enhancements to essential business applications and internal management systems that conform to the modernized IRS architecture. Funding supports near-term improvements or enhancements to business applications for specific business units in the tax processing or administrative and internal management systems on which the IRS depends. These projects are small-to-medium investment projects and are of short duration (generally one to three years). Some of the improvement projects this activity has supported in the past are Contact Recording, Desktop Integration, and Correspondence Imaging. Among the projects this activity will support in FY 2007 are Contact Recording, the Examination Desktop Support System, and the Compliance Data Environment. (The Business Systems Modernization program, a separate appropriation, funds major, cross-business unit, tax administration systems.)

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Information Systems Improvement Programs (BAC 93)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$39,864	$49,302	$49,302	$49,002	$48,960	$49,302	$49,302
Total Operating Level	$39,864	$49,302	$49,302	$49,002	$48,960	$49,302	$49,302
Human Resources							
Newly Appropriated FTE	0	0	0	0	0	0	0
Other FTE							
Total FTE (direct and reimbursable)	0	0	0	0	0	0	0

Numbers may not add due to rounding

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
There are no externally reported performance measures associated with this activity (see 3B for related performance data)							

3B – Description of Performance

Beginning in FY 2006 and continuing in FY 2007, IRS efforts will focus on:

- The Modernization Vision and Strategy to produce a unified approach to identify, select, and govern information technology investments and set the direction for investment priorities for the next five years,

- Planned improvements for collection closures,

- Developing and testing the automated Correspondence Imaging System and developing a long-range plan for enterprise-wide implementation,

- Improving Federal Information Security Management Act compliance, and

- Supporting *Homeland Security Presidential Directive 12*, which mandates a government-wide, uniform approach to employee authentication and access.

Maintaining the infrastructure will support increases in program productivity and improve services – both to taxpayers and other government agencies – and strengthen enforcement by giving IRS employees better tools. Ultimately, the performance of all IRS programs relies heavily on the IT infrastructure to provide the speed, security, and functionality necessary to keep pace with a modern – and increasingly electronic – economy.

Information Services

3A – Budget Activity Description

<u>Information Services</u> *($1,552,930,000 from direct appropriation, $17,602,000 from new user fees)* This activity 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. These systems are located in a variety of sites including the Martinsburg, Tennessee and Detroit Computing Centers, Service Centers, and in other field office operations. Staffing funds in this activity develop and maintain the millions of lines of programming code supporting all aspects of tax-processing, as well as operate and administer the Service's hardware infrastructure of mainframes, minicomputers, personal computers, networks, and a variety of management information systems.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Information Services (BAC 99)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)

Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$1,581,041	$1,607,315	$1,540,273	$1,528,766	$1,534,017	$1,533,675	$1,552,930
New User Fees							$17,602
Total New Resources	$1,581,041	$1,607,315	$1,540,273	$1,528,766	$1,534,017	$1,533,675	$1,570,532
Existing User Fees [1]				$112,800	$70,000	$70,000	$69,398
Offsetting Collection (Reimbursable)	$7,470	$5,968	$7,870	$5,478	$10,000	$10,000	$11,500
Total Operating Level	$1,588,511	$1,613,283	$1,548,143	$1,647,044	$1,614,017	$1,613,675	$1,651,430
Human Resources							
Newly Appropriated FTE	7,499	8,021	7,569	7,385	7,032	7340	7,351
Other FTE	10	9	10	5	40	40	45
Total FTE (direct and reimbursable)	7,509	8,030	7,579	7,390	7,072	7,380	7,396

[1] User Fees data is excluded for FY 2002 through FY 2004

Numbers may not add due to rounding

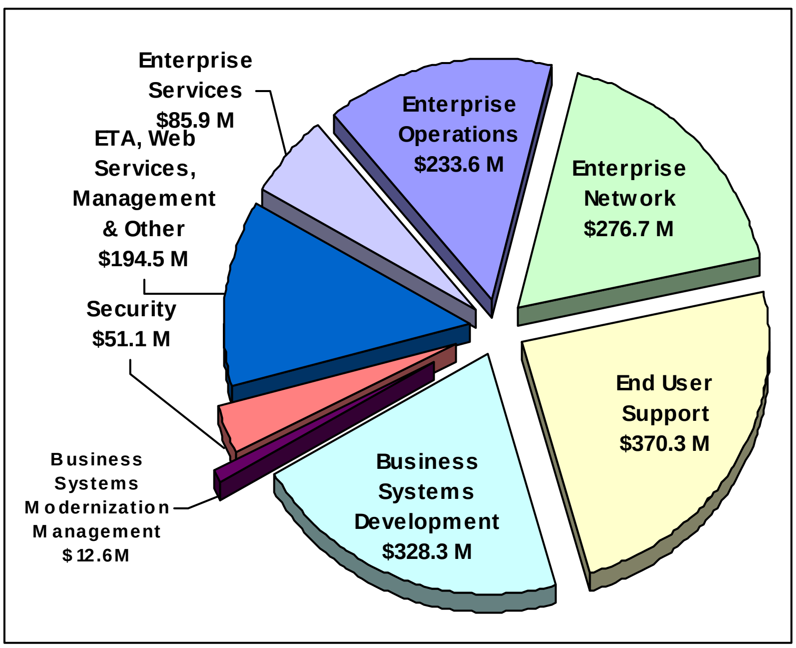
Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
There are no externally reported performance measures associated with this activity (see 3B for related performance data)							

3B – Description of Performance

The IRS Information Services support America's tax administration system. Today, no taxpayer contact occurs without the benefit of IRS desktop computers, telephones, and voice and data networks. Billions of taxpayer documents are received each year and added to more than 300 million taxpayer accounts that are stored on IRS mainframe computers. Eleven thousand different IRS computer software applications calculate tax debts, maintain taxpayer accounts, and manage examination and collection case loads. The requested funds will provide for the necessary expenses for IRS computing and data processing services, desktop hardware and software, and telecommunications equipment and services that are essential tools in providing taxpayer service and enforcing the tax law.

Information technology solutions are the most effective and efficient means of increasing the number of IRS contacts with taxpayer entities, increasing the volume of transactions, offering taxpayers a greater variety of faster alternatives for satisfying their just tax debts, and combating the most egregious abusive tax avoidance schemes, all of which are essential steps to closing the tax gap. Information technology products and services are the media through which the IRS communicates with taxpayers, receives and processes tax returns, and assesses and collects tax debts.

The Information Services Budget Activity includes funding for staff and related costs for: End User Support; Business Systems Development; Enterprise Network; Enterprise Operations; and Electronic Tax Administration, Web Services, and Management.



$1.553 billion request:

- 24% End User Support
- 21% Business Systems Development
- 18% Enterprise Network
- 15% Enterprise Operations
- 12.5% ETA, Web Services, Management and Other

- *End User Support* provides equipment, technical systems support, and applications software support to all IRS employees ("end users"). This program provides basic office equipment by maintaining computer workstations and printers for more than 100,000 employees across 570 cities and 760 facilities; enables taxpayer communications and collaboration on taxpayer issues by maintaining 82,000 e-mail accounts, 100,000 desk phones; and ensures access to information technology resources by offering help desk and on-site support for more than one million technology-related problems/requests reported by IRS employees.

- *Business Systems Development* maintains more than 11,000 application programs, containing more than 68 million lines of computer code. This program implements about 15,000 program changes each year, primarily to update IRS systems for legislated tax law changes. IRS software applications are essential tools for front-line tax administration personnel to process the more than 224 million tax returns and to collect the estimated $2 trillion in revenue the IRS receives each year.

- *Enterprise Network* provides telecommunications service delivery to taxpayers and IRS employees. This program provides: toll-free taxpayer service at 26 call sites; call receipt and routing to "next available" assistors for 78 million taxpayer calls per year; provides telephone access (dial tone) to more than 100,000 internal users; voice mail to more than 80,000 users; remote access through 7,261 cellular phones, 8,700 pagers; and remote access to the IRS data network for 35,000 users.

- *Enterprise Operations* maintains 17 mainframe computers and 4,800 servers that support critical tax processing, taxpayer account maintenance, and financial and management support systems. IRS mainframe computers support the Individual and Business Master Files, Service Center mainframe processing, electronic tax processing, administrative systems, and all IRS print operations. IRS mainframes provide 217 terabytes of Direct Access Storage Device (DASD) storage, the equivalent of 60 billion pages of tax documents. During peak periods, IRS computing systems process almost 300 million taxpayer account transactions per month.

- *Electronic Tax Administration* (ETA) enables taxpayers to interact more effectively and efficiently with the IRS by marketing and otherwise facilitating the IRS' electronic filing program. The IRS expects 79.4 million individual tax returns will be filed electronically in 2007 in part due to ETA's aggressive marketing. ETA also maintains the IRS website www.irs.gov, a critical data source for taxpayers, as evidenced by the 464 million downloads from this site that occur every year.

- *Web Services* implements new web applications and technologies to bring work-improvement tools to all IRS employees, providing them the ability to share information more quickly and to reach a broader audience. This program supports the IRS Intranet, delivers e-learning to IRS employees, and supports IRS.gov.

- *Enterprise Services* centralizes management of cross-cutting Information Technology services, provides program management to IRS IT projects, and assures that adequate levels of service are provided to tax administration programs. Enterprise Services supports *Business Systems Modernization Management* with the delivery of modernized information systems such as the Customer Account Data Engine, e-Services, and modernized e-File.

- *Information Security* facilitates electronic filing and supports tax administration by assuring the security of IRS transactions and data.

Special Analysis

IRS Information Systems Operate with a High Degree of Efficiency

A comprehensive analysis performed by Dr. Howard Rubin, METAMeasurement, in December 2003, concluded that the IRS Information Technology organization was delivering service at costs significantly less than comparable large, private-sector financial institutions. The IRS allocated 16 percent (now 15 percent) of its total operating expenses to information technology, whereas equivalent private sector financial institutions averaged 22 percent. Equivalent private sector institutions spent 87 percent more on information technology per employee than the IRS: $28,000 per private sector employee compared with $15,000 per IRS employee. When compared to benchmark data, the IRS is supporting more lines of code and more customers at a lower cost than equivalent private sector organizations. Based on expenditures of benchmark organizations, IRS Information Technology staffing was 10 percent less and total IT funding was 45 percent lower than expected.

By FY 2007, the IRS will have realized about $389 million in productivity savings in information technology. The IRS has reinvested these savings - equivalent to nearly a quarter of the appropriation - to pay for six years of cost increases without appropriations increases. From FY 2002 to 2006, operating costs increased by $158 million. In FY 2007, Information Services will absorb $28 million (see Table 2.1 Program Cost Savings). Deployed, modernized information systems also have increased operating costs because the Service must run legacy systems and modernized systems concurrently for a period of time.

Since 2001, deployed, modernized information systems have introduced: electronic filing options to corporations and tax exempt organizations (Modernized e-File), electronic transactions for tax practitioners (e-Services), customer self-service options via the Internet (Internet Refund Fact of Filing and Customer Communications), telephone call management and intelligent call routing (Customer Communications), and standardized tax computation software for Large and Mid-Sized Business (LMSB) Revenue Agents (Customer Relationship Management). As a result, the IRS has increased the effectiveness of tax administration personnel by preempting millions of refund assistance telephone calls, reducing error rates for corporate tax returns, and automating manual processes. The IRS has increased taxpayer service by issuing refunds faster, providing more electronic transactions, increasing taxpayers' access to their own account data, reducing wait time for telephone assistance, and allowing (corporate) taxpayers to independently verify calculations of their tax debts. Ultimately, modernized information systems will replace existing legacy systems and permanently reduce operating costs – but only as an indirect result of a program designed to improve and modernize tax administration operations.

Demand for Information Technology services will continue to grow. Between 2005 and 2007, the IRS expects returns filed electronically to increase by more than 11 million, and electronic filings of information returns to grow by more than 110 million. Increased electronic filings will reduce IRS personnel and rent costs, reduce error rates, and speed refunds to taxpayers, but it also will increase IS costs. More electronic filing will increase transmissions on IRS data networks, increase demand for storage on IRS servers, and increase the processing power required of IRS mainframes. Increased capacity can only come from new equipment, new software, and additional IT workers to maintain it.

The following chart illustrates the impact of savings initiatives and shows how the IRS has realigned resources from management and overhead to front-line operations. End User Support and Enterprise Operations reduced operating costs through workforce restructuring efforts and Enterprise Network saved money through improved contract management.

The IRS has continued to deliver IT services to IRS tax administration employees and taxpayers within constant funding levels by implementing a wide variety of initiatives targeted at driving down the costs of basic Information Technology operations. Cost savings are used to offset cost increases (pay raises, etc.) and to reinvest in improvement projects. These initiatives include:

- **Workforce Restructuring -** The IRS completed three major restructurings of the Information Technology workforce in fiscal years 2004 and 2005. The IRS used competitive sourcing and business process re-engineering initiatives to permanently reduce operating costs and restructure the workforce to deliver better, more efficient service. These initiatives realigned 1,096 positions (15 percent of the IT workforce) and $110 million in program budgets. The combined results of all three initiatives increased technical support staffs by reducing overhead, management, and administrative positions.

- **Telecommunications savings -** In FY 2005, the IRS began implementing a new technology solution for secure, remote access to IRS data networks for IRS employees. The Enterprise Network organization transitioned to a new system with lower equipment costs, lower maintenance costs, and higher connection speeds, which will save the IRS about $12.9 million per year by the end of FY 2006. Voice-Over-Internet-Protocol is another new technology being implemented at IRS facilities; this investment will allow the IRS to transmit voice and data over the same set of wires, which is expected to permanently reduce operating costs by at least $2 million per year. Similarly, new software for monitoring network devices and managing configuration of voice and data networks will reduce the number of contractors and federal employees required to maintain IRS networks, saving an estimated $1.5 million per year beginning in FY 2006.

- **Contract Management** - The IRS has realized program efficiencies and cost savings from more aggressive re-negotiation and consolidation of contracts. In fiscal years 2004 and 2005, the IRS Enterprise Networks organization consolidated multiple cell phone contracts and re-competed contracts for pagers and calling cards, resulting in permanent cost savings in FY 2006 of $3.2 million. The IRS Information Technology organization has made a concerted effort to replace contract workers with federal employees where cost effective; this initiative saved $4.1 million in FY 2005 and is expected to generate an additional $4.5 million in savings in FY 2006.

Initiatives expected to achieve future savings include:

- **Infrastructure Roadmap** - The IRS is currently developing a detailed plan for the orderly and cost-effective replacement of its aging infrastructure. Rather than replacing outdated equipment on a one-for-one basis, this plan will identify and prioritize opportunities to replace old equipment with new technology that will be less expensive to maintain and replace. This plan will be consistent with the Department of the Treasury's Enterprise Architecture.

- **Replace aging infrastructure** - IRS plans to establish a fund of $180 million per year to sustain and replace its aging Information Technology infrastructure. IRS calls this its "**3-6-9**" approach. The current amount available for infrastructure replacement is $45 million annually. To increase this amount, the IRS will identify and capture, for reinvestment, annual savings (from projects such as those described above) equal to 3 percent of the IS base budget each year, for three years. The first year will capture 3 percent, the second year 6 percent, and the third year 9 percent. This nine percent, $135 million, added to the original $45 million provides the $180 million needed to sustain and replace the IT infrastructure. Using an infrastructure roadmap, these annual savings will be applied to the highest priority infrastructure requirements. This approach is consistent with the Administration's directive to manage infrastructure within existing resources and the effort will be consistent with Treasury's Enterprise Architecture and the Department's efforts to manage the infrastructure.

- **Spend-to-Save -** The IRS has initiated a program for identifying, prioritizing, and selecting one-time spending opportunities that will generate permanent reductions to operating costs. Using the adage, "Spend now to save later," the IRS has leveraged non-recurring cost savings identified in other savings initiatives as well as User Fees to fund consolidations, equipment replacements, and other one-time expenditures to permanently reduce Information Technology operating costs.

Business Systems Modernization (BSM)

Business Systems Modernization

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

Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: Business Systems Modernization	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2006 President's Budget	0	$199,000		
Congressional Adjustment				
1% Rescission	0	($1,990)		
FY 2006 Enacted	0	$197,010		
Base Realignment				
FTE Adjustment	0			
FY 2006 Operating Level	0	$197,010		
Program Reduction				
Business Systems Modernization Program Reduction		($29,700)	Business Systems Modernization	F4A
Sub-total, Program Reduction	0	($29,700)		
Total, FY 2007 Base	0	$167,310		
Total, FY 2007 President's Budget Request	0	$167,310		

Numbers may not add due to rounding

2A – Budget Increases and Decreases Description

Program Reductions………………………….…….……..-$29,700,000 / 0 FTE

Business Systems Modernization Program Reduction -$29,700,000 / 0 FTE
This reduced level of funding continues to support the development and deployment of CADE, the Filing and Payment Compliance project, and the Modernized e-Filing project.

Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization

Resources Available for Obligation	FY 2005 Enacted		FY 2006[1] Enacted		FY 2006 Operating Level		FY 2007 Request		% Change FY 2006 Oper. to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:										
Business Systems Modernization	0	$203,360	0	$197,010		$197,010	0	$167,310	0.00%	-15.08%
Subtotal Newly Appropriated Resources	0	$203,360	0	$197,010	0	$197,010	0	$167,310	0.00%	-15.08%
Other Resources:										
Unobligated Balances Available, SOY		$230,211		$115,777		$115,777		$80,787		
Subtotal Other Resources	0	$230,211	0	$115,777	0	$115,777	0	$80,787	0.00%	-30.22%
Total Resources Available for Obligation	0	$433,571	0	$312,787	0	$312,787	0	$248,097	0.00%	-20.68%

[1] FY 2006 enacted level includes 1% across the board rescission.
Numbers may not add due to rounding

3A – Budget Activity Description

<u>*Business Systems Modernization (BSM)*</u> *($167,310,000 from direct appropriation)* The IRS Restructuring and Reform Act of 1998 mandated that the IRS modernize to meet the needs of taxpayers. This program funds that modernization effort. The costs of IRS staff supporting this effort are funded in the operating accounts, primarily the Information Systems account.

As shown in the chart below, we are shifting budget presentations to show infrastructure and management activity funding as part of the business project these support projects enable. This gives a better sense of the cost of business projects such as Modernized e-File. It is also consistent with the levels of BSM appropriated funding reported for these projects in the OMB Exhibit 300s and the Exhibit 53. This change is intended to help simplify management and oversight of BSM by moving towards the single government-wide project definition used in the Exhibit 300s.

Business Systems Modernization (BSM)
Funding by Project
(Dollars in Thousands)

BSM Project/Activity	FY 2005	FY 2006	FY 2007
e-Services	$36,965	$0	$0
Filing & Payment Compliance (F&PC)	0	$28,125	$15,593
Modernized e-File (MeF)	$60,966	$55,525	$42,628
Customer Account Data Engine (CADE)	$99,656	$100,350	$106,779
Management Reserve	$5,773	$13,010	$2,310
BSM Program Total	$203,360	$197,010	$167,310

The chart below presents for informational purposes BSM spending in the traditional approach (i.e., separate line items for resources supporting Core Infrastructure Activities and Architecture, Integration, and Management). IRS will continue to provide this chart for informational purposes in budget and expenditure plan presentations as long as the Committees find it useful.

Business Systems Modernization (BSM)
Funding by Project Per Expenditure Plan
(Dollars in Thousands)

BSM Project/Activity	FY 2005	FY 2006	FY 2007
e-Services	$9,600	$0	$0
Filing & Payment Compliance (F&PC)		$10,000	$3,500
Modernized e-File (MeF)	$26,750	$30,000	$20,000
Customer Account Data Engine (CADE)	$54,237	$60,000	$58,500
Core Infrastructure Activities	$62,000	$47,000	$43,500
Architecture, Integration, & Management	$45,000	$37,000	$39,500
Management Reserve	$5,773	$13,010	$2,310
BSM Program Total	$203,360	$197,010	$167,310

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Business Systems Modernization (BAC 86)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating OPlan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	$391,593	$363,621	$387,699	$203,360	$197,010	$197,010	$167,310
Offsetting Collection (Reimbursable)							
Total Operating Level	$391,593	$363,621	$387,699	$203,360	$197,010	$197,010	$167,310
Human Resources							
Newly Appropriated FTE	0	0	0	0	0	0	0
Other FTE	0	0	0	0	0	0	0
Total FTE (direct and reimbursable)	0	0	0	0	0	0	0

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
BSM Project Cost Variance by Release/Subrelease - E*	N/A	N/A	N/A	N/A	N/A	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease - E*	N/A	N/A	N/A	N/A	N/A	10.0%	10.0%
Contracted Program Cost and Schedule Variance - E**	N/A	N/A	N/A	15.0%	Discontinued		
Contracted Requirements Stability and Contracted Requirements Delivered - E	N/A	N/A	N/A	10.0%	Discontinued		

Key: E - Efficiency Measure

*Measures represent enhancements to program cost and schedule variance measures introduced in FY2005

**Measure currently captures performance only at the task order level and has been discontinued.

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

3B – Description of Performance

The IRS is changing and enhancing its cost, schedule, and performance measurement to provide better insight. Measures will be based on each BSM business cases' anticipated benefits and this will position the IRS to improve the transparency and utility of the performance results reported to Treasury and other oversight bodies.

Within the past two years, the 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 completing project costs, scheduling, and performance goals, the IRS is realizing benefits to taxpayers and enhanced BSM program management capabilities. As of the end of December 2005, key accomplishments include:

- Customer Account Data Engine (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 should be able to 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.

- Modernized e-Filing (MeF) received more than 265,000 accepted return submissions – twice the number of return receipts over projections - submitted by nearly 14,000 participating Electronic Return Originators, processed these returns at much higher volumes than expected within performance parameters, and doubled the number of returns processed electronically as compared to 2004 volumes. Error fallout rates for MeF are significantly lower than paper processing. For corporate returns alone, MeF has a fallout rate of 4 percent as compared to 18 percent fallout rate for paper processing In January 2005, Modernized e-Filing (MeF) deployed Form 7004 (filing extension for corporations) Form 990PF (information return for private foundations), and tax law changes for filing season 2004. This enabled the IRS to establish regulations requiring large corporations and tax-exempt organizations to file their income tax or annual information returns electronically beginning in 2005.

- E-Services registered more than 101,000 users, a 130 percent increase from the same time in 2004; processed more than140,000 Electronic Return Originator applications; serviced more than 209,000 online requests for Preparer Taxpayer Identification Numbers (PTINs); processed more than 63 million Bulk TIN Match requests; performed more than 2.3 million Interactive TIN Match requests; processed more than 172,000 transcript requests via the Registered User Portal and over 669,000 via the Employee User Portal; and received more than 34,000 Power of Attorney requests.

- The Integrated Financial System (IFS) processed more than 154,000 procurement commitments, obligations and receipt/acceptance documents through November 30, 2005; eliminated 100 percent of payroll transaction backlogs; and met SF-224 and TIER file submission deadlines.

In FY 2006 and continuing in FY 2007, BSM is revising its modernization strategy to emphasize incremental release of projects to deliver business value sooner and at a lower risk. BSM will concentrate on delivering three tax administration projects, along with infrastructure initiatives and continued improvement to program management operations. Each tax administration project will address a core IRS strategic priority:

Service - Expand services provided and the number of taxpayers served by Modernized e-Filing, enabling MeF to become the primary interface for all business filings. During 2007, MeF will provide electronic filing capabilities for 1065 forms (Partnership Income) to nearly 2.7 million small business and self-employed taxpayers. MeF will remedy legacy electronic filing limitations, which did not allow partnerships to comply with the Taxpayer Relief Act of 1997 without having to seek waivers to avoid financial penalties. In addition, MeF will deliver new federal and state capabilities to allow major corporations and Tax Exempt organizations to file federal and state returns jointly via electronic means. Both of these efforts will significantly reduce taxpayer burden and simplify filing processes.

Enforcement - Filing and Payment Compliance (F&PC) project will help the Service to analyze tax collection cases and separate cases requiring direct IRS involvement from those that can be handled by Private Collection Agencies (PCAs). Enabling PCAs to collect revenues owed by taxpayers is a cost-effective and efficient manner to increase revenue collection. F&PC will deploy initial capabilities for routing collection cases to PCAs in FY 2006.

Modernization – Phased in development of CADE continues. CADE will increase the type and number of 1040 family of returns processed on modernized systems. The benefits of CADE are that the IRS updates taxpayer accounts daily and taxpayers receive their refunds sooner.

BSM success is also dependent on continued investment in core infrastructure and architecture, integration and management activities that provide critical support to the projects. While initial investments provided a foundational set of tools, infrastructure and processes, there remain critical components to be developed. Continued investment in these activities will institutionalize these improved management processes and practices into the modernization projects. This will result in a consistent and more effective management approach maximizing the impact of modernization investments by integrating projects with the key supporting infrastructure and program initiatives.

The BSM program is demonstrating a record of accomplishment and is establishing additional foundational elements to further BSM’s ability to realize success. In FY 2007, the BSM program will continue addressing internal and external priorities fully aligned with core IRS strategic priorities.

- F&PC will complete deployment and begin operation of inventory management capabilities, better enabling IRS to match delinquent case inventory with available IRS and PCA resources. This will increase IRS production capacity to resolve the growing backlog of delinquent taxpayer cases.

- Modernized e-File will develop, test and deploy modernized electronic filing for Form 1041 (individuals) and Form 990T (exempt organizations). The modernized platform speeds turnaround time for tax return submissions and uses the latest, secure Internet technology. The enhanced system also will accept attachments (pdf files) as part of the filed return, eliminating one of the remaining barriers to electronic filing.

- Customer Account Data Engine will process approximately 33 million Tax Year 2006 returns during the 2007 filing season.

Health Insurance Tax Credit Administration (HITCA)

Health Insurance Tax Credit Administration

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

Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Dollars in Thousands

Appropriation: Health Insurance Tax Credit Administration	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2006 President's Budget	17	$20,210		
Congressional Adjustment				
1% Rescission	0	($202)		
FY 2006 Enacted	17	$20,008		
Base Realignment				
FTE Adjustment	0			
FY 2006 Operating Level	17	$20,008		
Maintaining Current Levels (MCLs)				
Pay Annualizations		$13		
Proposed Pay Raise		$57		
Non-Pay Inflation		$268		
Sub-total, Maintaining Current Levels (MCLs)	0	$338		
Program Cost Savings				
HITCA Program Efficiency		($5,500)	HITCA	F4A
Sub-total, Program Cost Savings	0	($5,500)		
Total, FY 2007 Base	17	$14,846		
Total, FY 2007 President's Budget Request	17	$14,846		

FY 2006 enacted level excludes rescission of unobligated balances ($9 million).

Numbers may not add due to rounding

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) ………………………………+$338,000 / 0 FTE

This request funds the estimated cost of statutory pay and benefit increases and non-pay inflation. This amount includes:

- Annualization of the FY 2006 Federal Pay Raise (3.1%) in FY 2007, +$13,000
- Proposed FY 2007 Federal Pay Raise (2.2%), +$57,000
- Non-Pay Inflation (2.2%), +$268,000

Program Cost Savings ……………………………………………..- $5,500,000 / 0 FTE

HITCA Program Efficiency -$5,500,000 / 0 FTE
These savings reflect the program's effort to align fiscal year costs with contract year expenditures. (For more information on this savings, see page 27.)

Budget and Performance Plan

3.1 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration

Resources Available for Obligation	FY 2005 Enacted		FY 2006[1] Enacted		FY 2006 Operating Level		FY 2007 Request		% Change FY 2006 Oper. to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:										
Health Insurance Tax Credit Administration	17	$34,562	17	$20,008	17	$20,008	17	$14,846	0.00%	-25.80%
Subtotal Newly Appropriated Resources	17	$34,562	17	$20,008	17	$20,008	17	$14,846	0.00%	-25.80%
Other Resources:										
Unobligated Balances Available, SOY		$5,117		$279		$279				
Subtotal Other Resources	0	$5,117	0	$279	0	$279	0	$0	0.00%	0.00%
Total Resources Available for Obligation	17	$39,679	17	$20,287	17	$20,287	17	$14,846	0.00%	-26.82%

[1] FY 2006 enacted level includes 1% across the board rescission and excludes rescission of unobligated balance ($9 million).

Numbers may not add due to rounding

3A – Budget Activity Description

Health Insurance Tax Credit Administration *($14,846,000 from direct appropriation)*
The Health Insurance Tax Credit Administration budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

The Trade Act of 2002 required the IRS to develop and operate a system to provide an advance, refundable tax credit for 65 percent of the cost of qualified insurance for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation. This activity maintains the administrative and direct support for the Health Insurance Tax Credit Administration Program Office and the staff charged with administering the program for the Service.

3.2 – Budget and Performance Plan Table

Dollars in Thousands

Health Insurance Tax Credit Administration (BAC 20)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)							
Resource Level	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2006 Operating Plan	FY 2007 Request
Treasury Strategic Objective F4A:							
Financial Resources							
Newly Appropriated Resources	N/A	$69,545	$34,794	$34,562	$20,008	$20,008	$14,846
Offsetting Collection (Reimbursable)							
Total Operating Level	N/A	$69,545	$34,794	$34,562	$20,008	$20,008	$14,846
Human Resources							
Newly Appropriated FTE	N/A		17	17	17	17	17
Other FTE		0	0	0	0	0	0
Total FTE (direct and reimbursable)	N/A	0	17	17	17	17	17

Performance Level	FY 2002 Historical	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
There are no externally reported performance measures associated with this activity (see 3B for related performance data)							

3B – Description of Performance

HITCA funds the cost to administer a refundable tax credit for health insurance to qualified individuals. Since implementation, the costs for the HITCA program have declined as a result of the IRS' active program oversight and management, as well as several cost-cutting initiatives implemented in 2004. The development of a comprehensive action plan outlining cost-reduction initiatives and aggressively monitoring planned actions to completion have shown significant savings. In FY 2005, the IRS completed a number of additional activities designed to reduce program costs. These included revamping HITCA's administrative approach, implementing a new technology-enabled service delivery model, and reducing overhead expenses.

In FY 2006 and continuing in FY 2007, the IRS will identify potential improvements to reduce program costs. The IRS will implement new business processes designed to identify, prevent, and recover erroneous payments. The IRS will also evaluate the compliance aspects of the credit and develop new compliance procedures as necessary. Finally, the IRS will re-compete the contract for administration of the HITCA program. The contract will be awarded in mid 2006, which will afford ample time to ensure a smooth transition to a new contract for FY 2007.

PMA and PART Evaluation

3C – PMA Evaluation Description

HUMAN CAPITAL: The IRS developed the final draft of the 2005-2009 Human Capital Strategic Plan and has begun work on its implementation. The Plan, which is based on the Office of Personnel Management's (OPM) Human Capital Assessment and Accountability Framework, links directly to IRS and Department of Treasury strategic goals and the IRS' strategic planning and budgeting processes and will serve as primary guidance for strategic management of human capital in the IRS.

In FY 2005, the IRS continued its workforce restructuring and transition initiatives to achieve both the optimum mix of skills within the IRS and the optimum ratio of employees in Mission Critical Occupations (MCOs) that directly support tax processing, administration and compliance to non-MCO employees in supporting functions. For example, the IRS restructuring of its case processing and insolvency functions, as well as optimization of support functions, continues on schedule.

The IRS refined its competency models for MCOs as part of the Service's ongoing effort to improve its ability to field a workforce with the full range of competencies that are necessary for high quality performance. Results have been incorporated into the strategic recruitment marketing campaigns and into the assessment processes used to evaluate the competency of MCO applicants.

To promote the IRS as the employer of choice, the IRS executed a new recruitment marketing contract, maintained an active media campaign, produced new multi-media job previews, updated the IRS Careers website, and continued fostering partner relationships with more than 200 colleges and universities. All IRS job vacancies are posted on the official government-wide site: www.usajobs.gov as required by statute.

In addition, the IRS implemented its automated recruitment solution CareerConnector for external hiring of selected MCOs. Implementation of CareerConnector has helped enable the IRS to meet, for certain vacancies, the OPM recommended standard of filling vacancies within 45 days from the vacancy announcement. The IRS also improved the talent pool of external MCO hires and provided management with greater flexibility to select the most qualified candidates through the expanded use of category ratings to stratify the available applicant pool and also simulated job situation assessments.

The Enterprise Learning Management System, a web-based application that managers, employees, and the Learning and Education community use to manage training and development, was implemented IRS-wide in January 2005 in partnership with the Administration's E-Training initiative, managed by the Office of Personnel Management.

The IRS launched a comprehensive leadership succession planning initiative. The first phase of the initiative included assessment of 103 executives IRS-wide to measure and benchmark competency strengths and weaknesses.

In addition, the IRS implemented a Servicewide human capital governance structure, including representatives from the IRS business units, support functions, and specialized units that:

- provides a forum for all IRS entities to jointly address and propose solutions to human capital issues and challenges resulting from the implementation of large-scale human capital programs, policies, and initiatives

- ensures consistent and fair treatment of employees impacted by workforce change initiatives

The IRS developed, at the direction of the Chief Human Capital Officer (HCO), an HCO Concept of Operations that articulates the HCO's vision, mission, values, role, responsibilities, and lines of business. In addition, the HCO executed Service Level Agreements with internal customers describing services HCO will provide; HCO and customer commitments; and measurement of HCO performance.

ELECTRONIC GOVERNMENT: In FY 2005, the IRS completed the security certification and accreditation of its network infrastructure general support systems. This effort has resulted in the IRS making substantial progress in improving the Federal Information System Management Act (FISMA) compliance status of all the IRS information systems.

In addition, the IRS has expended sustained effort on the *IRS Enterprise Architecture*. This comprehensive Enterprise Architecture is used to inform, guide, constrain, and manage capital investments. The IRS Enterprise Architecture is applied at every stage of the system life cycle, including charting new projects, validating compliance at milestone reviews, and documentation of delivered systems in the *As Built Architecture*. The IRS has a strong Enterprise Architecture Division in place that is responsible for building and maintaining the IRS Enterprise Architecture, reviewing projects to certify compliance with the IRS Enterprise Architecture, program level engineering (e.g. alternatives analysis, prototyping, and technical reviews), and enterprise data management.

The *IRS Business Architecture* is aligned with the Federal Enterprise Architecture Business Reference Model and Treasury Enterprise Architecture Business Reference Model. The *IRS Business Architecture* contains a performance model and performance requirements consistent with the Federal Enterprise Architecture Performance Reference Model. In addition, the IRS is completing an update of the IRS *Modernization Vision and Strategy* that will provide a line of sight from agency goals and objectives to business results and customer results that drive investment decisions. The *Enterprise Transition Strategy* and *Modernization Vision and Strategy* identify common business services and common technical services that are consistent with the Federal Enterprise Architecture

Service Reference Model and can be leveraged to provide improvements in multiple business lines. The candidate services are coordinated with the Treasury Enterprise Architecture Council to enable leverage of service components or service component patterns across Treasury bureaus. The *IRS Data Architecture* is consistent with the Federal Enterprise Architecture Data Reference model, and the IRS is participating with Treasury Enterprise Architecture Council (TEAC) to achieve alignment across all Treasury Bureaus. The *IRS Technical Architecture* and *Enterprise Standards* are organized by the Technical Reference Model (TRM), which aligns with the Federal Enterprise Architecture TRM. The IRS *As Built Architecture* describes all the systems deployed in the IRS.

The IRS Procurement organization has closely aligned any enhancements to their Procurement Automated Information Systems (PAIS) with the goals established by the President's Management Agenda (PMA) and its Integrated Acquisition Environment (IAE), as currently managed by GSA. IRS was the first civilian agency to successfully interface its procurement system with the Federal Procurement Data System - Next Generation (FPDS-NG), automatically populating much of the required data. Additionally, IRS Procurement maintains a direct interface with the IAE's Business Partner's Network's (BPN) Central Contractor Registration (CCR) database, downloading real-time contractor data from CCR into its Integrated Procurement System (IPS) and into its Integrated Financial System (IFS). IRS also posts its requisite contracting opportunities on IAE's Federal Business Opportunity (FBO) website and posts sensitive solicitation information on the FedTeDS site. Since its origin, IRS has fully supported the IAE initiatives and maintains active membership on several committees working the IAE projects, i.e., eMarketplace (formerly eCatalog), FBO, and FedTeDS.

Free File: The IRS is continuing to offer Free File under a renewed agreement with the Free File Alliance Operating Agreement for 2005 – 2008. More than 5 million taxpayers used this free on-line filing service in 2005.

Expanding Electronic Tax Products for Business: The IRS also met the commitments established for this initiative under e-gov. Continuing to build on the original initiative, the IRS will expand this program by working with additional states interested in linking state registration applications to the federal Internet Employer Identification Number (EIN) application for a one-stop experience. In addition, the IRS continues to expand Modernized e-Filing to accept more forms and reach additional business taxpayers.

Other e-gov initiatives: The IRS actively supports other e-gov initiatives, including the Business Gateway, by ensuring the IRS business-relevant content is accessible through the Business Gateway. Low Income Tax Clinic and Tax Counseling for the Elderly grant opportunities are posted each year on Grants.gov. Applicants have been able to apply on-line for Low Income Tax Clinic grants through Grants.gov. The IRS also has benefits information posted on GovBenefits.gov for more than fifteen programs.

COMPETITIVE SOURCING: Two IRS competitive sourcing studies with exceptional results, Area Distribution Center and Campus Operations, were highlighted in meeting material used at a briefing of the President, by the President's Management Council, on July 28, 2005. Additionally, in December 2004 the IRS received the President's Quality Award for Management Excellence for Innovative and Exemplary Practices in recognition of the Area Distribution Center initiative. For both competitions, the Most Efficient Organization (the IRS internal bid team) created the winning proposals, incorporating best practices through work process improvements, greater use of technology, and staffing efficiencies. The studies are projected to save taxpayers more than $185 million over the next five years in both budgetary and economic savings (cost avoidance).

The IRS was recognized in March 2005 with the National Industries for the Severely Handicapped (NISH) 2004 Government Award for Services, which highlights the IRS' support for expansion of service business lines under the Javits-Wagner-O'Day (JWOD) Program, a program that supports training and employment opportunities for Americans with severe disabilities. The IRS awarded the first-ever contracts for nationwide mailroom services and virtual call center which offered home-based employment for people with disabilities. Both initiatives provide first time job opportunities to hundreds of people with disabilities.

The National Distribution Center (NDC), formerly Area Distribution Center, competitive sourcing initiative was fully implemented on March 5, 2005. All production processing ceased at the Eastern and Western Area Distribution Centers. The IRS cancelled commercial leases for the two sites releasing approximately 395,000 square feet. Career transition assistance was provided to impacted employees, including voluntary separation incentives. Employees who could not be placed were separated through a Reduction in Force. The NDC held stand-up ceremonies on April 20, 2005.

The Integrated Document Solutions Enterprise (IDSE), formerly Campus Operations, competitive sourcing initiative was fully implemented mid September 2005. The robust HR mitigation strategies deployed had tremendous positive impacts—less than 20 employees were involuntarily separated.

Another MEO award was announced on August 12, 2005 for the *Campus Files* contract. However, a protest was filed which resulted in the award being withdrawn to permit the bids to be reopened for clarification and discussion. A final decision is expected within 4 – 6 months.

On August 31, 2005, the IRS announced the award of IAP World Services, Inc. as selected vendor in the *Building Delegation* competitive sourcing competition.

The IRS developed and deployed an extensive Human Resource Mitigation strategy to provide a robust suite of services to employees impacted by Competitive Sourcing. The approach included voluntary early retirement and voluntary separation incentive, partnership with local Department of Labor Rapid Response Teams who provided on-site career transition training (i.e. Interviewing Skills, Resume Writing), expanded Employee Assistance Program for providing emotional and financial counseling for employees and their immediate family members, and offered internal job swaps to provide potential vacancies. Hundreds of employees were assisted through job placement and voluntary separation incentives.

The IRS will continue to use public-private competition, where appropriate, to achieve transformational change. Studies underway during FY 2006 – 2007 include the following: Business Case Analysis phase – Real Estate and Facilities Management; Preliminary Planning Phase – Logistics, Seat Management and Fuel Compliance; and Implementation Phase – Building Delegation and Files Activity. Post competition accountability and monitoring will commence for both NDC and IDSE initiatives.

The IRS continues to see innovative uses of technology, staffing options, and streamlined process engineering in bids and tenders. The IRS views Competitive Sourcing as a major modernization tool to bring about transformational change in organizations undergoing competition.

The IRS' achievement in the competitive sourcing arena has enabled the Treasury Department to achieve its first green scorecard on the President's Management Agenda initiatives. Additionally, the IRS has supported the Treasury Shared Services initiative by leading all other Treasury bureaus in the development of their Fair Act Inventory, which has resulted in a more accurate Treasury inventory.

BUDGET AND PERFORMANCE INTEGRATION:
The goal for the IRS is to develop a new budget structure – acceptable to the appropriation committees and other oversight bodies – which integrates support and operational costs to more correctly cost IRS activities and measure the outputs of IRS activity. The IRS will continue to perfect data to support the full allocation of program costs across the Service.

Correct cost allocations are impracticable within the financial system with the existing account structure (Processing, Assistance and Management; Tax Law Enforcement; and Information Systems). Fully costing activities must be handled off-line. During the next year, the IRS plans to meet with Appropriations staff to discuss approaches that would capture all costs within the financial system, resulting in more timely and more accurate costing data.

The IRS had two new PART evaluations for the FY 2007 Budget cycle: examination and criminal investigation; and one updated PART, submission processing. All three programs received "moderately effective" ratings from OMB. More than half of the IRS programs are expected to demonstrate improved performance/efficiency and the IRS expects to reach agreement with oversight bodies on long-term performance goals. Progress on reliable unit cost and performance measures, derived from the new system, are critical to the IRS improving its PART scores.

IMPROVING FINANCIAL PERFORMANCE: In FY 2005**,** the IRS met a major milestone in systems development by implementing the new Integrated Financial System

(IFS), which became the core accounting system, replacing systems used in budget preparation, general ledger, accounts payable, accounts receivable, financial reporting, and purchasing. IFS implementation provided challenges for the IRS, but it still continued to meet Treasury's TIER 3-day close financial reporting requirement each quarter. Also in FY 2005, the IRS received a clean audit opinion on the FY 2005 financial statements, marking the sixth consecutive year for this achievement.

System development efforts on the Custodial Accounting Project (CAP) were discontinued in FY 2005; however, in March 2005, the IRS introduced a new systems approach under a project named the Custodial Detail Data Base (CDDB) to serve as the sub-ledger of custodial financial information. This system, in combination with existing systems, addresses three custodial accounting items included in the IRS' Federal Financial Management Improvement Act (FFMIA) Remediation Plan and for the custodial financial management material weakness. For FY 2006, the IRS will focus efforts on the development and testing of a new data base to store Trust Fund Recovery Penalty (TFRP) and Unpaid Assessment data, which will become the foundation of the CDDB and the subsidiary ledger for all unpaid assessments. When the CDDB revenue transaction database goes into production, it will become possible to test reports.

Addressing material weaknesses is a top priority for the IRS. The IRS made significant progress during FY 2005 to ensure accountability and advancement in resolving our material weaknesses. An IRS Financial and Management Controls Executive Steering Committee ensures that outstanding material weaknesses and reportable conditions are addressed by instituting more aggressive action plans, realistic due dates, and timely implementation of meaningful corrective actions. Remediation plans are in place to address FFMIA issues. No new material weaknesses were identified in FY 2005. In FY 2005, Measuring Taxpayer Compliance was downgraded to a reportable condition.

ELIMINATING IMPROPER PAYMENTS: The Earned Income Tax Credit (EITC) program has been identified as a high-risk program due to the amount of improper payments. The EITC is a refundable federal income tax credit for low-income working individuals and families. For Tax Year 2004 (through December 2005), approximately 22 million families received credits of over $40 billion, making the EITC one of the nation's largest anti-poverty programs.

To better administer the EITC, the IRS has developed a detailed, long-term EITC business plan in the form of a Concept of Operations with a focus on a balanced EITC Program – one that reduces erroneous payments while increasing participation among eligible taxpayers. In keeping with the goals of the EITC program throughout FY 2005 and into FY 2006, the IRS will implement new, technology-enabled business process improvements as well as continue to test and evaluate new approaches to reduce improper payments. These tests will be used to make data-driven decisions about improvements to each segment of the program including customer service, outreach, and compliance.

This plan is consistent with the IRS Commissioner's five-point initiative announced in June 2003 to reduce the burden on taxpayers, improve the IRS audit processes, increase outreach efforts, address unreported income, and test new approaches to reducing EITC error. Efforts continue to improve EITC compliance activities; decreased the time it takes to complete an EITC examination by 6.4 percent, or 12 days, over the past year.

As part of the Commissioner's initiative, in FY 2005, the IRS continued several tests to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers.

- Qualifying Child Test: Requires certain EITC claimants to certify that they meet qualifying child residency requirements before paying out the refund. Initial testing results showed that a certification requirement had a significant effect on improper EITC claims.
- Filing Status Test: Reviews filing status claims to ensure they are correct. The IRS selected claimants whose filing status had changed to one that increased the value of the credit (generally, from married filing joint to head of household). The first test indicated that the IRS needed to modify its selection methodology to ensure a better focus on non-compliant taxpayers.
- Misreporting Income (Automated Underreporter) Test: Enhances error detection through the automated under-reporter program. This test focused on improved selection methodologies and immediately proved successful.

Based on the results of the Misreporting Income (Automated Underreporter) test, in early FY 2005, the IRS implemented the improved selection methodologies for Automated Underreporter cases. During 2006, the IRS will complete the final phase of the Qualifying Child test. The IRS will evaluate the results of the Filing Status and Qualifying Child tests on reducing erroneous EITC payments and maintaining participation by eligible taxpayers, before determining whether to implement either on a broader scale.

The IRS is examining potential error rate measures that will satisfy Improper Payments Information Act and Recovery Act (IPIA) requirements. Other FY 2005 and FY 2006 initiatives include implementation of a program to focus education and compliance efforts, as appropriate, on EITC paid preparers. As a part of the EITC Return Preparer Strategy, the IRS completed over 400 due diligence compliance visits to paid tax preparers with a probability/ record of preparing erroneous EITC returns. The IRS also implemented the selection of amended EITC returns for examination using the Dependent Database, and the IRS Criminal Investigation Division completed evaluating the use of a National Directory of New Hires (NDNH) database match in its EITC Fraud Detection Centers.

The IRS is striving to simplify the EITC claim process. The IRS is improving communications, making the credit clearer, and providing potential claimants and their paid preparers with resources to help them determine whether they are eligible. During FY 2005, the IRS launched the *EITC Assistant*, a web-based eligibility calculator on

IRS.gov; implemented enhancements to the EITC Online Toolkit for tax professionals for FY 2005 and FY 2006; and distributed EITC educational materials to 45,000 Western Union locations in FY 2006. Also in FY 2005, the IRS partnerships and coalitions prepared nearly two million tax returns for low-income families, in addition to making countless taxpayer contacts through an array of EITC educational products and messages.

3.3 – PART Evaluation Table

PART Program Name	**Submission Processing**
Bureau	**Internal Revenue Service**
Strategic Goal	**Manage the U.S. Government's Finances Effectively**
Rating	**Moderately Effective**
Major Findings/Recommendations	
Using a single cost-based efficiency measure by 2008 (cost per return processed).	
Actions Planned or Underway The IRS plans to allocate overhead costs based on proven business methodologies that are consistently applied, easy to maintain and will support internal and external audits with the goal of using a single cost-based efficiency measure by 2008 (cost per return processed).	
Major Findings/Recommendations	
Seek legislative changes to promote electronic filing; including greater authority to require electronically filed returns	
Actions Planned or Underway The FY 2007 President's Budget includes legislation to enhance IRS' authority to require electronic filing in some cases.	
Major Findings/Recommendations	
By 2007, IRS will establish goals to reduce taxpayer burden (time and expense of preparing and filing returns)	
Actions Planned or Underway The IRS has established an Office of Taxpayer Burden and has begun developing measures of taxpayer burden that will show improvement goals for both hour and expense for preparing returns	

Performance Measures	FY 2004 Actual Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Percent of Individual Returns Processed Electronically †	46.5%	51.1%	55.0%	58.8%
Percent of Business Returns Processed Electronically †	17.4%	17.8%	18.6%	20.6%
Deposit Timeliness (lost opportunity cost)	$416	$405	$396	$386
Refund Timeliness - Individual Paper	98.3%	99.2%	99.2%	99.2%
IMF Returns Processed Per Staff Year	14,129	14,965	15,622	16,403
BMF Returns Processed Per Staff Year	16,006	17,946	18,500	19,000
Percent of Tax Payments Processed Electronically	35.1%	36.3%	37.1%	37.6%

***Bold** identifies PART measures included in the budget
† Variance from PART and 80% statute goal

PART Program Name	Taxpayer Service
Bureau	Internal Revenue Service
Strategic Goal	Manage the U.S. Government's Finances Effectively
Rating	Adequate

Major Findings/Recommendations

Set Long-Term Goals during 2005

Actions Planned or Underway

Long-term goals for the Service are included in the FY 2007 President's budget submission. The long-term goals track the level-of-service provided to taxpayers, accuracy of both tax law and account responses, and the Taxpayer Self Assistance Rate.

Major Findings/Recommendations

Convert efficiency measures to cost-based, rather than staff-year-based metrics as accounting systems improve and use them in the 2007 performance budget (e.g., cost per call answered). The IRS will add efficiency measures for each taxpayer service process for internal management purposes.

Actions Planned or Underway

The deployment of the Integrated Financial System (November 2004) and the associated cost modules captures data enabling the IRS to view direct expense data (labor, supplies, travel, etc.), FTEs and on-rolls data captured at the lowest cost center (group or work unit) level; in addition to running allocations to distribute support costs to the operational business units.

The IRS is allocating overhead costs based on business methodologies that are consistently applied, easy to maintain, and will support internal and external audits. Developing efficiency measures (e.g., cost per call answered) and adding efficiency measures for service processes for management is delayed until 2008.

Major Findings/Recommendations

Use Customer Satisfaction measures in its published performance budget.

Actions Planned or Underway

The IRS continues to monitor Customer Satisfaction measures internally, but is working under Treasury guidelines to reduce the number of measures reported externally and report on those high-value measures. The IRS will continue to monitor Customer Satisfaction information as part of the balanced measures used to manage its programs and is considering other avenues (such as IRS.gov) to report its levels of Customer Satisfaction.

Major Findings/Recommendations

Explore the mix of service options (phones, walk-in, Internet, volunteer services) to ensure that the most efficient and effective means are used to deliver service.

Actions Planned or Underway

In FY 2005, the IRS made program changes to provide the most efficient and effective means necessary to deliver service, e.g., enhancements to the Internet Fact-of-Filing (IRFOF) application and e-services. The IRFOF enhancements included on-line refund trace initiation capabilities. The IRS operates 38 self-help kiosks in 20 states, and increased service options during the filing season, by offering service in additional locations such as shopping malls, libraries and other government offices.

The IRS' "Where's my Refund?" on-line application allowed more than 22 million taxpayers to check on the status of their refunds this past filing season, a 49 percent increase over last year. IRS added a new feature to enable taxpayers to generate replacement checks if the first one was lost or undeliverable due to an out-of-date address. "Hits" on IRS.gov total more than 4.8 billion, up 20 percent over the same time last year.

In FY 2005, the IRS deployed the EITC Assistant on IRS.gov. EITC Assistant is a web-based application to help taxpayers determine eligibility, filing status and estimated EITC amount. The EITC Assistant is available in English and Spanish and reflects the EITC tax law changes, including new income limits for EITC eligibility as well as the option to include nontaxable combat pay in earned income for the earned income credit. The IRS also deployed telephone and web self-service applications on IRS.gov to help taxpayers determine their certification status and explain determinations made during the certification process.

Major Findings/Recommendations

Improve the accuracy of information provided to taxpayers.

Actions Planned or Underway

IRS launched an improved interactive Probe and Response Guide in December 2004. In addition to improved training materials such as the guide, the IRS continues to hold conference calls to focus the sites on correcting common errors. The IRS set up Six Sigma teams to review and develop improvement actions related to the work processes and procedures used to address taxpayer issues. The IRS implemented Embedded Quality (EQ), a review system that standardizes criteria for evaluating employee performance, pinpoints training opportunities, and links to business measures to improve the accuracy of responses to customers.

The IRS will improve the accuracy of tax law telephone information provided to taxpayers to 90 percent accuracy by 2010.

Major Findings/Recommendations

Research the impact of taxpayer service programs on voluntary compliance.

Actions Planned or Underway

The IRS will also explore efforts to study customer service impacts as part of its FY 2006 Research Plan.

The IRS will research the impact of taxpayer service programs on voluntary compliance and report findings by 2007.

Major Findings/Recommendations

Improve financial information as part of the IRS-wide financial management improvements.

Actions Planned or Underway

Using the Integrated Financial System, the IRS plans to allocate overhead costs based on proven business methodologies, consistently applied, and easy to maintain to support internal and external audits. The IRS will track and control resources to a specific organizational unit and level of responsibility, and provide both direct and indirect cost data to help move the Service forward in transitioning to a performance-based budget. Efforts are underway to identify and report the full cost of each program activity.

Major Findings/Recommendations

The 2006 budget streamlined taxpayer service programs by reducing dependence on less efficient walk-in centers and increasing reliance on telephone and Internet service.

Actions Planned or Underway
Taxpayer Assistance Centers (TACs) provide an option for customers preferring personal, face-to-face tax help. In FY 2005, the IRS provided details of a comprehensive study to reduce costs by reducing the number of TACs and publicly announced plans to close a determined number of offices. However, the planned closures were suspended per P.L. 109-115 and the IRS is now working with the Treasury Inspector General for Tax Administration (TIGTA) to determine the future of the proposal. To support modernization efforts, use of free on-line services, such as "Free File" and "Where's My Refund?" is promoted. Additionally, the IRS is delivering enhancements to the Internet Fact-of-Filing (IRFOF) application and e-services.

The IRS will continue to research the impact of taxpayer service programs on voluntary compliance and report findings by 2007.

Performance Measures	FY 2004 Actual Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Customer Contacts Resolved Per Staff Year	8,015	7,585	7,477	7,555
Telephone Level of Service	87.0%	82.6%	82.0%	82.0%
Tax Law Accuracy for Telephone Service	80.0%	89.0%	90.0%	90.5%
Tax Law Accuracy for Walk-in Service †	75.0%			
Accounts Accuracy for Telephone Service	89.0%	91.5%	92.0%	92.6%
Customer Accuracy - Customer Accounts Resolved (Adjustments)	87.0%	85.7%	86.3%	86.7%
Customer Satisfaction with Telephone Service	93.0%	94.0%	94.0%	94.0%
Customer Satisfaction with Correspondence Service	66.0%	69.0%	66.7%	68.4%
Customer Satisfaction with Walk-in Service	89.0%	91.0%	88.0%	89.0%

***Bold** identifies PART measures included in the budget
† Comparable data is unavailable after 2004

PART Program Name	**Taxpayer Advocate Service**
Bureau	**Internal Revenue Service**
Strategic Goal	**Manage the U.S. Government's Finances Effectively**
Rating	**Moderately Effective**

Major Findings/Recommendations

Develop a unit cost measure for its casework by 2006 (delayed to 2007).

Actions Planned or Underway

The National Taxpayer Advocate (NTA) established a task force to develop a new, time-reporting system to associate hours worked with specific cases in inventory as a precursor to a unit cost measure, which is expected by the end of FY 2006 (delayed to 2007).

Major Findings/Recommendations

Explore other means to measure its effectiveness in solving systemic problems leading to taxpayer hardship. The IRS will report its findings in 2006 for possible inclusion in its 2008 budget.

Actions Planned or Underway

TAS will continue to utilize research staff to develop other ways to measure its effectiveness in solving systemic problems leading to taxpayer hardships.

The NTA staff utilized a number of sources to determine which problems might rise to the level of a "most serious problem," including solicitations from all local taxpayer advocates, research of the Taxpayer Advocate Management Information System (TAMIS) database, research from the Systemic Advocacy Management System (SAMS) database, and research of concerns expressed by taxpayers and practitioners. As a result, TAS now has a list of the ARC projects and is working with the operating divisions on these issues.

Development of SAMS Phase II continues. Phase II includes improved tools for recording Systemic Advocacy project development, numerous system enhancements, and a new Taxpayer Advocacy Panel (TAP) feature - a version of the SAMS application tailored to track Taxpayer Advocate Panel (TAP) projects.

Major Findings/Recommendations

Improve financial information as part of the IRS-wide financial management improvements.

Actions Planned or Underway

The IRS implemented IFS in October 2004 and completed historical data conversion from its current financial system in November 2004.

Major Findings/Recommendations

Improve case quality to 91.5 percent by 2006, 93 percent by 2009 and 95 percent by 2014.

Actions Planned or Underway

Through FY 2005, TAS cumulative quality index stands at 91.6 percent, up from FY 2000 when quality was 67 percent. Maintaining this high level of quality will be challenging this year due to increasing inventory levels, the impact of numerous natural disasters and IRS increased enforcement activities and initiatives. However, TAS expects to meet its FY 2006 goal of 91.5 percent by continuing to focus on exceptional quality and customer service. The joint improvement team that addressed timely actions and provided suggestions on more effective communications and inventory management appears to have had a positive impact.

Each TAS area/local office analyst has been trained and empowered to analyze their quality results and evaluate national trends for improvement. Process changes such as the systemic tracking of customer follow-up dates, use of a buddy system or similar approach to make critical contacts even if the advocate is away, use of TAMIS enhancements to properly reflect the audit trail utilizing radio buttons, etc., have been adopted by many offices. An annual report on quality captures area/local office enhancements.

TAS initiated a "Quality Visitation Program" that provides targeted training and skills transfer to local and area analysts. This effort equips analysts with consistent skills to evaluate and report data, promoting quality improvement at all levels of the organization.

TAS Management provided a presentation to the Local Taxpayer Advocate Leadership conference titled, "A Holistic View of Quality, Kicking it up a Notch." The presentation celebrated current accomplishments and outlined requirements to excel, focusing on critical leadership competencies in customer service, quality and leadership. References to the Malcolm Baldridge Quality Award were outlined and examples of using common sense processing cases were shared. The key leadership and quality messages included discussions around communication, targeting customers' unique needs, building customer relationships with a focus on quality/service, and passionately focusing on TAS mission.

Performance Measures	**FY 2004 Actual Performance**	**FY 2005 Actual Performance**	**FY 2006 Planned Performance**	**FY 2007 Planned Performance**
TAS Cumulative Quality Index	90.5%	91.6%	91.5%	92.0%

PART Program Name	**Criminal Investigation**
Bureau	**Internal Revenue Service**
Strategic Goal	**Preserve the Integrity of Financial Systems (F3)** **Managing the Government's Finances Effectively (F4)**
Rating	**Moderately Effective**

Major Findings/Recommendations

IRS will explore methods for measuring the impact of Criminal Investigation on Tax Compliance. The IRS will report on its progress by the end of 2006.

Actions Planned or Underway

Planned actions will be identified in the FY 2008 budget.

Major Findings/Recommendations

IRS will implement a new information management system in 2006 to enhance investigative case tracking and improved efficiency.

Actions Planned or Underway

Planned actions will be identified in the FY 2008 budget.

Major Findings/Recommendations

IRS will develop methods to improve case prioritization in 2006 to ensure that cases yield the greatest impact on compliance.

Actions Planned or Underway

Planned actions will be identified in the FY 2008 budget.

Performance Measures	**FY 2004 Actual Performance**	**FY 2005 Actual Performance**	**FY 2006 Planned Performance**	**FY 2007 Planned Performance**
Percent of Taxpayers stating that no cheating is acceptable on their taxes	12.0%	10.0%	10.0%	10.0%
Improve Voluntary Compliance	N/A	83.0%	N/A	N/A
Number of Convictions	2,008	2,151	2,260	2,305
Conviction Rate	91.2%	91.2%	92.0%	92.0%
Conviction Efficiency Rate ($)	362,849	295,316	339,565	341,334

***Bold** identifies PART measures included in the budget
N/A: Measure not applicable for this fiscal year

PART Program Name	Examination
Bureau	Internal Revenue Service
Strategic Goal	Manage the U.S. Government's Finances Effectively
Rating	Moderately Effective

Major Findings/Recommendations

IRS will introduce cost based efficiency measure by 2008 (e.g. enforcement revenue/program budget).

Actions Planned or Underway

Planned actions will be identified in the FY 2008 budget.

Major Findings/Recommendations

The IRS will improve tools for selecting the most productive audit cases by 2007 using the detailed compliance information gathered in the recent individual tax gap study.

Actions Planned or Underway

Planned actions will be identified in the FY 2008 budget.

Major Findings/Recommendations

IRS will research the tax compliance of S-Corporations based on a statistically valid sample of the filing populations.

Actions Planned or Underway

Planned actions will be identified in the FY 2008 budget.

Major Findings/Recommendations

IRS will set a voluntary compliance goal with specific targets and develop a plan for periodically (every few years) measuring progress against this goal. This measurement plan should include both corporate and individual compliance.

Actions Planned or Underway

Planned actions will be identified in the FY 2008 budget.

Performance Measures	FY 2004 Actual Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Correspondence Examinations Closed Per FTE	185	351	264	271
Field and Office Examination Closed Per FTE	32	37	35	37
AUR Cases Per FTE †	2,350	2,414	Discontinued	Discontinued
AUR Efficiency	1,514	1,701	1,759	1,834
AUR Coverage	1.9%	2.2%	2.3%	2.4%
Examination Coverage – Business (Corps. > $10Million)††	7.5%	7.8%	7.5%	8.3%
Cycle Time for Large Corporation	42	40	39	38
Improve Voluntary Compliance	N/A	83.0%	N/A	N/A
Reduce % of taxpayers who think it is OK to cheat on their taxes	12.0%	10.0%	10.0%	10.0%

***Bold** identifies PART measures included in the budget
† Beginning in FY 2006 "AUR Cases per FTE" is subsumed under "AUR Efficiency."
†† Variance from PART in 2007 reflects a recent increase in the Examination Plan for LMSB

PART Program Name	**Earned Income Tax Credit (EITC)**
Bureau	**Internal Revenue Service**
Strategic Goal	**Manage the U.S. Government's Finances Effectively**
Rating	**Ineffective**

Major Findings/Recommendations

The IRS will delay refunds on returns deemed high risk for filing status or income errors while agents take action to resolve cases. High-risk returns will be identified by researching taxpayer historical compliance and by requiring new information on EITC returns.

Actions Planned or Underway, Completed & Ongoing

The IRS revamped the way it approaches EITC administration. The IRS broadened its mission for the program - maximize participation and minimize error - and is testing a number of "pre-refund" approaches to reduce filing status and income errors. These tests are all part of a broader plan to redesign the entire EITC program.

Major Findings/Recommendations

As part of a test, the IRS will require high-risk EITC applicants to pre-certify that the children claimed on their return are really qualifying children under EITC. Incorrectly claimed children have been a major source of EITC error. High-risk applicants will be identified through databases such as the Federal Case Registry (information on child custody) and by focusing on taxpayers with characteristics linked to high error rates in compliance studies (e.g., relatives other than parents who claim a child for EITC purposes).

Actions Planned or Underway

Results of the FY 2004 Proof of Concept (POC) tests (Qualifying Child Residency Certification, Filing Status and Automated Underreporter) designed to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers were finalized, and the IRS initiated implementation of the Automated Underreporter process. An interim report on these results was issued to Congress on April 12, 2005, and the final report in mid-October, 2005.

In FY 2006, the IRS will continue POC testing. In FY 2007, the IRS expects to implement additional enhancements based on the evaluation and analysis of the certification and filing status tests. In addition, technology-enabled business process improvements are being designed to augment the efficiency and effectiveness of compliance activities.

Major Findings/Recommendations

Conduct approximately 500,000 examinations of EITC returns per year based on enhanced case selection systems.

Actions Planned or Underway

Planned actions will be identified for the FY 2008 budget submission

Major Findings/Recommendations

Prevent $270,000 million in incorrect refunds in 2006 by detecting and correcting errors during return processing.

Actions Planned or Underway

Planned actions will be identified for the FY 2008 budget submission

Major Findings/Recommendations

Identify paid tax return preparers with high EITC error rates using education and enforcement procedures to improve their performance.

Actions Planned or Underway

Planned actions will be identified for the FY 2008 budget submission

Performance Measures	FY 2004 Actual Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Percent of Eligible Taxpayers Who File for EITC	80.0%	†	80.0%	80%

*B**old** identifies PART measures included in the budget
† Information is based on Calendar Year (CY) information and will not be available until census data is updated.

PART Program Name	Tax Collection
Bureau	Internal Revenue Service
Strategic Goal	Manage the U.S. Government's Finances Effectively
Rating	Results Not Demonstrated

Major Findings/Recommendations

Increase staffing by 537 FTE.

Actions Planned or Underway

The FY 2004 President's Budget proposed this increase. The President's Budget for FY 2005 included an initiative for an additional 66 revenue officers (32 Equivalent [FTE]) in Field Collection and 250 collection representative hires (125 FTE) in Electronic/Correspondence Collection. The FY 2005 Budget also included an additional 66 FTE for the Automated Collection System initiative. However, the final enacted levels for FY 2004 and FY 2005 provided only partial funding for these hiring initiatives. The FY 2006 President's Budget included a request for resources to hire an additional 518 collection employees as well as 46 tax examiners.

Major Findings/Recommendations

Reengineering and technology modernization efforts are ongoing to introduce risk-based targeting of specific taxpayers with the most effective collection procedures (i.e., notice, phone call or field visit).

Actions Planned or Underway

Reengineering teams were formed with one team focused on implementing models to conserve Automated Collection System (ACS) and field resources by identifying the non-filer and balance due accounts that have the highest collection probability to accelerate contact and to identify other accounts for limited contact. The team has developed models to better identify high-priority work, monitoring and confirming the success of the collection reengineering models through several research projects. A second team focused their efforts in ACS, making better use of the predictive dialer, realigning the workforce to core hours and analyzing ACS treatments. This team created a performance support tool to provide employees with technical guidance while handling a call, improving telephone operations and the expansion of ACS scripts and leveraging service delivery. The team also implemented a refocused Collection training syllabus that included new tools to assist collection employees, e.g., contact recording and desktop integration, which improved program efficiency. In addition, the team re-wrote IRS.gov web pages to encourage Direct Debit and convey payment options to taxpayers.

The Internal Revenue Manual (IRM) for ACS and toll-free operations has been re-written. New procedures place emphasis on Direct Debit benefits and the use of automatic and electronic methods of payment over traditional installment payment methods.

New efficiency and outcome measures, Collection Efficiency (units) and Collection Coverage (units), were established in FY 2005. The target for Collection Efficiency is 497 cases disposed per FTE and Collection Coverage is 32 percent disposed.

Effective January 2005, the IRS began receiving levy sources from Electronic Filing returns and from State Employment Commissions and implemented programming changes that increased the number of levy sources provided. Systemic changes were made to prevent the systemic passing of erroneous levy sources (e.g., invalid bank routing numbers, missing addresses) reducing the number of unproductive levy responses.

In July 2005, a multi-functional summit was held to approve the Collection Corporate Governance Board put in place to address alternative treatments to the non-filer inventory. New IMF non-filer models have been developed to assist in selecting the most productive work. A non-filer strategy was developed, focusing on improved identification of non-filers, appropriate outreach and education efforts to address the non-filing segment and identify sustained return filing through balanced, appropriate compliance actions.

To assist in the collection of delinquent taxes and reduce the size and growth of the collection inventory, legislation to authorize contracts with private collection agencies was signed into law in October 2004. The IRS has begun development of business requirements and a release strategy for implementation (September 2005) of the Private Debt Collection effort, including initial work in the development of a methodology to identify accounts that have potential for resolution. Planned actions include:

- Improve the process to better align resources and demand under the enterprise call routing technology by implementing a telephone forecast and work plan. (July 2006)
- Develop and implement Call Segmentation to increase the number of ACS calls that can be handled in an automated environment, thus allowing Collection representatives to handle calls that require personal interaction with taxpayers. (July 2006)
- Develop an Internet electronic funds withdrawal application for notice payments. (September 2006 - Contingent on additional funding.)
- Develop a funds withdrawal (Direct Debit) application for installment agreements. (September 2006 - Contingent on additional funding.)

The FY 2006 Request level provides resources to hire additional collection employees and tax examiners to meet the need for continued compliance.

Major Findings/Recommendations

Implementing new tools in 2007 to segment Collection workload according to risk to ensure IRS takes the right action to secure delinquent taxes.

Actions Planned or Underway

Planned actions will be identified for the FY 2008 budget submission

Major Findings/Recommendations

Implement legislation including strong taxpayer rights protections - allowing the IRS to hire private collection agents to help secure delinquent tax debt.

Actions Planned or Underway

The legislation passed but the implementation actions still need to be defined. Planned actions will be identified for the FY 2008 budget submission.

Major Findings/Recommendations

Review the effectiveness of the revised Collection performance measures of workload coverage and efficiency. Information from these measures will be used in the development of the FY 2008 budget.

Actions Planned or Underway

Planned actions will be identified for the FY 2008 budget submission

Performance Measures	FY 2004 Actual Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Collection Coverage - units Oe †	N/A	53.0%	52.0%	52.0%
Collection Efficiency - units E ††	N/A	1,514	1,650	1,717

***Bold** identifies PART measures included in the budget
† Methodology change - prior performance reported as 39%. FY 2005 (from 54%) adjusted to eliminate duplicate counting of deferral cases
†† Methodology change - prior performance reported as 510
N/A: Not applicable for this fiscal year.

Performance Measures Associated with PARTed Programs

IRS Tax Collection
Collection Coverage - Units
Collection Efficiency - Units

Earned Income Tax Credit
Percent of Eligible Taxpayers Who File for EITC

Submission Processing
Percent of Individual Returns Processed Electronically
Percent of Business Returns Processed Electronically
Deposit Timeliness
Refund Timeliness - Individual Paper
IMF Returns Processed Per Staff Year
BMF Returns Processed Per Staff Year
Percent of Tax Payments Processed Electronically

Taxpayer Service
Customer Contacts Resolved Per Staff Year
Telephone Level of Service
Tax Law Accuracy for Telephone Service
Tax Law Accuracy for Walk-in Service
Accounts Accuracy for Telephone Service
Customer Accuracy - Customer Accounts Resolved (Adjustments)
Customer Satisfaction with Telephone Service

Examination
Correspondence Examinations Closed Per FTE
Field and Office Examination Closed Per FTE
AUR Cases Per FTE
Examination Coverage – Individual
Examination Coverage – Business (Corps. > $10Million)
AUR Efficiency
AUR Coverage
Large Corporation Examination Coverage Rate
Cycle Time for Large Corporation

Investigation
Percent of Taxpayers stating that no cheating is acceptable on their taxes
Improve Voluntary Compliance
Number of Convictions
Conviction Rate
Conviction Efficiency Rate

Taxpayer Advocate Service
TAS Cumulative Quality Index

Bold identifies PART measures included in the budget

Supporting Materials

4A – Human Capital Strategy Description

The IRS Human Capital Strategic Plan is designed to establish links between the Service's mission and strategic management of its human capital. The plan sets forth a clear line of direction between the achievement of the Treasury Human Capital Strategic Goals (THCSG), IRS Strategic Goals (ISG) and IRS Human Capital Strategic Goals. The plan also aligns with the President's Management Agenda (PMA) and the Human Capital Assessment and Accountability Framework (HCAAF). (See Strategic Goal Planning Matrix) With this strategic direction clearly established, the plan further identifies the differences in the current and desired future state of human capital and sets forth strategies to bridge the gaps.

Human Capital Strategic Alignment of Goals and Objectives - FY 2007

STANDARDS FOR SUCCESS	**TREASURY**		**IRS**	
Human Capital Assessment & Accountability Framework (HCAAF)	**Treasury Strategic Goals (TSG) ***	**Treasury Human Capital Strategic Goals (THCSG)** [1]	**IRS Strategic Goals (ISG)**	**IRS Human Capital Strategic Goals**
1. Strategic Alignment	E1. Promote Prosperous US and World Economics	1. Organizational Effectiveness	1. Improve Taxpayer Service • *`Linkage to: TSG, F4A, E1m E2*	1. Reshape the Workforce to Efficiently Accomplish the Service's Mission • *Linkage to: ISG 3; Treasury's HCSG 1, 2; HCAAF 2, 5, 6*
2. Workforce and Deployment	E2. Promote Stable US and World Economics	2. Recruitment/Diversity	2. Enhance Enforcement of the Tax Law • *Linkage to: TSG F3A, F4A, E1, E2*	2. Increase Employee Proficiency and Engagement to Enhance Tax Law Compliance • *Linkage to: ISG 1, 2, 3; Treasury's HCASG 1, 3; HCAAF 1, 3*
3. Leadership & Knowledge Management	F3. Preserve the integrity of Financial Systems F3A. Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks **	3. Employee Retention/Satisfaction	3. Modernize the IRS through its People, Processes and Technology • *Linkage to: TSG, F4A, E1, E2*	3. Leverage HR Technology to Reduce Burden • *Linkage to: ISG 3; Treasury's HCSG 4; HCAAF 1, 3*
4. Results-Oriented Performance Culture	F4. Manage the US Government's Finances Effectively F4A. Collect federal tax revenue when due through a fair and uniform application of the law **	4. Technology Skills • *Linkage to: TSG F4A*		4. Enable Quick and Agile Management Action to Achieve Business Goals • *Linkage to: ISG 1, 3; Treasury's HCSG 1; HCAAF 1, 5*
5. Talent	M5. Ensure Professionalism, Excellence, Integrity and Accountability in the Management & Conduct of the Department of the Treasury			
6. Accountability	M5. Ensure Professionalism, Excellence, Integrity and Accountability in the Management & Conduct of the Department of the Treasury			

Note: The categories for Treasury's Strategic Goals are: E = Economic; F = Financial; M = Management

* *Treasury Strategic Plan is linked to PMA Initiatives: 1) Strategic Alignment, 2) Competitive Sourcing, and 5) Budget and Performance Integration*

** *These Treasury Strategic Plan Objectives are specifically linked to the IRS Strategic Plan and its Human Capital Strategic Plan.*

Recruitment

The IRS established a trained recruiter cadre responsible for maintaining a recruiting presence across the country. The 23 full-time recruiters support the IRS human capital strategy by focusing recruitment efforts on mission critical and other hard-to-fill occupations. The cadre of recruiters works to maintain partnerships with over 200 colleges and universities and annually attends more than 800 paid campus and commercial events across the country to ensure that the IRS is viewed as an employer of choice.

In anticipation of increased hiring the IRS recruiter cadre has begun to leverage use of the intern program to expand the applicant pool and grow talent at different levels of competency.

Retention

The IRS looks at employee engagement as an indicator of retention. The IRS has contracted an outside agency to study the relationship between employee engagement and business results, as measured by Gallup's "Q12." "This Last Year I have had opportunities at work to learn and grow."

The "Q12" measures employee engagement levels at a particular point in time. The IRS has established a process for addressing employee engagement and overall satisfaction issues through workgroups. For employees to become fully engaged, managers are expected to develop regular dialogue with workgroup members. This dialogue is intended to meet the needs of employees and help them reach their potential.

Treasury's Seven Key Areas of Human Capital

Strategic Alignment
As mentioned above, the IRS Human Capital Strategic Plan is the tool designed to establish links between the Service's mission and the strategic management of our human capital, aligns with the PMA, HCAAF and Department of Treasury's strategic guidance.

Workforce Planning and Deployment
Workforce planning is a significant challenge facing the IRS. The Service has a diverse population of more than 100,000 employees, and 700 plus duty stations across the country. The IRS is constantly working to ensure that its employees are in the right place at the right time with the skills and competencies needed to accomplish the Service's mission.

To improve this process, the IRS developed the Integrated Workforce Planning System (IWPS) to help model and project future workforce needs. IWPS is designed to forecast workforce needs based on projected attrition, retirement eligibility and migration. IWPS enables management to make informed decisions about recruitment, retention and sharing of employees based upon reliable projections. The IRS continues to expand this system and integrate IWPS across the Service.

Leadership and Knowledge Management

The IRS has proactively begun training its existing workforce to mitigate the anticipated impact from the looming retirement bubble, and training its current and potential leaders to ensure they have the needed competencies for the future. The cornerstone for this training is the establishment of an IRS Leadership Competency Model which describes the behaviors required for leadership success in the Service. The competencies are directly linked to IRS Managers' Performance Plan Core Responsibilities and drive all aspects of IRS leadership, selection, development, evaluation and compensation. This year the IRS continues to work on the succession planning efforts with a new Executive Succession initiative designed to further explore and implement ways to support the IRS Strategic Plan and achieve the desired future state of the leadership cadre.

Results-Oriented Performance Culture

One of the methods the IRS uses to link performance with compensation is pay banding. The IRS implemented pay for performance pay band systems for its Department Managers, Senior Managers, and Senior Executives. Under the new pay band systems, compensation is linked to performance ─ the higher the performance, the greater the compensation ─ and performance bonuses will replace lump-sum performance awards paid under the Federal General Schedule pay system.

The Senior Manager (SM) pay band system places GS-14 and GS-15 Senior Managers who report to an executive (SES) or who manage one or more subordinate managers into a single SM pay band created by merging the GS-14 and 15 pay scales and the Department Manager (DM) pay band system places GS-11, 12, and 13 Department Managers into a single pay band created by merging the GS-11, 12, and 13 pay scales. Additionally, a pay band has been implemented for Senior Executives, in accordance with the National Defense Authorization Act of FY 2004, which replaces the former Executive Service pay levels 1-6 with a single pay band. Expansion of the pay band is currently underway to include front line managers.

Diversity

The current IRS workforce is quite diverse, with participation rates exceeding the Civilian Labor Force (CLF) percentage for many minorities including women, African-Americans, Native-Americans, Asian-Americans, and physically-challenged workers. This diversity is demonstrated geographically as well as internally with several work schedules and a broad range of occupations.

While the structure and size of our organization has changed over the past four years, the participation rates among women, African-Americans, Native-Americans have remained consistently above the CLF.

Statistics reflect gradual increases in the employment of Latinos and Asian-Americans in the IRS in previous fiscal years. Between FY 2001 and FY 2004 the participation rate of

Latinos increased by four-fifths of a percent. Between FY 2002 and FY 2004, Asian-American representation in the IRS increased by one-half of a percent. The IRS' active diversity recruitment strategy makes it likely that the participation rates of these groups will continue to increase in the future.

Talent

The IRS has made significant strides in the identification of the competencies needed both by its leadership and mission critical occupations throughout the Service. The identified competencies are used for recruitment, selection, and development purposes. Career path information is made available online to employees that include identification of the competencies needed to successfully qualify for and perform in the career of their choice.

To further our evaluation of our workforce's competencies, a Competency Assessment Center (CAC) is being designed as a portal where IRS employees can go to take online competency assessments. The project is currently in the development phase, with the competency assessments for one occupation, Taxpayer Resolution Representative, scheduled to be piloted in June 2005.

Accountability

The IRS human capital strategy is directly linked to the IRS' Human Capital outcome metrics. The metrics set addresses each of the seven aforementioned areas with a set of measures designed to describe the bureau's overall management of its human capital asset. The outcome metrics are part of the IRS human capital management strategy and several measures from the outcome metrics set are included as indicators of the success of the strategic plan.

In addition to the aforementioned challenges, the IRS is further examining the following challenges:

- Reshaping the Service's workforce to more efficiently accomplish the IRS' mission
- Increasing employee proficiency and engagement to enhance tax law compliance
- Leveraging human resources technology to reduce burden
- Enabling quick and agile management action to achieve business goals

4.1 – Human Resources Table

CHANGES IN FULL-TIME EQUIVALENTS FTEs
(Direct and Reimbursable)

		PY FY 2005	CY FY 2006	BY FY 2007
Base: Year-end Actual from Prior Year or Estimated FTEs		**98,735**	**95,299**	**96,736** [1/]
Increases:				
Reason #1:	Adjusted to enacted level [2/]		727	
Reason #2:	Initiative Reinvestment/Increases		1,652	
Reason #3:	Increase in reimbursable work		681	153
Reason #4:	Base Reinvestment			11
Subtotal, Increases		**0**	**3,060**	**164**
Decreases:				
Reason #1:	Adjusted to enacted level [2/]	(1,295)		
Reason #2:	Adjusted to operating plan/under utilization	(2,141)		
Reason #3:	FY 2006 Rescission		(605)	
Reason #4:	Operating Plan Adjustment		(1,018)	
Reason #5:	Productivitiy Savings			(2,405)
Subtotal, Decreases		**(3,436)**	**(1,623)**	**(2,405)**

End of Year (EOY) Actual/Estimated FTEs

	PY FY 2005	CY FY 2006	BY FY 2007
Budgeted FTEs [1]	102,392	97,678	94,495
Enacted FTEs [2]	97,440	97,678	-
Actual/Projected FTE	95,299	96,736	94,495

Net Change from prior year (PY) SOY to budget year (BY) EOY	**(4,240)**

[1] Budgeted FTE - FTE requested in Congressional Justification.

[2] Enacted FTE authorized by Congress.

FY 2006 ENACTED LEVEL OF FUNDING AND OPERATING PLAN

(Dollars in Thousands)

Bureau: Internal Revenue Service

Appropriation Title: Total

Summary of all Appropriations

	FY 2005 Actual		FY 2006 Budget Request		Congress'l Adjustments		FY 2006 Enacted Level		FY 2006 Rescission		Anticipated Reprogrammings and Inter-Approp. Transfers		FY 2006 Operating Plan	
	FTE (1)	$ (2)	FTE (3)	$ (4)	FTE (5)	$ (6)	FTE (7)	$ (8)	FTE (9)	$ (10)	FTE (11)	$ (12)	FTE (13)	$ (14)
Object Class														
11.1 Full-time permanent	81,146	$5,054,134	82,575	$5,388,566	-	$0	82,575	$5,388,566	(588)	($53,886)	(289)	$17,227	81,697	$5,351,908
11.3 Other than full-time perm.	13,136	419,829	14,434	483,115	-	-	14,434	483,115	(17)	(4,831)	(729)	(44,869)	13,688	433,415
11.5 Other personnel comp.	-	224,992	-	230,417	-	-	-	230,417	-	(2,304)	-	19,834	-	247,947
11.8 Spec. personal serv. paym'ts	-	15,899	-	13,753	-	-	-	13,753	-	(138)	-	3,137	-	16,753
Total Personnel Comp.	**94,282**	**$5,714,854**	**97,009**	**$6,115,852**	**-**	**$0**	**97,009**	**$6,115,852**	**(605)**	**($61,159)**	**(1,018)**	**($4,671)**	**95,385**	**$6,050,023**
12.0 Personnel Benefits	-	1,526,585	-	1,610,039	-	-	-	1,610,039	-	(16,100)	-	23,944	-	$1,617,883
13.0 Benefits Former Personnel	-	88,684	-	36,927	-	-	-	36,927	-	(369)	-	(12,916)	-	23,642
21.0 Travel	-	176,066	-	210,082	-	-	-	210,082	-	(2,101)	-	2,224	-	210,206
22.0 Transportation of Things	-	27,977	-	26,208	-	-	-	26,208	-	(262)	-	425	-	26,371
23.1 Rental payments to GSA	-	619,763	-	717,974	-	-	-	717,974	-	(7,180)	-	(29,930)	-	680,865
23.2 Rental payments to others	-	568	-	381	-	-	-	381	-	(4)	-	415	-	793
23.3 Commun., util. & misc. charges	-	372,184	-	399,298	-	-	-	399,298	-	(3,993)	-	(27,397)	-	367,908
24.0 Printing & Reproduction	-	70,425	-	72,679	-	-	-	72,679	-	(727)	-	(4,765)	-	67,186
25.1 Advisory & assist. services	-	187,789	-	51,938	-	-	-	51,938	-	(519)	-	90,707	-	142,126
25.2 Other services	-	721,667	-	756,544	-	1,250	-	757,794	-	(7,578)	-	(107,380)	-	642,836
25.3 Other purchases - Gov't accts	-	166,017	-	54,256	-	-	-	54,256	-	(543)	-	29,781	-	83,494
25.4 Oper, & maint. of facilities	-	130,354	-	148,880	-	-	-	148,880	-	(1,489)	-	41,561	-	188,952
25.5 R&D contracts	-	6,272	-	6,984	-	-	-	6,984	-	(70)	-	555	-	7,469
25.6 Medical care	-	10,753	-	11,208	-	-	-	11,208	-	(112)	-	(1,090)	-	10,005
25.7 Oper, & Maint. of equipment	-	88,063	-	92,647	-	-	-	92,647	-	(926)	-	8,576	-	100,297
25.8 Subsist. & Support of Persons	-	2,175	-	5,683	-	-	-	5,683	-	(57)	-	(536)	-	5,090
26.0 Supplies & Materials	-	48,727	-	55,769	-	-	-	55,769	-	(558)	-	9,298	-	64,509
31.0 Equipment	-	392,906	-	289,017	-	-	-	289,017	-	(2,890)	-	(19,112)	-	267,015
32.0 Lands & Structures	-	30,424	-	-	-	-	-	-	-	-	-	-	-	-
33.0 Investments & Loans	-	0	-	-	-	-	-	-	-	-	-	-	-	-
41.0 Grants, Subsidies	-	11,950	-	12,065	-	-	-	12,065	-	(121)	-	(0)	-	11,944
42.0 Insurance Claims & Indemn.	-	1,865	-	1,017	-	-	-	1,017	-	(10)	-	272	-	1,279
43.0 Interest & Dividends	-	0	-	-	-	-	-	-	-	-	-	-	-	-
44.0 Refunds	-	0	-	-	-	-	-	-	-	-	-	-	-	-
91.0 Unvouchered Expenses	-	2,605	-	3,814	-	-	-	3,814	-	(38)	-	38	-	3,814
TOTAL Object Classes	**94,282**	**$10,398,674**	**97,009**	**$10,679,261**	**-**	**$1,250**	**97,009**	**$10,680,511**	**(605)**	**($106,805)**	**(1,018)**	**$0**	**95,385**	**$10,573,706**

FY 2006 ENACTED LEVEL OF FUNDING AND OPERATING PLAN

(Dollars in Thousands)

Bureau: Internal Revenue Service
Appropriation Title: Processing, Assistance and Management
Account Number(s): 2060912

	FY 2005 Actual		FY 2006 Budget Request		Congress'l Adjustments		FY 2006 Enacted Level		FY 2006 Rescission		Anticipated Reprogrammings and Inter-Approp. Transfers		FY 2006 Operating Plan	
	FTE (1)	$ (2)	FTE (3)	$ (4)	FTE (5)	$ (6)	FTE (7)	$ (8)	FTE (9)	$ (10)	FTE (11)	$ (12)	FTE (13)	$ (14)
Object Class														
11.1 Full-time permanent	27,941	$1,556,778	27,836	$1,652,364	-	$0	27,836	$1,652,364	(43)	($16,524)	(728)	($38,996)	27,065	$1,596,845
11.3 Other than full-time perm.	10,769	319,470	11,003	337,289	-	0	11,003	337,289	-	(3,373)	239	(3,957)	11,242	329,959
11.5 Other personnel comp.	-	87,655		68,967	-	0	-	68,967	-	(690)	-	17,989	-	86,267
11.8 Spec. personal serv. paym'ts	-	$3		$0	-	0	-	0	-	-	-	0	-	0
Total Personnel Comp.	**38,710**	**$1,963,907**	**38,839**	**$2,058,620**	**-**	**$0**	**38,839**	**$2,058,620**	**(43)**	**($20,586)**	**(488)**	**($24,964)**	**38,308**	**$2,013,070**
12.0 Personnel Benefits	-	581,622		606,407	-	0	-	606,407	-	(6,064)	-	9,866	-	610,209
13.0 Benefits Former Personnel	-	46,354		21,701	-	0	-	21,701	-	(217)	-	(5,072)	-	16,412
21.0 Travel	-	47,923		51,453	-	0	-	51,453	-	(515)	-	(1,731)	-	49,208
22.0 Transportation of Things	-	24,236		22,092	-	0	-	22,092	-	(221)	-	425	-	22,296
23.1 Rental payments to GSA	-	619,572		717,783	-	0	-	717,783	-	(7,178)	-	(29,932)	-	680,674
23.2 Rental payments to others	-	158		46	-	0	-	46	-	(0)	-	(45)	-	1
23.3 Commun., util. & misc. charges	-	162,815		161,103	-	0	-	161,103	-	(1,611)	-	(1,835)	-	157,657
24.0 Printing & Reproduction	-	67,141		69,507	-	0	-	69,507	-	(695)	-	(4,394)	-	64,418
25.1 Advisory & assist. services	-	53,500		23,805	-	0	-	23,805	-	(238)	-	10,714	-	34,281
25.2 Other services	-	78,933		169,840	-	0	-	169,840	-	(1,698)	-	(24,620)	-	143,521
25.3 Other purchases - Gov't accts	-	109,213		28,974	-	0	-	28,974	-	(290)	-	27,065	-	55,750
25.4 Oper, & maint. of facilities	-	129,434		147,236	-	0	-	147,236	-	(1,472)	-	38,831	-	184,595
25.5 R&D contracts		0	-	0	-	0	-	0	-	-	-	-	-	-
25.6 Medical care	-	10,750		11,062	-	0	-	11,062	-	(111)	-	(951)	-	10,000
25.7 Oper, & Maint. of equipment	-	1		19	-	0	-	19	-	(0)	-	(7)	-	12
25.8 Subsist. & Support of Persons	-	407		1,996	-	0	-	1,996	-	(20)	-	(510)	-	1,466
26.0 Supplies & Materials	-	16,480		15,426	-	0	-	15,426	-	(154)	-	10,166	-	25,438
31.0 Equipment	-	63,718		17,037	-	0	-	17,037	-	(170)	-	(3,270)	-	13,597
32.0 Lands & Structures	-	29,553	-	0	-	0	-	0	-	-	-	-	-	-
33.0 Investments & Loans	-	0	-	0	-	0	-	0	-	-	-	-	-	-
41.0 Grants, Subsidies	-	11,950		12,060	-	0	-	12,060	-	(121)	-	(0)	-	11,939
42.0 Insurance Claims & Indemn.	-	825		411	-	0	-	411	-	(4)	-	263	-	670
43.0 Interest & Dividends	-	0	-	0	-	0	-	0	-	-	-	-	-	-
44.0 Refunds	-	0	-	0	-	0	-	0	-	-	-	-	-	-
91.0 Unvouchered Expenses	-	0	-	0	-	-	-	0	-	-	-	-	-	-
TOTAL Object Classes	**38,710**	**$4,018,490**	**38,839**	**$4,136,578**	**-**	**$0**	**38,839**	**$4,136,578**	**(43)**	**($41,366)**	**(488)**	**$0**	**38,308**	**$4,095,212**
Program														
1) Pre-filing Taxpayer Assistance & Education	3,089	546,005	2,835	522,936	-	0	2,835	522,936	(23)	(5,229)	108	(187,171)	2,920	330,536
2) Filing & Account Services	28,429	1,673,341	28,181	1,696,654	-	0	28,181	1,696,654	-	(16,967)	(674)	(1,556)	27,506	1,678,132
3) Shared Services Support	3,175	1,244,330	3,567	1,298,163	-	0	3,567	1,298,163	-	(12,982)	42	199,184	3,609	1,484,366
4) General Management & Administration	4,017	554,814	4,256	618,824	-	0	4,256	618,824	(20)	(6,188)	36	(10,458)	4,272	602,178
TOTAL Programs	**38,710**	**$4,018,490**	**38,839**	**$4,136,578**	**-**	**$0**	**38,839**	**$4,136,578**	**(43)**	**($41,366)**	**(488)**	**$0**	**38,308**	**$4,095,212**

FY 2006 ENACTED LEVEL OF FUNDING AND OPERATING PLAN

(Dollars in Thousands)

Bureau: Internal Revenue Service
Appropriation Title: Tax Law Enforcement
Account Number(s): 2060913

	FY 2005 Actual		FY 2006 Budget Request		Congress'l Adjustments		FY 2006 Enacted Level		FY 2006 Rescission		Anticipated Reprogrammings and Inter-Approp. Transfers		FY 2006 Operating Plan	
	FTE (1)	$ (2)	FTE (3)	$ (4)	FTE (5)	$ (6)	FTE (7)	$ (8)	FTE (9)	$ (10)	FTE (11)	$ (12)	FTE (13)	$ (14)
Object Class														
11.1 Full-time permanent	46,279	$2,959,056	47,792	$3,188,593	-	$0	47,792	$3,188,593	(545)	($31,886)	112	$21,457	47,359	$3,178,164
11.3 Other than full-time perm.	2,265	95,669	3,329	141,164	-	0	3,329	141,164	(17)	(1,412)	(950)	(40,037)	2,362	99,715
11.5 Other personnel comp.	-	119,053	-	136,588	-	0	-	136,588	-	(1,366)	-	4,957	0	140,179
11.8 Spec. personal serv. paym'ts	-	15,896	-	13,753	-	0	-	13,753	-	(138)	-	3,137	0	16,753
Total Personnel Comp.	**48,544**	**$3,189,674**	**51,121**	**$3,480,098**	**-**	**$0**	**51,121**	**$3,480,098**	**(562)**	**($34,801)**	**(838)**	**($10,486)**	**49,721**	**$3,434,812**
12.0 Personnel Benefits	-	817,825		872,926	-	0	-	872,926	-	(8,729)	-	3,836	0	868,033
13.0 Benefits Former Personnel	-	35,761		4,124	-	0	-	4,124	-	(41)	-	446	0	4,529
21.0 Travel	-	112,963		141,915	-	0	-	141,915	-	(1,419)	-	3,353	0	143,849
22.0 Transportation of Things	-	3,432		3,943	-	0	-	3,943	-	(39)	-	(36)	0	3,868
23.1 Rental payments to GSA	-	191		-	-	0	-	0	-	-	-	-	0	0
23.2 Rental payments to others	-	410		335	-	0	-	335	-	(3)	-	9	0	341
23.3 Commun., util. & misc. charges	-	48,223		45,073	-	0	-	45,073	-	(451)	-	1,193	0	45,815
24.0 Printing & Reproduction	-	2,584		2,251	-	0	-	2,251	-	(23)	-	(120)	0	2,109
25.1 Advisory & assist. services	-	24,266		20,686	-	0	-	20,686	-	(207)	-	1,762	0	22,242
25.2 Other services	-	61,145		95,681	-	0	-	95,681	-	(957)	-	(4,549)	0	90,175
25.3 Other purchases - Gov't accts	-	39,081		12,278	-	0	-	12,278	-	(123)	-	2,476	0	14,631
25.4 Oper, & maint. of facilities	-	686		486	-	0	-	486	-	(5)	-	5	0	486
25.5 R&D contracts	-	6,272		4,897	-	0	-	4,897	-	(49)	-	554	0	5,401
25.6 Medical care	-	0						0	-	-	-	-	0	0
25.7 Oper, & Maint. of equipment	-	1,937		6,613	-	0	-	6,613	-	(66)	-	206	0	6,753
25.8 Subsist. & Support of Persons	-	1,687		3,326	-	0	-	3,326	-	(33)	-	(26)	0	3,267
26.0 Supplies & Materials	-	16,988		20,518	-	0	-	20,518	-	(205)	-	720	0	21,033
31.0 Equipment	-	8,354		6,180	-	0	-	6,180	-	(62)	-	612	0	6,730
32.0 Lands & Structures	-	440			-	0	-	0	-	-	-	-	0	0
33.0 Investments & Loans	-						-	0	-	-	-	-	0	0
41.0 Grants, Subsidies	-			5	-	0	-	5	-	(0)	-	0	0	5
42.0 Insurance Claims & Indemn.	-	872		606	-	0	-	606	-	(6)	-	6	0	606
43.0 Interest & Dividends	-				-	0	-	0	-	-	-	-	0	0
44.0 Refunds	-				-	0	-	0	-	-	-	-	0	0
91.0 Unvouchered Expenses	-	2,605		3,814	-	0	-	3,814	-	(38)	-	38	0	3,814
TOTAL Object Classes	**48,544**	**$4,375,396**	**51,121**	**$4,725,756**	**-**	$0	**51,121**	**$4,725,756**	**(562)**	**($47,258)**	**(838)**	**$0**	**49,721**	**$4,678,498**
Program														
1) Compliance Services	45,308	4,119,151	47,675	4,459,660	-	0	47,675	4,459,660	(542)	(44,597)	(788)	(128)	46,344	4,414,935
2) Research and SOI	826	92,313	866	96,923	-	0	866	96,923	(3)	(969)	(18)	800	845	96,754
3) Earned Income Tax Credit	2,410	163,932	2,580	169,173	-	0	2,580	169,173	(17)	(1,692)	(32)	(672)	2,532	166,809
TOTAL Programs/Project/Activities	**48,544**	**$4,375,396**	**51,121**	**$4,725,756**	**-**	**$0**	**51,121**	**$4,725,756**	**(562)**	**($47,258)**	**(838)**	**$0**	**49,721**	**$4,678,498**

FY 2006 ENACTED LEVEL OF FUNDING AND OPERATING PLAN

(Dollars in Thousands)

Bureau: Internal Revenue Service
Appropriation Title: Information Systems
Account Number(s): 2060919 and 206/70919

	FY 2005 Actual		FY 2006 Budget Request		Congress'l Adjustments		FY 2006 Enacted Level		FY 2006 Rescission		Anticipated Reprogrammings and Inter-Approp. Transfers		FY 2006 Operating Plan	
	FTE (1)	$ (2)	FTE (3)	$ (4)	FTE (5)	$ (6)	FTE (7)	$ (8)	FTE (9)	$ (10)	FTE (11)	$ (12)	FTE (13)	$ (14)
Object Class														
11.1 Full-time permanent	6,913	$537,044	6,930	$545,369	-	$0	6,930	$545,369		($5,454)	327	$34,744	7,257	$574,659
11.3 Other than full-time perm.	102	4,690	102	4,663	-	0	102	4,663		(47)	(19)	(875)	83	3,741
11.5 Other personnel comp.	-	18,246	-	24,840	-	0	-	24,840	-	(248)	-	(3,112)	-	21,480
11.8 Spec. personal serv. paym'ts	-								-		-	-	-	-
Total Personnel Comp.	**7,015**	**$559,980**	**7,032**	**$574,872**	**-**	**$0**	**7,032**	**$574,872**	**-**	**($5,749)**	**308**	**$30,756**	**7,340**	**$599,879**
12.0 Personnel Benefits	-	126,806	-	130,357	-	0	-	130,357	-	(1,304)	-	10,238	-	139,292
13.0 Benefits Former Personnel	-	6,569	-	11,102	-	0	-	11,102	-	(111)	-	(8,290)	-	2,701
21.0 Travel	-	15,057	-	16,572	-	0	-	16,572	-	(166)	-	600	-	17,007
22.0 Transportation of Things	-	298	-	173	-	0	-	173	-	(2)	-	36	-	207
23.1 Rental payments to GSA	-	-	-	0	-	0	-	0	-	(0)	-	0	-	0
23.2 Rental payments to others	-	1	-	0	-	0	-	0	-	(0)	-	451	-	451
23.3 Commun., util. & misc. charges	-	161,145	-	193,122	-	0	-	193,122	-	(1,931)	-	(26,754)	-	164,436
24.0 Printing & Reproduction	-	450	-	920	-	0	-	920	-	(9)	-	(252)	-	659
25.1 Advisory & assist. services	-	110,024	-	7,447	-	-	-	7,447	-	(74)	-	78,231	-	85,603
25.2 Other services	-	287,573	-	324,276	-	1,250	-	325,526	-	(3,255)	-	(77,686)	-	244,585
25.3 Other purchases - Gov't accts	-	17,704	-	13,003	-	-	-	13,003	-	(130)	-	240	-	13,113
25.4 Oper, & maint. of facilities	-	234	-	1,158	-	-	-	1,158	-	(12)	-	2,725	-	3,871
25.5 R&D contracts	-	-	-	2,087	-	-	-	2,087	-	(21)	-	2	-	2,068
25.6 Medical care	-	3	-	146	-	-	-	146	-	(1)	-	(139)	-	5
25.7 Oper, & Maint. of equipment	-	73,201	-	80,315	-	-	-	80,315	-	(803)	-	8,320	-	87,831
25.8 Subsist. & Support of Persons	-	75	-	361	-	-	-	361	-	(4)	-	0	-	358
26.0 Supplies & Materials	-	15,231	-	19,818	-	-	-	19,818	-	(198)	-	(1,588)	-	18,032
31.0 Equipment	-	293,665	-	221,988	-	-	-	221,988	-	(2,220)	-	(16,892)	-	202,876
32.0 Lands & Structures	-	431			-	-	-	-	-	-	-	-	-	-
33.0 Investments & Loans					-	-	-	-	-	-	-	-	-	-
41.0 Grants, Subsidies					-	-	-	-	-	-	-	-	-	-
42.0 Insurance Claims & Indemn.	-	168			-	-	-	-	-	-	-	3	-	3
43.0 Interest & Dividends					-	-	-	-	-	-	-	-	-	-
44.0 Refunds					-	-	-	-	-	-	-	-	-	-
91.0 Unvouchered Expenses					-	-	-	-	-	-	-	-	-	-
TOTAL Object Classes	**7,015**	**$1,668,612**	**7,032**	**$1,597,717**	**-**	**$1,250**	**7,032**	**$1,598,967**	**-**	**($15,990)**	**308**	**$0**	**7,340**	**$1,582,977**
Program														
1) IS Improvement Projects	-	41,990	-	49,454	-	-	-	49,454	-	(495)	-	342	-	49,302
2) Information Services	7,015	1,626,622	7,032	1,548,262	-	1,250	7,032	1,549,512		(15,495)	308	(342)	7,340	1,533,675
TOTAL Programs/Project/Activities	**7,015**	**$1,668,612**	**7,032**	**$1,597,717**	**-**	**$1,250**	**7,032**	**$1,598,967**	**-**	**($15,990)**	**308**	**$0**	**7,340**	**$1,582,977**

FY 2006 ENACTED LEVEL OF FUNDING AND OPERATING PLAN

(Dollars in Thousands)

Bureau: Internal Revenue Service
Appropriation Title: Business Systems Modernization
Account Number(s): 206/80921

	FY 2005 Actual		FY 2006 Budget Request		Congress'l Adjustments		FY 2006 Enacted Level		FY 2006 Rescission		Anticipated Reprogrammings and Inter-Approp. Transfers		FY 2006 Operating Plan	
	FTE (1)	$ (2)	FTE (3)	$ (4)	FTE (5)	$ (6)	FTE (7)	$ (8)	FTE (9)	$ (10)	FTE (11)	$ (12)	FTE (13)	$ (14)
Object Class														
11.1 Full-time permanent							-	-	-	-	-	-	-	-
11.3 Other than full-time perm.							-	-	-		-	-	-	-
11.5 Other personnel comp.							-	-	-	-	-	-	-	-
11.8 Spec. personal serv. paym'ts							-	-	-	-	-	-	-	-
Total Personnel Comp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.0 Personnel Benefits							-	-	-	-	-	-	-	-
13.0 Benefits Former Personnel							-	-	-	-	-	-	-	-
21.0 Travel							-	-	-	-	-	-	-	-
22.0 Transportation of Things							-	-	-	-	-	-	-	-
23.1 Rental payments to GSA							-	-	-	-	-	-	-	-
23.2 Rental payments to others							-	-	-	-	-	-	-	-
23.3 Commun., util. & misc. charges							-	-	-	-	-	-	-	-
24.0 Printing & Reproduction							-	-	-	-	-	-	-	-
25.1 Advisory & assist. services							-	-	-	-	-	-	-	-
25.2 Other services		$276,586		$149,489		$0	-	$149,489	-	($1,495)	-	($495)	-	$147,499
25.3 Other purchases - Gov't accts							-	-	-	-	-	-	-	-
25.4 Oper, & maint. of facilities							-	-	-	-	-	-	-	-
25.5 R&D contracts							-	-	-	-	-	-	-	-
25.6 Medical care							-	-	-	-	-	-	-	-
25.7 Oper, & Maint. of equipment		12,924		5,700		0	-	5,700	-	(57)	-	57	-	5,700
25.8 Subsist. & Support of Persons							-	-	-	-	-	-	-	-
26.0 Supplies & Materials							-	-	-	-	-	-	-	-
31.0 Equipment		27,169		43,812		0	-	43,812	-	(438)	-	438	-	43,812
32.0 Lands & Structures							-	-	-	-	-	-	-	-
33.0 Investments & Loans							-	-	-	-	-	-	-	-
41.0 Grants, Subsidies							-	-	-	-	-	-	-	-
42.0 Insurance Claims & Indemn.							-	-	-	-	-	-	-	-
43.0 Interest & Dividends							-	-	-	-	-	-	-	-
44.0 Refunds							-	-	-	-	-	-	-	-
91.0 Unvouchered Expenses							-	-	-	-	-	-	-	-
TOTAL Object Classes	**-**	**$316,678**	**-**	**$199,000**	**-**	**$0**	**-**	**$199,000**	**-**	**($1,990)**	**-**	**$0**	**-**	**$197,010**
Program														
1) Business Systems Modernization		316,678		199,000			-	199,000	-	(1,990)	-	-	-	197,010
TOTAL Programs/Project/Activities	-	**$316,678**	-	**$199,000**	-	$0	-	**$199,000**	-	($1,990)	-	$0	-	**$197,010**

FY 2006 ENACTED LEVEL OF FUNDING AND OPERATING PLAN

(Dollars in Thousands)

Bureau: Internal Revenue Service

Appropriation Title: Health Insurance Tax Credit Administration

Account Number(s): 2060928

	FY 2005 Actual		FY 2006 Budget Request		Congress'l Adjustments		FY 2006 Enacted Level		FY 2006 Rescission		Anticipated Reprogrammings and Inter-Approp. Transfers		FY 2006 Operating Plan	
	FTE (1)	$ (2)	FTE (3)	$ (4)	FTE (5)	$ (6)	FTE (7)	$ (8)	FTE (9)	$ (10)	FTE (11)	$ (12)	FTE (13)	$ (14)
Object Class														
11.1 Full-time permanent	13	$1,256	17	$2,241			17	$2,241	-	($22)	-	$22	17	$2,241
11.3 Other than full-time perm.		0		0					-	-	-	0	-	0
11.5 Other personnel comp.		38		22				22	-	(0)	-	0	-	22
11.8 Spec. personal serv. paym'ts									-			-	-	-
Total Personnel Comp.	**13**	**$1,294**	**17**	**$2,262**	**-**	**$0**	**17**	**$2,262**	**-**	**($23)**	**-**	**$23**	**17**	**$2,262**
12.0 Personnel Benefits		333		349				349	-	(3)	-	3	-	349
13.0 Benefits Former Personnel									-	-	-	0	-	0
21.0 Travel		123		143				142	-	(1)	-	1	-	142
22.0 Transportation of Things		12		0					-	-	-	0	-	0
23.1 Rental payments to GSA				191				191	-	(2)	-	2	-	191
23.2 Rental payments to others									-	-	-	-	-	-
23.3 Commun., util. & misc. charges		1							-	-	-	-	-	-
24.0 Printing & Reproduction		250							-	-	-	-	-	-
25.1 Advisory & assist. services									-	-	-	-	-	-
25.2 Other services		17,431		17,259				17,259	-	(173)	-	(30)	-	17,057
25.3 Other purchases - Gov't accts		19							-	-	-	0	-	0
25.4 Oper, & maint. of facilities				0					-	-	-	0	-	0
25.5 R&D contracts									-	-	-	0	-	0
25.6 Medical care									-	-	-	-	-	-
25.7 Oper, & Maint. of equipment									-	-	-	-	-	-
25.8 Subsist. & Support of Persons		7							-	-	-	0	-	0
26.0 Supplies & Materials		28		7				7	-	(0)	-	0	-	7
31.0 Equipment									-	-	-	-	-	-
32.0 Lands & Structures									-	-	-	-	-	-
33.0 Investments & Loans									-	-	-	-	-	-
41.0 Grants, Subsidies									-	-	-	-	-	-
42.0 Insurance Claims & Indemn.									-	-	-	0	-	0
43.0 Interest & Dividends									-	-	-	-	-	-
44.0 Refunds									-	-	-	-	-	-
91.0 Unvouchered Expenses									-	-	-	-	-	-
TOTAL Object Classes	**13**	**$19,498**	**17**	**$20,210**	**-**	**$0**	**17**	**$20,210**	**-**	**($202)**	**-**	**$0**	**17**	**$20,008**
Program														
1) Health Insurance Tax Credit Administration	13	19,498	17	20,210	-	-	17	20,210	-	(202)	-	(0)	17	20,008
TOTAL Programs/Project/Activities	**13**	**$19,498**	**17**	**$20,210**	**-**	**$0**	**17**	**$20,210**	**-**	**($202)**	**-**	**$0**	**17**	**$20,008**

4.4 – IRS Performance Measures Summary Table and Data Dictionary Link

IRS Performance Measures - Summary

Performance Level	FY 2003 Historical	FY 2004 Historical	FY 2005 Planned Performance	FY 2005 Actual Performance	FY 2006 Planned Performance	FY 2007 Planned Performance
Oe	N/A	76.0%	80.0%	91.4%	92.0%	93.0%
Timeliness of Critical Other Tax Products to the Public Oe	N/A	76.0%	80.0%	80.0%	85.0%	86.0%
Taxpayer Self Assistance Rate Oe * (L)	51.0%	46.4%	Baseline	42.5%	45.7%	47.5%
Refund Timeliness - Individual (paper)	98.8%	98.3%	98.4%	99.2%	99.2%	99.2%
Percent of Eligible Taxpayers Who File for EITC Ot	N/A	80.0%	80.0%	**	80.0%	80.0%
Percent Individual Returns Processed Electronically Oe (L) ‡‡	40.3%	46.5%	51.0%	51.1%	55.0%	58.8%
Percent of Business Returns Processed Electronically Oe (L) ‡‡	N/A	17.4%	17.0%	17.8%	18.6%	20.6%
Customer Accuracy - Tax Law Phones Oe	82.0%	80.0%	82.0%	89.0%	90.0%	90.5%
Customer Accuracy - Accounts (Phones) Oe	88.0%	89.0%	89.8%	91.5%	92.0%	92.6%
Customer Contacts Resolved per Staff Year E	8,318	8,015	7,261	7,585	7,477	7,555
Customer Service Representative (CSR) Level of Service Oe	80.0%	87.3%	82.0%	82.6%	82.0%	82.0%
Examination Coverage - Individual Oe	N/A	N/A	1.4%	1.4%	Discontinued	Discontinued
Examination Coverage - Individual Oe (L)	N/A	0.8%	0.9%	0.9%	0.9%	1.0%
Examination Quality - Field	75.0%	78.0%	80.0%	84.0%	Discontinued	Discontinued
Field Exam Embedded Quality (EQ) *** (L)	N/A	N/A	N/A	N/A	Baseline	TBD
Examination Quality - Office	76.0%	76.0%	77.0%	81.0%	Discontinued	Discontinued
Office Exam Embedded Quality (EQ) *** (L)	N/A	N/A	N/A	N/A	Baseline	TBD
Examination Quality (LMSB) - Industry Oe (L)	74.0%	74.0%	78.0%	77.0%	80.0%	84.0%
Examination Quality (LMSB) - Coordinated Industry Oe (L)	89.0%	87.0%	90.0%	89.0%	92.0%	93.0%
Examination Coverage - Business (Corps > $10 M) Oe (L)†††	6.1%	7.5%	7.1%	7.8%	7.5%	8.4%
AUR Efficiency † (L)	N/A	1,514	N/A	1,701	1,759	1,834
AUR Coverage † (L)	N/A	1.9%	2.5%	2.2%	2.3%	2.4%
Examination Efficiency - Individual E	N/A	N/A	219	222	Discontinued	Discontinued
Examination Efficiency - Individual E *† (L)	N/A	N/A	N/A	121	121	128
Collection Coverage - units Oe	N/A	N/A	32%	39%	Discontinued	Discontinued
Collection Coverage - units Oe *† (L)	N/A	N/A	57.0%	53.0%	52.0%	52.0%
Collection Efficiency - units E	N/A	N/A	497	510	Discontinued	Discontinued
Collection Efficiency - units E *† (L)	N/A	N/A	N/A	1,514	1,650	1,717
Field Collection Quality of Cases Handled in Person	84.0%	82.0%	84.0%	81.0%	Discontinued	Discontinued
Field Collection Embedded Quality Oe **** (L)	N/A	N/A	N/A	N/A	Baseline	TBD
Automated Collection System (ACS) Accuracy Oe	N/A	87.8%	88.0%	88.5%	88.0%	89.0%
Criminal Investigations Completed Ot (L)	3,766	4,387	3,895	4,104	3,945	3,960
Number of Convictions Ot (L)	1,824	2,008	2,048	2,151	2,260	2,305
Conviction Rate E (L)	91.5%	91.2%	92.0%	91.2%	92.0%	92.0%
Conviction Efficiency Rate ($) E (L)	363,932	362,849	332,194	295,316	339,565	341,334
TEGE Determination Case Closures Ot	171,812	143,877	131,700	126,481	112,400	128,500
Reduce the Percent of Taxpayers Who Think it is OK to Cheat on Their Taxes Oe (L)	17.0%	12.0%	N/A	10.0%	10.0%	10.0%
Improve Voluntary Compliance (L) ‡	N/A	N/A	N/A	83.0%	N/A	N/A
Contracted Program Cost and Schedule Variance E	N/A	N/A	15.0%	Discontinued	Discontinued	Discontinued
BSM Project Cost Variance by Release/Subrelease ††	N/A	N/A	N/A	N/A	10.0%	10.0%
Contracted Requirements Stability and Contracted Requirements Delivered E	N/A	N/A	10.0%	Discontinued	Discontinued	Discontinued
BSM Project Schedule Variance by Release/Subrelease ††	N/A	N/A	N/A	N/A	10.0%	10.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and (L) - Long-term Goal

*FY 2003-2004 data based on a methodology developed in FY 2005

** Performance reported after close of calendar year

***Embedded Quality (EQ) represents a re-structuring of measures for "Collection Quality Management System (CQMS) and Examination Quality" Management System (EQMS) in FY 2007. EQ will be baselined in FY 2006 and will run concurrently with CQMS and EQMS during that year.

****Field Collection Embedded Quality represents a re-structuring of "Field Collection Quality of Cases Handled in Person Oe" in FY 2007

*† The FY2005-2007 data provided for these measures represents a change in definition and methodology effective in FY2006. FY 2005 actual adjusted to eliminate duplicate counting of deferral cases.

† Measure includes data for SBSE and W&I. Total W & I Closures include Non-EITC and EITC Closures for FY 2004 - 2007.

†† Measures represent enhancements to program cost and schedule variance measures introduced in FY2005

††† Variance from PART in 2007 reflects a recent increase in the Examination plan for LMSB

‡ FY 2005 projection based on Tax Year 2001 data

‡‡ 80% remains the long-term goal for Electronic Filing as identified by statute. It will not be achieved in the legislative timeframe

N/A: Not applicable for this fiscal year

Data Dictionary Link for Performance Measures:

http://www.irs.gov/pub/irs-utl/data_dictionary.pdf

4C – Appropriation Language Sheet, Justification of Changes, and Legislative Proposals

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE

Federal Fund

General and special Fund:

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.)

Justification of Language Changes (other than the request amount): The specific funding level for the Oversight Board is deleted. The IRS commits to funding the Board, but the $1,500,000 is significantly more than the Board has spent in prior years. As a result, any remaining balance is not available for other, critical tax administration activities. The provision that rescinded $20,000,000 from FY 2005 unobligated balances is deleted as no longer applicable.

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)

Justification of Language Changes (other than the request amount): Three-year funding for research is preserved (changing 2008 to 2009). The authority to transfer funds from the appropriation to other appropriations is deleted because it has not been necessary for the effective management of those programs.

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)

Justification of Language Changes (other than the request amount): The provision that rescinded $9,000,000 from FY 2005 unobligated balances is deleted as no longer applicable.

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)

Justification of Language Changes (other than the request amount): Two-year funding for investment spending is preserved (changing 2007 to 2008).

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)

Justification of Language Changes (other than the request amount): Requiring Committee approval contravenes *INS v. Chada*, 462 U. S. 919 (1983).

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.

Justification of Language Changes: Requiring Committee approval contravenes *INS v. Chada*, 462 U. S. 919 (1983).

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.]

Justification of Language Changes: The provision is deleted because the Service has achieved significant improvements in toll-free service and directing resources to continue improvements is no longer needed. In addition, the directive limits the Commissioner's ability to manage taxpayer service programs in the most effective manner.

[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.]

Justification of Language Changes: The provision is deleted because the provision applied to FY 2006 and no longer is necessary.

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.

Justification of Language Changes: The first amount specified now includes the entirety of the amount appropriated as available for tax enforcement in FY 2006. The second amount specified reflects increased resources requested 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.]

Justification of Language Changes: The provision is deleted because it is not necessary. Taxpayer Advocate Service funding traditionally has been funded primarily 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.]

Justification of Language Changes: The provision is deleted because the provision applied to FY 2006 and no longer is necessary.

[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)

Justification of Language Changes: The provision is deleted because the provision applied to FY 2006 and no longer is necessary.

[SEC. 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)

Justification of Language Changes: The provision is deleted because the provision is inconsistent with SEC. [206] *204* and it limits the Commissioner's ability to manage taxpayer service programs in the most effective manner.

LEGISLATIVE PROPOSALS

The Administration is proposing five new legislative changes that will reduce the tax gap and is reproposing four legislative changes that will improve tax administration efficiency. The changes strategically target areas where 1) research reveals the existence of significant compliance problems, 2) improvements can be made with as little burden to taxpayers as possible, and 3) the changes support the Administration's broader focus on identifying legislative and administrative changes to reduce the tax gap. These nine legislative changes are:

CLOSE THE TAX GAP

1. **Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes:** The Administration's proposal would set forth standards for holding employee leasing companies jointly and severally liable with their clients for federal employment taxes. The proposal would also provide standards for holding employee leasing companies solely liable for such taxes if they meet specified requirements.

2. **Increase information reporting for payment card reimbursements:** The Administration's proposal would provide the Secretary with authority to promulgate regulations requiring payment card issuers to report to the IRS annually the aggregate reimbursement payments made to merchants in a calendar year, and to require backup withholding for card issuers in the event that a merchant fails to provide a taxpayer identification number (TIN), or if the IRS notifies the card issuer that the TIN furnished by the merchant is incorrect.

3. **Require increased information reporting for certain government payments for goods and services:** The Administration's proposal would authorize the Secretary to promulgate regulations requiring information reporting and backup withholding on all non-wage payments by federal, state and local governments to procure property and services. It is expected that certain categories of payments would be excluded from the new information reporting and withholding requirements, including payments of interest, payments for real property, payments to tax-exempt entities or foreign governments, intergovernmental payments, and payments made pursuant to a classified or confidential contract.

4. **Amend collection due process procedures for employment tax liabilities:** The Administration's proposal would expand the exception to the requirement for pre-levy collection due process (CDP) proceedings to include levies issued to collect federal employment taxes. Taxpayers would retain existing rights to seek review of collection activity through managerial appeal and the formal Collection

Appeal Process. As with the current procedures applicable to levies issued to collect a federal tax liability from State tax refunds, the taxpayer would be provided an opportunity for a CDP hearing within a reasonable period of time after the levy. The Collection by levy would be allowed to continue during the CDP proceedings.

5. **Expand the signature requirement and penalty provisions applicable to paid tax return preparers:** The Administration's proposal would expand preparer identification and penalty provisions to non-income tax returns and non-income tax return-related documents prepared for compensation. In addition, it would subject paid preparers to penalties for preparing non-income tax return-related documents that contain false, incomplete, or misleading information or contain frivolous positions that delay collection.

IMPROVE TAX ADMINISTRATION

1. **Implement IRS administrative reforms:** The proposed modification to the IRS Restructuring and Reform Act of 1998 is comprised of five parts. The first part modifies employee infractions subject to mandatory termination and permits a broader range of available penalties. It strengthens taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations. The second part adopts measures to curb frivolous submissions and filings that are intended to impede or delay tax administration. The third part allows the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities. The fourth part streamlines jurisdiction over collection due process cases in the Tax Court, thereby simplifying procedures and reducing the cycle time for certain collection due process cases. The fifth part eliminates the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding $50,000. This proposal requires that the Secretary of the Treasury establish standards to determine when an opinion is appropriate.

2. **Initiate IRS cost saving measures:** The Administration has two proposals to improve IRS efficiency and performance from current resources. The first proposal modifies the way the Treasury Department's Financial Management Service (FMS) recovers its transaction fees for processing IRS levies by permitting FMS to retain a portion of the amount collected before transmitting the balance to the IRS, thereby reducing government transaction costs. The offset amount would be included as part of the 15 percent limit on levies against income and would also be credited against the taxpayer's liability. The second proposal would encourage increased electronic filing of income tax returns by businesses and exempt organizations. The proposal also would provide the IRS additional authority to require electronic filing. This proposal would allow the IRS to process more returns and payments efficiently.

3. **Allow IRS to access information in the National Directory of New Hires for tax administration purposes:** The National Directory of New Hires (NDNH), an electronic database maintained by the Department of Health and Human Services, contains timely, uniformly compiled employment data from State agencies across the country. Currently, the IRS may obtain data from the NDNH, but only for limited purposes. Access to NDNH data for tax administration purposes generally would make the IRS more productive by reducing the amount of resources it must dedicate to obtaining and processing data. The Administration proposes to amend the Social Security Act to allow the IRS access to NDNH data for general 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. Data obtained by the IRS from the NDNH would be protected by existing taxpayer privacy law, including civil and criminal sanctions. The proposal would be effective on the date of enactment.

4. **Extend IRS authority to fund undercover operations:** Current law places the IRS on equal footing with other Federal Law enforcement agencies by permitting the IRS to fund certain necessary and reasonable expenses of undercover operations. These undercover operations include international and domestic money laundering and narcotics operations. The Administration proposes to extend this funding authority, which expires on December 31, 2006, through December 31, 2010.

4D – User Fee Summary

In December 2005, the IRS announced several increases in selected user fees to reflect the full cost of providing the service. Total revenue resulting from these increased fees is estimated at $135 million for FY 2007. The FY 2007 Budget seeks to use these increased revenues to offset its operating requirements in FY 2007 and beyond.

The following chart and information summarizes the new and increased fees and projected revenue for FY 2007.

FY 2007 User Fees

(Dollars in Thousands)

	Existing	New	Total
New Installment Agreements:	**$69,000**	**$75,000**	**$144,000**
New Installment Agreements	$69,000	$54,000	$123,000
Disclosure of Return Information	$0	$21,000	$21,000
Restructured Installment Agreements:	**$14,300**	**$12,700**	**$27,000**
General User Fees (Miscellaneous):	**$7,800**	**$47,200**	**$55,000**
Letter Rulings and Determinations	$7,800	$47,100	$54,900
Technical Training		$100	$100
Enrolled Agent Fee Increase:	**$8,800**	**$100**	**$8,900**
Offer-In-Compromise	$7,800	$0	$7,800
Enrolled Agents and Actuaries	$1,000	$100	$1,100
Total Receipts and Collections:	**$99,900**	**$135,000**	**$234,900**

New Installment Agreements and Disclosure of Return Information

- New Installment Agreements – Agreements with taxpayers to pay past due amounts over a period of time without further collection activity. The fee for these agreements will be increased from $43 to $105. The IRS will offer a reduced fee of $52 for new agreements where a taxpayer agrees to participate in a direct debit program for payment of the amount due. New revenue of $54 million is dependent upon timely changes to legacy systems. Existing revenue of $69 million assumes a ten percent increase in the volume of agreements over FY 2005 with 10 percent of new agreements electing to use the direct debit program.

- Disclosure of Return Information – Disclosure of certain tax return information to third parties requested by a taxpayer and certification of filing of U.S. tax returns for taxpayers subject to certain tax treaties. New revenue of $21 million is dependent upon implementation of legacy system changes and assumes a constant volume of requests from FY 2005.

Restructured Installment Agreements - Agreements where the terms are modified at the request of the taxpayer. The fee for these agreements will be increased from $24 to $45. New revenue of $12,700 million is dependent on legacy system changes. Existing revenue of $14.3 million assumes a ten percent increase in the volume of agreements over FY 2005.

General User Fees (Miscellaneous)

- Letter Rulings and Determinations – Administration of programs which provide private letter rulings and determinations in response to requests from taxpayers for: interpretations of tax law; advance pricing agreements; pension plan determinations; and applications for tax exempt status. New revenue of $47.1 million is dependent upon timely changes to legacy systems. Existing revenue of $7.8 million assumes a ten percent increase in volume of requests over FY 2005.

- Technical Training – Sale of internally developed course on certain tax subjects. New revenue of $0.1 million is dependent on requests from the public for the course offerings.

Offer-In-Compromise Programs and Enrolled Agent and Actuary

- Offer-In-Compromise – Program that compromises a taxpayer's liability for past due taxes based on the taxpayer's adverse financial condition. There is no increase to the user fee for this service. Existing revenue of $7.8 million assumes a 10 percent increase in the number of applications over the volume of applications received in FY 2005.

- Enrolled Agent and Actuary – Program that enrolls individuals to practice before the IRS on behalf of taxpayers. To enroll, a candidate must pass an examination. To continue enrollment, the enrollee must complete continuing professional education and reenroll on a triennial basis. New revenue of $.1 million is dependent upon implementation of new regulations. Existing revenue of $1.0 million assumes a ten percent increase in volume of enrollments and reenrollments received in FY 2005.

4E - IRS Oversight Board Proposed FY 2007 Budget Request for the IRS

In accordance with the Internal Revenue Service Restructuring and Reform Act of 1998, the IRS Oversight Board has reviewed and approved the budget proposal on the following pages. In conducting its review, the Board sought to ensure that the budget request supports the annual and long-range strategic plans of the IRS, as required by 26 U.S.C. §7802(d). This proposal was forwarded to the Office of Management and Budget and is hereby transmitted, without changes, to the Congress for its consideration. The FY 2007 Oversight Board recommendation for the IRS is $11,815 million.

FY2007 IRS Budget Recommended by IRS Oversight Board (dollars in thousands)

Tax Administration and Operations (TAO)	
FY2006 President's Budget	$10,236,087
Transfer to TIGTA	($941)
FY2007 Base TAO Budget	$10,459,111
FY2007 Maintaining Current Levels (MCLs) Adjustments	
Labor Annualization	$56,293
Labor MCL (2.7 %)	$174,708
Non-Labor MCL (1.5 %)	$29,794
Total MCL Adjustments	$260,795
Savings and Reinvestments	($2,738)
Total, FY2007 Base Changes	$10,600,501
Tax Administration Operations Program Increases	
Taxpayer Service	**$43,637**
Enforcement	**$367,768**
Modernization	**$266,339**
Total, Program Increases Above 2006 Base	**$677,744**
Total, FY2007 TAO Recommended Budget	**$11,394,911**
Growth over FY2006 Base	**$934,860**
Percent Growth	**8.94%**

Business Systems Modernization (BSM)	
FY2006 President's Budget	$199,000
Program Increases to Fund BSM in Line with Current Strategy	$201,000
FY2007 BSM Recommended Budget	$400,000
Growth over FY2006 Base	**$201,000**
Percent Growth	**101%**

Health Insurance Tax Credit Administration (HITCA)	
FY2006 Appropriation	$20,210
FY2007 Maintaining Current Levels (MCLs) Adjustments	
Labor Annualization	$13
Labor MCL (2.7 %)	$57
Non-Labor MCL (1.5 %)	$261
FY2007 HITCA Recommended Budget	**$20,541**
Growth over FY2006 Base	**$331**
Percent Growth	**1.64%**

Total FY2007 Recommended Budget	
TAO	**$11,394,911**
BSM	**$400,000**
HITCA	**$20,541**
TOTAL Recommended Budget	**$11,815,452**
Growth over FY2006 Base	**$1,136,191**
Percent Growth	**10.64%**

Recommended IRS FY2007 TAO Program Increases (dollars in thousands)

Taxpayer Service	Total	Enforcement Related	Customer Service Related
Increase Accounts Management Efficiencies	$8,657		$8,657
Restore Customer Service to FY2004 levels			
Customer Service - (W&I)	$32,000		$32,000
Customer Service - (TEGE)	$2,980		$2,980
Subtotal Taxpayer Service	**$43,637**		**$43,637**
Enforcement Program Increases			
Combat Egregious Non-Compliance and Prevent Tax Gap Growth	$135,518	$132,696	$2,822
Increase Individual Taxpayer Filing and Payment Compliance	$7,773	$6,968	$805
Detect and Deter Non-Compliant Enterprise Structures	$37,008	$37,008	
Increase Individual Taxpayer Reporting Compliance	$10,821	$8,808	$2,013
Enhance Enforcement in the Tax-Exempt and Governmental Sectors	$12,941	$12,941	
Intensify Tax Enforcement	$27,570	$27,570	
Attack Fraudulent Payments	$26,998	$26,837	$161
Improve Compliance With the Bank Secrecy and PATRIOT Acts	$25,858	$25,858	
Strengthen Regulatory Compliance	$6,616	$6,376	$241
Improve Enforcement of Circular 230	$4,104	$4,104	
Improve Tax Gap Estimates, Measurement and Detection of Non-Compliance	$45,942	$45,942	
Study EITC Compliance	$6,822	$6,822	
Improve Compliance Through Data-Driven Workload Identification	$4,796		$4,796
Customer Service Research	$15,000	$15,000	
Subtotal Enforcement	**$367,768**	**$356,931**	**$10,837**
Modernization Program Increases			
Implement Critical Upgrades to IT Infrastructure	$85,700	$53,886	$31,814
Enhance Computer System Security Capability	$43,000	$27,038	$15,962
Enhance Enterprise Network Security Capability	$24,400	$15,342	$9,058
Expand IT Security - Personal Identity Verification	$20,000	$12,576	$7,424
Close Financial Management Material Weaknesses - Custodial Detail Data Base	$4,743	$2,982	$1,761
Fund Modernization Information Systems (Major Investments) O&M	$15,000	$9,432	$5,568
Fund Business Unit IT Solutions (Non-Major Investments) O&M	$9,972	$7,121	$2,851
Implement e-Travel	$10,000	$6,288	$3,712
Fund HR Connect	$11,900	$7,482	$4,418
Consolidate Philadelphia Campus	$20,900	$14,215	$6,685
Accommodate Kansas City Site Consolidation and Workload Growth	$8,523	$1,279	$7,245
Restoration of Leadership Training to FY2003 levels	$12,200	$7,564	$4,636
Subtotal Modernization	**$266,339**	**$165,204**	**$101,134**
Total Program Increases	**$677,744**	**$522,135**	**$155,609**

Financial Management Service

Mission

To provide central payment services to Federal Program Agencies (FPAs), operate the Federal government's collections and deposit systems, provide government-wide accounting and reporting services, and manage the collection of delinquent debt.

Appropriation Summary
Table 1.1
(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Payments	$141,287	$144,135	$147,358	$3,223	2.24%
Collections	16,693	16,931	17,396	465	2.75
Debt Collection	9,855	10,162	5,250	(4,912)	-48.34
Government-wide Accounting and Reporting	61,248	62,653	63,650	997	1.59
Total Appropriated Resources	$229,083	$233,881	$233,654	($227)	-0.10%

FY 2007 Priorities

- Continue to make paper check and electronic funds transfer payments accurately and on time.
- Process 79 percent of all Treasury payments and associated information electronically.
- Collect 84 percent of all federal government receipts electronically.
- Collect over $3.2 billion dollars in delinquent debt.
- Continue to issue all government-wide accounting reports accurately and timely. These reports include the following: the Daily Treasury Statement, Monthly Treasury Statement, and the Combined Statement of Receipts, Outlays, and Balances of the U.S. Government.

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities
FMS is the Federal government's financial manager. As the government's financial manager, FMS oversees a daily cash flow in excess of $50 billion, disbursing 85 percent of the Federal government's payments, including income tax refunds, Social Security benefits, veterans' benefits, and other Federal payments to individuals and businesses. FMS administers the world's largest collection system, collecting approximately $2.7 trillion annually. FMS also provides cash management guidance to FPAs and compiles and publishes government-wide financial information used to monitor the government's financial status. Finally, FMS serves as the government's central debt collection agency for delinquent non-tax debt.

FMS' top priorities, as reflected in its strategic goals, are:

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

FMS' goals are accomplished through four budget activities:

Payments - The Payments activity 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 (EFT). The activity also includes controlling and providing financial integrity to the payments process through reconciliation, accounting, and claims activities.

Collections - The Collections activity collects revenues needed to operate the federal government through the effective management of the government's collections infrastructure. FMS administers the world's largest collections system, collecting approximately $2.7 trillion annually through a network of more than 10,000 financial institutions.

Debt Collection - The Debt Collection activity recovers delinquent government debt by providing centralized debt collection, oversight and operational services to FPAs and States as required by the Debt Collection Improvement Act of 1996 and related legislation.

Government-wide Accounting and Reporting - The Government-wide Accounting and Reporting activity maintains the Federal government's books and accounts for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system.

1B – Previous Highlights and Accomplishments

FMS provides critical services to millions of U.S. taxpayers and other customers. FMS embodies Treasury's leadership strategy to create value for the American people, provide responsible and effective stewardship over the government's finances, and focus on quality service results and innovation. Previous highlights and accomplishments, by budget activity, include:

Payments

In FY 2005, FMS issued over 952 million non-Defense payments worth $1.5 trillion to a wide variety of recipients, such as those who receive Social Security benefits, IRS tax refunds, and veterans' benefits. Approximately 76 percent of these transactions were issued by EFT. In response to Hurricane Katrina and other hurricanes that hit the Gulf Coast in 2005, FMS issued over 2.49 million disaster relief payments valued at over $5.9 billion dollars on behalf of the Federal Emergency Management Agency through December 2005. FMS has undertaken considerable efforts to modernize its payment systems by incorporating the latest technologies and making full use of the Internet. The results of these efforts include:

- Secure Payment System (SPS) is a leading edge, web-based system which replaces the technologically obsolete Electronic Certification System. SPS is the cornerstone of the payments process in which agencies certify the accuracy, validity and legality of their payments.

- Stored Value Card (SVC) is a smartcard, similar to a credit/debit card, which uses an encrypted computer chip to process "electronic money" stored on the card. The SVC program is aimed at reducing the float-loss associated with the more than $2 billion in coin and currency in circulation at military bases, ships at sea, and other closed government locations around the world. From 1997 to the end FY 2005, over 3.5 million EFT transactions representing a dollar value in excess of $595 million have been processed via the SVC programs.

- ASAP.gov (Automated Standard Application for Payments) is a web-based system built by FMS in coordination with the Federal Reserve Bank of Richmond. It is an all-electronic grants payment system through which organizations including states, universities, for-profits, and non-profits receive Federal funds from accounts pre-authorized by Federal agencies. Total disbursements for CY 2005 were over $440 billion dollars.

The Payments activity received an "Effective" rating in a recent PART (Program Assessment Rating Tool) review.

Collections

FMS manages the Electronic Federal Tax Payment System (EFTPS) which is the largest tax collection system in the world, processing 95 percent (over $1.7 trillion) of U.S. tax dollars. EFTPS allows businesses and individuals to enroll and pay all Federal taxes through a variety of ways – computer-to-computer link, personal computer, telephone or through a secure website. EFTPS accelerates the collection of tax dollars and information and reduces reporting errors in the tax collection system, which benefits both the taxpayer and the Federal government.

FMS manages Pay.gov, a government collection portal that provides a single platform for e-government services and allows citizens, businesses and Federal agencies to conduct business via the Internet. In FY 2005, Pay.gov collected over $6 billion, an increase of more than $2 billion over FY 2004. In the first quarter of FY 06, FMS began implementation of a cash flow from Customs and Border Protection on Pay.gov that will include $20 billion annually in collections.

FMS also implemented paper check conversion at its lockbox sites to reduce paper processing at lockbox banks and improve the efficiency of the lockbox system.

The Collections activity received an “Effective” rating in its 2004 PART review.

Debt Collection

FMS’ delinquent debt collection program continues to exceed performance goals as a result of continued improvements to its Debt Management Program. For FY 2005, FMS collected over $3.25 billion which is a record amount of collections for the program. Debt referrals from creditor agencies also continue to increase, reaching 97 percent in FY 2005. Since given this authority in 1996, FMS has collected over $24 billion. Virtually all collection tools, including the payment offset and levy programs, have shown increasing collection trends over the last few years.

FMS underwent a PART review on its Debt Collection Program in 2003. The program received an “Effective” rating and was stated as being a well designed, well managed program with a clear purpose which meets or exceeds its annual performance targets. As a result, the FY 2005 enacted budget included the following legislative changes to increase and enhance opportunities to collect delinquent debt:

- Information Comparisons and Disclosure to Assist in Federal Debt Collection - This change authorizes the Secretary of Health and Human Services (HHS) to match information, provided by the Secretary of the Treasury with respect to persons owing delinquent debt to the federal government, with information contained in the HHS National Directory of New Hires, and to disclose to Treasury information obtained from such matches. Information obtained from the National Directory of New Hires facilitates FMS’ debt collection efforts by providing employment information about debtors enabling FMS to issue wage garnishment orders in appropriate cases. FMS is working on implementing this change and anticipates full implementation in late calendar year 2006.

- Increase in Continuous Levy for Certain Federal Payments - This change allows the Internal Revenue Service (IRS) to continuously levy up to 100 percent of a Federal vendor payment to collect outstanding tax obligations. Under previous law, IRS was authorized to continuously levy up to 15 percent of specified Federal payments. At the end of April 2005, FMS implemented 100 percent levy for those tax debts authorized by the IRS.

Government-wide Accounting and Reporting

The Office of Management and Budget (OMB) requires agencies to issue their financial statements by November 15, 2005, 45 days after the fiscal year-end. FMS issued the Fiscal Year 2005 Financial Report of the U. S. government on December 15, 2005, 75 days after the close of the fiscal year. FMS used the government-wide Financial Report System (GFRS) to collect agency financial statement information directly from Federal agencies' audited financial statements as it did last year. For FY 2005, FMS enhanced GFRS to provide better data security during the consolidation process, to provide additional features in the Notes modules, and to automate the year to year rollover process.

The Government-wide Accounting and Reporting activity is scheduled to undergo a PART review in 2006.

1C – Future Outlook

FMS will continue to work towards an "all-electronic Treasury." Streamlining the payments and collections processes while continually investing in state-of-the-art technology is integral in processing payments and collections accurately, timely, and more safely and securely for the taxpayer. In FY 2007, FMS will continue to expand the use of electronic media to deliver federal payments. These efforts help decrease the number of paper checks issued, which minimizes costs and inefficiencies associated with the non-electronic delivery of benefits.

FMS develops and operates a variety of collection mechanisms and systems, such as EFTPS, lockboxes, Treasury General Accounts, debit/credit cards, and Pay.gov. In FY 2007, FMS will continue to provide electronic collection mechanisms that use the most advanced collection technologies and are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs. FMS will direct its EFTPS marketing efforts to the tax practitioner community and small businesses to further expand the use of the EFTPS. FMS will also assist agencies in converting collections from paper to electronic media. Security oversight efforts will increase at financial agent processing facilities and banking institutions as a way to proactively identify security control weaknesses and recommend ways to detect and deter fraud, waste, theft, and unauthorized access associated with the collection of government remittances and protection of sensitive information.

FMS will focus on incorporating all non-Treasury disbursed salary and vendor payments into FMS' offset programs for collecting delinquent debt. In October 2005, FMS replaced the current debt program Cross-Servicing system with FedDebt. FedDebt provides a single point of entry for agencies to refer their debts to FMS for collection and to access the delinquent debtor database. During FY 2007, Integrated FedDebt will combine the Cross-Servicing application and the Treasury Offset Program (TOP). This will eliminate the need for separate and distinct databases and will allow FMS to streamline data, reduce redundancies and improve data integrity. FMS will also continue to roll out Debt Check, FMS' program to help agencies bar delinquent debtors from obtaining new loans or loan guarantees.

The following legislative proposals will be submitted as part of the FY 2007 President's Budget Request. These proposals are part of FMS' recommended follow-up actions to the Program Assessment Rating Tool (PART) review of the Debt Collection activity and its collaborative effort with the Office of Management and Budget to increase the amount of delinquent debt FMS collects:

1. Allow offsets of Past-Due, Legally Enforceable State Unemployment Compensation Overpayment Debts (included as part of the Department of Labor's Unemployment Insurance Integrity initiative).
2. Eliminate the 10-year Limitations Period on Offset.

Finally, FMS will continue to revamp government-wide accounting processes to provide more useful and reliable financial information on a regular basis. This will involve the continued rollout of the new government-wide Accounting system. This system will significantly 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. Agencies will have daily access through a web-based system to the data supporting the items on the account statement for reconciliation and fund reclassification, rather than having to use multiple systems. As a result, fund balance information will be available to agencies on a near real-time (one-day lag) basis. This will move the government one step closer to achieving its objective of producing financial information on a regular, recurring basis more quickly and reliably.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Budget Increases and Decreases
Table 2.1
(Dollars in Thousands)

Appropriation: FMS Salaries and Expenses	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	1,818	$230,930		
Rescission (P.L. 108-447)		(1,847)		
FY 2005 Enacted	1,818	229,083		
FY 2006 President's Budget (P.L. 109-115)	1,818	236,243		
Rescission (P.L. 109-148)		(2,362)		
FY 2006 Enacted	1,818	233,881		
Changes to Base				
Proposed Pay Rate		3,496		
Non-Pay Adjustment		1,964		
Pay Annualization		1,183		
Total FY 2007 Base	1,818	240,524		
Program Changes				
Decreases:				
Debt Fee Revenue	(57)	(5,311)	Debt	
Payments Capital Investments		(763)	Payments	
Accounting Architecture		(840)	GWA	
Increases:				
FASAB		44	GWA	
Subtotal FY 2007 Program Changes	(57)	(6,870)		
Total FY 2007 Request	1,761	$233,654		

2A – Budget Increases and Decreases Description

Changes to Base.. +6,643,000 / 0 FTE

Adjustments to Maintain Current Levels ....*+$6,643,000 / 0 FTE*

Funds are requested for: the FY 2007 costs of the January 2006 pay increase; the proposed January 2007 pay raise; other labor related benefits; and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent.

Program Changes..-6,870,000 / -57 FTE

Program Decreases .... -$6,914,000 / -57 FTE

a. Re-engineer Funding from Debt Collection Activity **............** *-$5,311,000 / -57 FTE*

As a result of projected increased debt revenues, FMS is able to redirect funds previously allocated to the debt collection activity without adversely impacting the program.

b. Payments Capital Investment **...** *-$763,000 / 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. FMS anticipates realizing a postage savings in FY 2007 of approximately $384,000.

c. Non-Recur to GWA Budget Activity **...** *-$840,000 / 0 FTE*

FMS has identified funds in the GWA Budget Activity from prior year's initiatives that can be non-recurred in FY 2007.

Program Increases .... +44,000 / 0 FTE

a. Federal Accounting Standards Advisory Board (FASAB) **...........** *+$44,000 / 0 FTE*

Additional funds are provided to cover the increased cost of payments to FASAB.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Appropriation Detail
Table 3.1
(Dollars in Thousands)

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Payments	1,173	$141,287	1,173	$144,135	1,173	$147,358	0.00%	2.24%
Collections	113	16,693	113	$16,931	113	$17,396	0.00%	2.75%
Debt Collection	113	9,855	113	$10,162	56	$5,250	-50.44%	-48.34%
Governmentwide Accounting and Reporting	419	61,248	419	$62,653	419	$63,650	0.00%	1.59%
Subtotal Newly Appropriated Resources	1,818	$229,083	1,818	$233,881	1,761	$233,654	-3.14%	-0.10%
Other Resources:								
Recoveries								
Offsetting Collections - Reimbursable	316	$151,135	320	$167,770	370	$196,282	15.63%	16.99%
Available multi-year/no-year funds								
Transfers In/Out								
Subtotal Other Resources	316	151,135	320	167,770	370	196,282	15.63%	16.99%
Total Resources Available for Obligation	2,134	$380,218	2,138	$401,651	2,131	$429,936	-0.33%	7.04%

3A – Budget Activity Description

<u>Payments</u> *($147,358,000 from direct appropriations and $135,031,000 from offsetting collections and reimbursements)* The Payments activity 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 (EFT). This activity also includes controlling and providing financial integrity to the payments process through reconciliation, accounting, and claims activities. The claims activity settles claims against the United States resulting from Federal government checks which have been forged, lost, stolen, or destroyed, and collects monies from those parties liable for fraudulent or otherwise improper negotiation of government checks. It also includes processing claims and reclamations for EFT payments.

FMS continues to expand and market the use of electronic media to deliver Federal payments, improve service to payment recipients, and reduce government program costs. These efforts help decrease the number of paper checks issued and minimize costs associated with postage, the re-issuance of lost, stolen, and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits. In addition to the many benefits to beneficiaries, direct deposit generates significant cost savings to the Government.

FMS faces challenges in increasing growth in electronic payments. The direct deposit growth rate for Federal benefit payments has leveled off to a rate of less than one percent a year, a decrease of almost two-thirds since the late 1990s. As the government prepares for the huge increase in retiring baby boomers in the near future, it is critical that FMS reverse this trend. FMS and the Federal Reserve initiated a market research effort to find barriers to conversion and ways to encourage people to receive payments electronically. A six-month pilot marketing program was conducted in markets in Texas, Illinois, Tennessee and Puerto Rico based on this research. As a result of the success of this pilot, the Go Direct campaign was expanded to markets nationwide in September 2005.

Other Resources

Offsetting collections and reimbursements totaling $135,031,000 are collected for disbursement of Federal agency payments to beneficiaries, including Social Security payments, Railroad Retirement Board payments, tax refunds and Department of Veteran's Affairs benefit payments.

<u>Collections</u> *($17,396,000 from direct appropriations)* The Collections activity collects revenues needed to operate the federal government through the management of the federal government’s collections infrastructure. FMS collects approximately $2.7 trillion annually through a network of more than 10,000 financial institutions. It also manages the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases. FMS establishes and implements collection policies, regulations, standards, and procedures for the federal government.

FMS continues to promote the use of electronics in the collections process and assist agencies in converting collections from paper to electronic media. For example, EFTPS offers all businesses and individuals the convenience of making their Federal tax payments electronically 24 hours a day, 7 days a week. EFTPS is required for businesses with annual federal tax obligations above $200,000. As of November 2005, over 6.2 million taxpayers were enrolled in EFTPS. EFTPS has collected more than $12.8 trillion since inception, with $490 billion of those collections made over the web through EFTPS-Online.

FMS manages Pay.gov, a government collection portal that provides a single platform for e-Government services and allows citizens, businesses and federal agencies to conduct business via the Internet. Pay.gov provides collections, form submittal, bill presentment, authentication, and agency financial reporting services. Since inception, Pay.gov has collected over $20 billion. Pay.gov responds to the increasing demands of consumers and businesses for electronic alternatives by providing the opportunity to complete forms and applications, make payments, and submit queries on-line 24 hours a day, 7 days a week. FMS is focusing on converting FPAs with large dollar cash flows to Pay.gov.

The Paper Check Conversion (PCC) program converts paper checks into EFT debits against the check writer's bank account. PCC is being used at both over the counter (OTC) locations for agency deposits and lockbox facilities. During FY 2004, PCC OTC processed more than 1.5 million items representing more than $687.4 million. Beginning in April 2005, the PCC system implemented "Check 21" functionality that allows for the image truncation and image clearing of negotiable instruments that cannot be converted into EFT debits.

<u>Debt Collection</u> *($5,250,000 from direct appropriations and $61,251,000 from offsetting collections and reimbursements)* The Debt Collection activity collects delinquent Government debt by providing debt collection oversight and operational services to FPAs and States as required by the Debt Collection Improvement Act of 1996 and related legislation. The services include, but are not limited to, collecting delinquent debts through Cross-Servicing and offsetting Federal payments, providing a database as a tool for barring delinquent debtors, providing post-judgment collection, advising and educating agencies towards improving debt management and referrals to the Department of Justice. FMS collects delinquent debt through two major programs: the Treasury Offset Program (TOP) and Cross-Servicing. The Treasury Offset Program compares the names and taxpayer identifying numbers (TINs) of debtors with the names and TINs of recipients of Federal payments. If there is a match, the Federal payment is reduced, or "offset," to satisfy the overdue debt. Under FedDebt, which replaced the Cross-Servicing system in October 2005, Federal agencies refer delinquent debt to FMS for collection through a variety of cross-servicing tools, including offset, demand letters to debtors, repayment agreements, administrative wage garnishment, referrals to the Department of Justice, credit bureau reporting, reporting discharged debts to the IRS, and use of private collection agencies.

FMS will continue to roll out Debt Check, FMS' program to help agencies bar delinquent debtors from obtaining new loans or loan guarantees; continue development of FedDebt which will include replacing the existing TOP program; and continue enhancements to mission-critical systems to provide better service to agencies that refer debts for collection.

Other Resources
Offsetting collections of $49,570,000 and reimbursements of $11,681,000 totaling $61,251,000 are used to fund debt collection services for Federal agencies and States.

<u>*Government-wide Accounting and Reporting*</u> *($63,650,000 from direct appropriations)*
The Government-wide Accounting and Reporting activity maintains the Federal Government's books and accounts for its monetary assets and liabilities by operating and overseeing the Government's central accounting and reporting system. It also works with Federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance and training to assist FPAs in improving their Government-wide accounting and reporting responsibilities. FMS gathers and publishes government-wide financial information which is used in establishing fiscal and debt management policies and is also used by the public and private sectors to monitor the Government's financial status. These publications include: the Daily Treasury Statement, the Monthly Treasury Statement, the Treasury Bulletin, the Combined Statement of the United States Government, and the *Financial Report of the United States Government*.

FMS is building and implementing a system to improve the exchange of financial information among FMS, FPAs, OMB and the banking community. Once completed, this Government-wide Accounting (GWA) Modernization Project will comprehensively replace current Government-wide accounting functions and processes that are both internal and external to FMS. It will improve the reliability, usefulness, and timeliness of the Government's financial information, provide FPAs and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies. In addition, FPAs will have better tools for reporting financial information and access to daily account statements for monitoring the status of their financial information at the Treasury.

3.2 – Budget and Performance Plan Table

Budget and Performance Plan
Table 3.2
(Dollars in Thousands)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)						
Resource Level [1/]	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective F4A:						
Budget Activities: Collections and Debt Collection						
Financial Resources						
Newly Appropriated Resources	$27,173	$26,413	$25,208	$20,705	$21,167	$16,557
Other Resources	$23,978	$41,196	$54,037	$33,675	$40,185	$61,251
Total Operating Level	$51,151	$67,609	$79,245	$54,380	$61,352	$77,808
Human Resources						
Newly Appropriated FTE	153	160	183	186	186	129
Other FTE	252	282	315	273	273	330
Total FTE (direct and reimbursable)	405	442	498	459	459	459
Treasury Strategic Objective F4B:						
Budget Activity: Collections						
Financial Resources						
Newly Appropriated Resources	$597	$722	$874	$835	$847	$870
Other Resources						
Total Operating Level	$597	$722	$874	$835	$847	$870
Human Resources						
Newly Appropriated FTE	5	5	6	6	6	6
Other FTE						
Total FTE (direct and reimbursable)	5	5	6	6	6	6
Treasury Strategic Objective F4C:						
Budget Activities: Payments and Collections						
Financial Resources						
Newly Appropriated Resources	$146,672	$143,596	$137,379	$146,295	$149,214	$152,577
Other Resources	132,010	136,886	132,845	116,960	127,085	135,031
Total Operating Level	$278,682	$280,482	$270,224	$263,255	$276,299	$287,608
Human Resources						
Newly Appropriated FTE	1,141	1,160	1,028	1,207	1,207	1,207
Other FTE	30	34	33	39	43	40
Total FTE (direct and reimbursable)	1,171	1,194	1,061	1,246	1,250	1,247
Treasury Strategic Objective F4D:						
Budget Activity: Government-wide Accounting and Reporting						
Financial Resources						
Newly Appropriated Resources	$48,935	$54,887	$65,196	$61,248	$62,653	$63,650
Other Resources	900	500	500	500	500	0
Total Operating Level	$49,835	$55,387	$65,696	$61,748	$63,153	$63,650
Human Resources						
Newly Appropriated FTE	401	424	437	419	419	419
Other FTE	4	4	4	4	4	-
Total FTE (direct and reimbursable)	405	428	441	423	423	419
Treasury Strategic Goal F4:						
Total Financial Resources						
Total Newly Appropriated Resources	$223,377	$225,618	$228,657	$229,083	$233,881	$233,654
Total Other Resources	156,888	178,582	187,382	151,135	167,770	196,282
Total Operating Level	$380,265	$404,200	$416,039	$380,218	$401,651	$429,936
Total Human Resources						
Total Newly Appropriated FTE	1,700	1,749	1,654	1,818	1,818	1,761
Total Other FTE	286	320	352	316	320	370
Total FTE (direct and reimbursable)	1,986	2,069	2,006	2,134	2,138	2,131

Strategic Objective: Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law - F4A

Budget Activity: **Debt Collection**

Performance Goal: **Maximize collection of government delinquent debt by providing efficient and effective centralized debt collection services**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Amount of delinquent debt collected per $1 spent ($) (E)						
Target				41.09	36.4	36.5
Actual				36.23		
Target Met?	N/A	N/A	N/A	N		
Amount of delinquent debt collected through all available tools (Billions $) (Ot)						
Target	2.6	2.9	2.9	3	3.1	3.2
Actual	2.84	3.1	3	3.25		
Target Met?	Y	Y	Y	Y		
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (%) (Ot)						
Target	75	85	90	92	93	94
Actual	93	92	99	97		
Target Met?	Y	Y	Y	Y		

Strategic Objective: Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms - F4C

Budget Activity: **Payments**

Performance Goal: **Provide Federal payments timely and accurately, move toward an all-electronic Treasury for payments, and determine the optimal payment processing environment for the future**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of Treasury Payments and associated information made electronically (%) (Oe)						
Target	73	74	75	76	78	79
Actual	73	74	75	76		
Target Met?	Y	Y	Y	Y		
Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately and on time (%) (Oe)						
Target	100	99.9999	100	100	100	100
Actual	100	99.9999	100	100		
Target Met?	Y	Y	Y	Y		
Unit cost for Federal Government payments ($) (E)						
Target			Baseline	.35	.35	.35
Actual			.35	.355		
Target Met?	N/A	N/A	N	N		

Budget Activity: **Collections**

Performance Goal: **Provide timely collection of Federal Government receipts, at the lowest cost, through an all-electronic Treasury**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage collected electronically of total dollar amount of Federal government receipts (%) (Oe)						
Target	80	80	81	82	83	84
Actual	79	80	81	79		
Target Met?	N	Y	Y	N		

Strategic Objective: Manage Federal Debt Effectively and Efficiently - F4B

Budget Activity: **Collections**

Performance Goal: **Provide timely collection of Federal Government receipts, at the lowest cost, through an all-electronic Treasury**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Unit cost to process a Federal revenue collection transaction ($) (E)						
Target			Baseline	1.4	1.37	1.33
Actual			1.4	1.2		
Target Met?	N/A	N/A	N	Y		

Strategic Objective: Optimize Cash Management and Effectively Administer the Government's Financial Systems - F4D

Budget Activity: **Government-wide Accounting and Reporting**

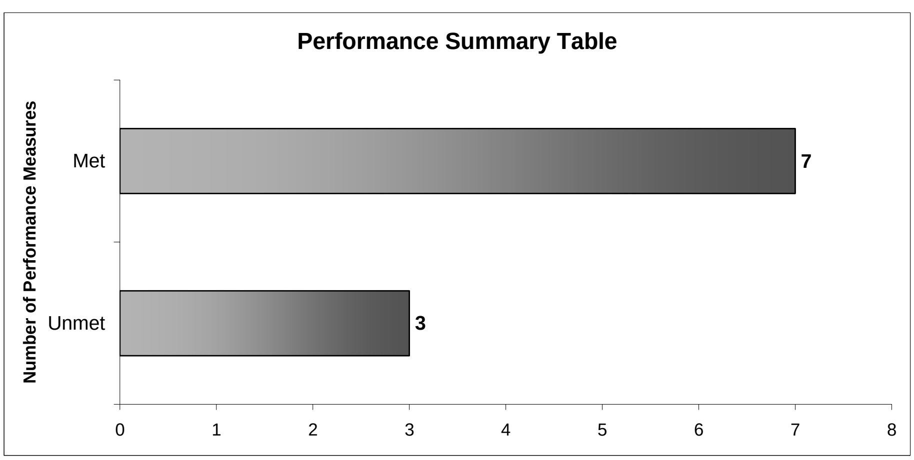
Performance Goal: **Produce accurate, accessible, and timely Governmentwide financial information and reports, which contribute to the improved quality of the Nation's financial decision making.**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of Governmentwide accounting reports issued accurately (%) (Oe)						
Target	100	98	100	100	100	100
Actual	100	98	100	100		
Target Met?	Y	Y	Y	Y		
Percentage of Governmentwide accounting reports issued timely (%) (E)						
Target	100	100	100	100	100	100
Actual	100	100	100	100		
Target Met?	Y	Y	Y	Y		
Unit Cost to Manage $1 Million Dollars of Cash Flow ($) (E)						
Target					Baseline	6.4
Actual						
Target Met?	N/A	N/A	N/A	N/A		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

Performance Summary Table
FY 2004

Unmet	3
Met	7
Total	10



3B – Description of Performance

In FY 2005, FMS met or exceeded seven of its performance measures. In addition, of the 1,385,000 check claims submitted, FMS adjudicated 100 percent of check forgery and non-receipt claims within 12 days, exceeding its internal performance target by 6 percent. FMS also loaded 71 percent more dollars onto stored value cards over the baseline, exceeding its internal performance target by 21 percent.

Workload Data On FMS' Payments

	FY 2004 Actual	**FY 2005 Actual**	**FY 2006 Estimate**	**FY 2007 Estimate**
	In thousands			
Number of Electronic Payments	705,966	724,996	748,749	783,396
Number of Check Payments	234,967	227,642	211,186	208,244
Number of Check Claims Submitted	1,438	1,385	1,300	1,200

FMS issued 100 percent of government-wide accounting reports accurately and timely, to include producing the consolidated Financial Report 75 days after the end of the fiscal year, and accelerating the issuance of the Monthly Treasury Statement to the 8th workday from the 14th workday the previous year. FMS also received an unqualified audit opinion on non-entity assets, costs, custodial revenues, and cash.

FMS' material weakness on general computer controls was closed at the end of FY 2004 and reduced to a reportable condition.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

The FMS FY 2007 Budget provides significant support for the President's Management Agenda to improve the financial performance of the federal government and for key activities that are part of the nation's critical infrastructure (payments, collections, and cash balance and forecasting) so that they can continue to be performed in an uninterrupted fashion at an outstanding level of service.

Competitive Sourcing

FMS is one of the strongest proponents of commercial outsourcing of any Federal government agency. Over half of FMS' funding resources are associated with commercial activities, including internal commercial positions, direct contracts for commercial services and Interservice Support Agreements (ISSAs), and programs conducted through our fiscal and financial agents. FMS also contracts with private collection agencies to collect delinquent non-tax debt, and approximately 500 contractor employees work on-site at FMS facilities. There are also over 6,000 private sector employees who work on FMS' tax collection lockbox operations. In addition, within the last several years, FMS has outsourced its administrative accounting and travel functions and our support systems for procurement and audit tracking to the Bureau of the Public Debt (BPD). We have also begun to outsource selected IT platform operations and web-development projects under our IT transformation. As a result of our extensive use of outsourcing and leveraging the resources of the commercial sector, we have been able to perform our complex mission with a remarkably small career workforce of approximately 2,075 FTEs. FMS has made and will continue to make decisions to outsource work on the business value proposition of where it can best be done at the most efficient cost.

Budget and Performance Integration

FMS' strategic management process reflects its senior management team's vision and engages the executive team in a continuous planning effort. Senior managers meet, at least quarterly, in order to examine relevant reports that detail the activities of FMS' four program areas. FMS has an activity based costing (ABC) program that identifies the full cost of products/services within each budget activity. This system has been in use for five years. In FY 2004, FMS implemented a new accounting system that improved FMS' ability to accomplish ABC accounting, track multi-year funding, and clearly track reimbursable activity to the interagency agreement it supports. FMS' activity based costing information is briefed to its Executive Board on a periodic basis, but no less than annually, and enables the agency to report the full cost of achieving performance goals accurately. In addition, FMS has instituted policies which ensure that 100 percent of agency employees are required to maintain individual performance plans. These plans are linked to organizational objectives, hold the individual accountable for results appropriate to their level of performance and differentiate between various levels of performance that arise from the individuals results. Finally, all of FMS program areas have at least one efficiency measure.

Human Capital

The OMB/Office of Personnel Management (OPM) collaboration on standards and measures for Human Capital has supported expanding the availability and functionality of automated human resources systems that are critical to making any significant improvements to the efficiency of human capital processes. OPM leadership has provided FMS the opportunity to improve recruitment and expand retention flexibilities that have enabled us to attract and retain high caliber employees with the skills essential to accomplishing mission demands. Workforce surveys have highlighted issues of concern to employees and allowed FMS to focus on what is most important to employees in terms of enhancing the quality of their work environment.

In the area of competencies, succession planning, training, and development, the President's Management Agenda provides a framework to ensure FMS can maintain a steady supply of well qualified, high performing staff throughout the organization.

One of the more pronounced changes in the Human Capital arena has been the shift of responsibility for managing the workforce from human resources departments to the first-line supervisor and management staff. This, accompanied by enhanced automation capability, has provided quicker and more direct management of employees.

E-Gov

FMS has a structured IT Governance system that includes integrated Enterprise Architecture and Capital Planning Investment Control processes. This structured approach has allowed FMS to identify opportunities to improve efficiency and provide cost savings. Specifically, FMS has completed a review of all technical components (hardware/software) associated with FMS applications as well as enterprise-wide licensing opportunities and identified those that should be phased out.

FMS has also developed and matured a structured Entity-wide IT Security Program that includes the centralized management of certification and accreditation of all FMS Major applications and general support systems, as well as establishing quarterly reporting on Plans of Actions and Milestones for each major application/general support system. FMS has completed the certification and accreditation activities for all major applications and general support systems in accordance with appropriate standards. In addition, FMS' material weakness on general computer controls was closed at the end of FY 2004 and reduced to a reportable condition.

As part of fulfilling the PMA e-Government initiative, E-Travel, FMS has implemented Northrop Grumman's GovTrip system. The implementation was completed in June 2005. The implementation of GovTrip provides a streamlined process for travel authorization, reservation, and voucher processing for FMS employees.

Financial Performance

FMS uses the BPD Administrative Resources Center (ARC) as its service provider for governmental accounting. ARC has recently been identified as a Center for Excellence for financial management services. FMS maintains a small staff which provides oversight of the accounting and financial data. The use of ARC has proven to be beneficial to both FMS and ARC. Financial and performance information is available to program managers on a continuous basis via FMS' accounting system.

3.3 – PART Evaluation Table

PART Evaluation
Table 3.3

PART Name:	Debt Collection
Strategic Goal:	Manage the Government's Finances Effectively (F4)
Rating:	Effective
OMB Major Findings/Recommendations	
1. Develop a more ambitious long-term performance measure. 2. Set interim targets and describe interim actions necessary to achieve the long-term performance measure. 3. Level fund the debt collection program for FY 2005. 4. Propose legislation to increase and enhance debt collection opportunities.	
Bureau Actions Planned or Underway	
1. Continuously review the trend in debt collection and revise/update the long-term measure as necessary. 2. FMS establishes annual performance measures for collections and referrals of debt by agencies. FMS has reduced its salary and expenses appropriated funding requirements for this program in recent years and is funding the program through fee revenue. These interim targets/measures and actions are part of the overall long-term strategy to maximize collections for the Federal Government and to improve the efficiency and effectiveness of the debt collection program. These targets/measures and actions help direct efforts to achieve our long-term measure. 3. Operate within budgetary resources. Analyze projected collections and fees with the goal of maintaining or reducing the fees charged to customers for FMS debt collection services. 4. FMS has submitted two legislative proposals which will enable FMS to significantly enhance our debt collection opportunities.	

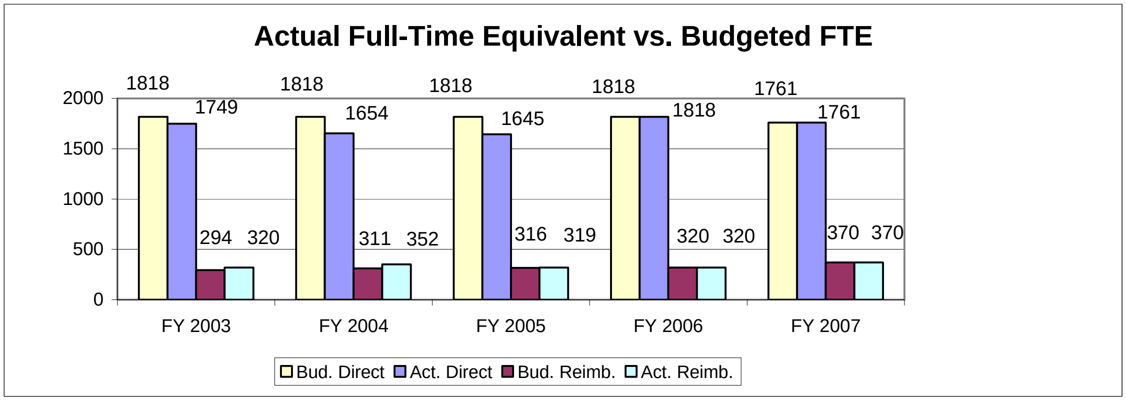
PART Name:	Collections
Strategic Goal:	Manage the Government's Finances Effectively (F4)
Rating:	Effective
OMB Major Findings/Recommendations	
1. Work with program partners to explore opportunities to better reduce paper-based collections. 2. Level fund the collections program for 2005.	
Bureau Actions Planned or Underway	
1. FMS is working with Federal agencies participating in the General Lockbox Network to eliminate the paper checks that are received by converting paper checks into electronic Auomated Clearing House transactions (Electronic Check Processing) or truncating the paper check and processing an image of the check (Check 21). 2. FMS has partnered with Customs and Border Protection (CBP) to convert the financial piece of CBP's Automated Commercial Environment (ACE) System to Pay.gov. The ACE cash flow totals $20 billion annually. 3. FMS will work with Federal agencies as it begins to pilot and implement TGAnet, an automated system designed to eliminate the paper deposit ticket which accompanies over the counter deposits by Federal agencies at financial institutions. 4. Operate within budgetary resources.	

PART Name:	Payments
Strategic Goal:	Manage the Government's Finances Effectively (F4)
Rating:	Effective
OMB Major Findings/Recommendations	
1. The assessment found that the Program has a clear purpose, is well managed, and generally meets its annual performance targets. 2. The Program must continue its efforts toward an all electronic Treasury.	
Bureau Actions Planned or Underway	
1. FMS is working with Federal agencies to reduce the number of paper check payments and increasing the number of more efficient and secure electronic payments. 2. Implementing Go Direct, a nationwide campaign to encourage current Federal check recipients to switch to direct deposit.	

Section 4 – Supporting Materials

4.1 – Human Resources Table

FY 2007 Budget Submission
Human Capital Exhibits
Full Time Equivalent Budget vs. Actual
Table 4.1



CHANGES IN FULL-TIME EQUIVALENTS

		FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year		**1,654**	**1,645**	**1,818**
Increases:				
Reason #1:	Reorganization/Restructuring		118	
Reason #2:	Normal Accession		90	
Subtotal, Increases		**0**	**208**	**0**
Decreases:				
Reason #1:	FMS has been approved by OPM to offer targeted voluntary buyout and voluntary early retirement programs for FY 2006.		-35	
Reason #2:	Redirection of FTE to Reimbursable Fund			-57
Reason #3:	Normal Attrition	-9		
Subtotal, Decreases		**-9**	**-35**	**-57**
Year-end Actual/Estimated FTEs		**1,645**	**1,818**	**1,761**
Net Change from prior year SOY to budget year EOY				**116**

4A – Human Capital Strategy Description

By properly managing its human capital needs, FMS supports Treasury's strategic goal to "Manage the U.S. Government's Finances Effectively."

FMS is an organization that is on the technology forefront in the performance of its mission. To accomplish and fulfill both FMS' and Treasury's strategic plans, FMS has taken several steps to improve the quality of its professional workforce. FMS has developed a Human Capital Strategic Plan to identify weaknesses in its current structure and build upon its strengths. FMS' Human Capital Strategic Plan identifies the following objectives to support and strengthen its work force:

1. *Work Environment* – FMS will create and maintain a positive work environment, where teamwork, achievement and accountability are valued, an atmosphere of continuous striving for improvement and excellence is maintained, communications are open and clear, encouragement and support exists for diversity and equal opportunity, and where employees can maintain a meaningful balance between their work and personal lives.
2. *Workforce* – FMS will maintain a professional workforce sufficient to meet the challenges of its present mission, maintain the highest standards of public service, anticipate and take advantage of advanced technological developments, and exercise the vision by which the agency will remain at the forefront of national leadership in the areas of expertise.
3. *Managerial Excellence* – FMS will develop managers who can effectively lead the organization to achievement of its mission, goals and objectives while maintaining a positive and effective work environment.
4. *Performance Accountability* – FMS will create and maintain a diverse, results oriented, high performance organizational culture.
5. *Continuous Learning* – FMS will maintain a continuous program of training and development for employees.
6. *Human Capital Support* – FMS will ensure that human capital management is recognized, valued, and supported as an integral part of mission accomplishments and organizational success.

These objectives allowed FMS to accomplish several goals in order to strengthen its human capital position. FMS has been proactive in identifying the challenges it faces in replacing vacated positions as well as recruiting and retaining new talent. FMS promotes and utilizes available hiring and pay flexibilities, especially those designed to achieve appropriate compensation for varying levels of performance. FMS encourages and utilizes all available work scheduling and location flexibilities and pay retention tools, such as tuition reimbursement, tuition assistance, and recruitment and retention bonuses, in order to maintain and augment our current workforce. FMS made extensive use of Delegated Examination and student intern program authorities which allow FMS to attract talent from some of the best colleges and universities. FMS also realizes the need to recruit and bring talent on board and has worked to improve the hiring process. FMS' average number of days to hire is currently 45 work days.

FMS has identified several challenges in its human capital plan. These challenges range from having an aging workforce where 40 percent are eligible to retire, to integrating new hires which will represent 20 percent of the entire workforce by 2007. FMS faces major competitive challenges from the private sector in attracting new talent. This is especially the case for positions in program management, financial administration/program analysis, accounting, and information technology. To address changing needs, FMS offered a targeted early-out/buyout in FY 2006. FMS has 66 people taking advantage of this opportunity.

FMS believes that a diverse workforce is vital to achieve its mission. FMS monitors recruitment and diversity goals to improve areas of under-representation and actively supports programs and initiatives to recruit minority college students. FMS has put in place the following programs to ensure we have a diverse workforce:

- SES candidate program was developed to create a diverse pipe-line of future senior executives;
- Special emphasis programs were expanded and EEO and diversity awareness training was instituted;
- Hispanic recruitment was enhanced through the increased use of Hispanic Associations of Colleges and Universities (HACU) interns, which created a pipeline for new Hispanic employees;
- Participation in the Washington Internship for Native Students (WINS) Program was increased;
- Participation in the Department of Labor's Workforce Recruitment Program for students with disabilities was established; and
- The use of Federal Career Internship Program (FCIP) was increased to facilitate and accelerate the hiring of qualified and talented minority student interns across the board.

In November 2004, FMS conducted an all-employee survey which had an 80 percent response rate. FMS conducted the survey to gain a better understanding of employees' views and how to strengthen FMS. Survey responses were above average compared to other government agencies and the private sector in the majority of the areas covered by the survey. FMS is taking action to address critical issues/concerns raised by the survey.

FMS has put into place a solid and viable Human Capital Strategy which enables the agency to fulfill its primary mission to not only other federal agencies but other customers as well, including taxpayers.

4.3 – Operating Levels Table

Operating Levels
Table 4.3
(Dollars in Thousands)

Appropriation Title: FMS Salaries & Expenses	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	1,818	1,818			1,818	1,818	1,761
Object Classification:							
11.1 Full-Time Permanent Positions........................	$113,550	$117,054			$117,054	$117,054	$117,054
11.1 Other than Full-Time Permanent Positions......	1,500	1,500			1,500	1,500	1,500
11.5 Other Personnel Compensation......................	2,500	2,500			2,500	2,500	2,500
11.8 Special Personal Services Payments.............	0	0			0	0	0
11.9 Personnel Compensation (Total)....................	117,550	121,054			121,054	121,054	121,054
12.0 Personnel Benefits..	25,075	25,950			25,950	25,950	26,000
13.0 Benefits to Former Personnel..........................	175	175			175	175	175
21.0 Travel..	1,753	1,753	(200)		1,553	1,553	1,553
22.0 Transportation of Things.................................	195	195			195	195	195
23.1 Rental Payments to GSA................................	15,600	15,300	(350)		14,950	14,950	14,900
23.2 Rent Payments to Others...............................	365	365			365	365	365
23.3 Communications, Utilities, & Misc....................	12,795	12,658			12,658	12,658	12,858
24.0 Printing and Reproduction..............................	700	700			700	700	700
25.1 Advisory & Assistance Services......................	4,000	4,750			4,750	4,750	4,750
25.2 Other Services..	24,000	23,419	(1,262)		22,157	22,157	22,443
25.3 Purchase of Goods/Serv. from Govt. Accts….	5,000	6,250	(250)		6,000	6,000	6,000
25.4 Operation & Maintenance of Facilities............	950	950			950	950	1,000
25.5 Research & Development Contracts...............	0	0			0	0	0
25.6 Medical Care..	0	0			0	0	0
25.7 Operation & Maintenance of Equipment..........	6,500	7,500			7,500	7,500	7,500
25.8 Subsistence & Support of Persons.................	0	0			0	0	0
26.0 Supplies and Materials...................................	4,300	4,300	(50)		4,250	4,250	4,250
31.0 Equipment..	9,600	10,399	(250)		10,149	10,149	9,386
32.0 Lands and Structures......................................	475	475			475	475	475
33.0 Investments & Loans......................................	0	0			0	0	0
41.0 Grants, Subsidies...	0	0			0	0	0
42.0 Insurance Claims & Indemn............................	50	50			50	50	50
43.0 Interest and Dividends…………………………	0	0			0	0	0
44.0 Refunds..	0	0			0	0	0
Total Budget Authority…………………………………	$229,083	$236,243	($2,362)	$0	$233,881	$233,881	$233,654
Budget Activities:							
Payments…………………………………………………	$141,287	$145,591	($1,456)		$144,135	$144,135	$147,358
Collections………………………………………………	16,693	17,102	(171)		16,931	16,931	17,396
Debt Collection…………………………………………	9,855	10,264	(102)		10,162	10,162	5,250
Government-wide Accounting and Reporting………	61,248	63,286	(633)		62,653	62,653	63,650
Total Budget Authority…………………………………	$229,083	$236,243	($2,362)	$0	$233,881	$233,881	$233,654

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

FINANCIAL MANAGEMENT SERVICE

Federal Funds

General and Special Funds:

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*)

DEBT REVENUE LEGISLATIVE PROPOSALS

Offsets of Past-Due, Legally Enforceable State Unemployment Compensation Debts against Overpayments (26 U.S.C. 6402)

This proposal, as included as part of the Department of Labor's Unemployment Insurance Integrity initiative, would allow the offset of past-due, legally enforceable state unemployment compensation debts against overpayments. This 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 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.

The proposal would be consistent with the Supreme Court's decision to allow the Department of Education to offset social security benefits to collect student loans over 10 years old. This proposal will enable FMS to collect an estimated $11 million in the first year after enactment and $6 million per year thereafter.

Legislative Proposal

TECHNICAL CORRECTION/CLARIFICATION OF 31 U.S.C. 3333

Treasury is seeking a technical correction/clarification of an amendment it proposed, which was included in the President's FY 2005 budget submission. The proposal 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.

An issue has arisen regarding potential discord with another statute (31 U.S.C. 3527) under which Federal entities seek relief from the Government Accountability Office (GAO) for disbursing errors. Relief granted is charged to a specified funding source, or if none, to available appropriations. Treasury has, in the past, sought relief for disbursing errors under this statute. Although Treasury intended in its recently enacted amendments to specify the CFIF as the funding source for relief of disbursing errors, the enacted amendments did not specifically reference relief granted under 31 U.S.C. 3527. The technical correction/clarification would so reference this statute and, consistent with Treasury's intentions, specifically provide that the CFIF is the appropriate funding source for disbursing errors for which relief has been granted under 31 U.S.C. 3527.

The technical correction/clarification would amend 31 U.S.C. 3333(a)(3) by adding the following italicized language, so the provision reads: "[T]he 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 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.**"**

This proposal is included as new provision. Treasury's Administrative Provisions which reads as follows: *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.)

4D – Permanent, Indefinite Appropriations

Federal Reserve Bank Permanent, Indefinite Appropriation

The Federal Reserve Banks (FRBs) act as fiscal agents of the United States when directed by the Secretary of the Treasury in accordance with 12 United States Code (U.S.C.) 391. The FRBs support the fiscal operations and provide banking and financial services on behalf of the Treasury of the United States. The Federal Reserve Reimbursement and Fiscal Responsibility Act of 1997 amended section 3302 (f) of title 31, U.S.C. and provided a permanent and indefinite appropriation of amounts necessary to pay the FRBs for the services they provide as fiscal agents on behalf of the Treasury. Since the FRBs support each of FMS' program activities, the performance measures listed in the Salaries and Expense section of this budget apply to the work done by the FRBs. FMS estimates that the cost of FRB services for FY 2007 will be approximately $245 million.

Financial Agent Services Permanent, Indefinite Appropriation

Congress has given the Secretary of the Treasury longstanding, broad discretion to deposit money in financial institutions and to obtain banking services by designating financial institutions to act/serve as Financial Agents of the U.S. government. The services are in support of such programs as EFTPS, the Lockbox Networks, plastic cards, e-commerce systems, and CA$HLINK, a deposit reporting and cash concentration system. These and other programs are vital to FMS' Strategic Goals, the government's critical infrastructure, and the President's emphasis on expanding E-Government. The services provided by such financial institutions are authorized under numerous statutes including, but not limited to, 12. U.S.C. 90 and 265.

In FY 2004, Treasury received a permanent indefinite appropriation to pay for these services. FMS estimates that the cost of Financial Agent services for FY 2007 will be approximately $311 million.

4.4 – Permanent, Indefinite Appropriations Table

Permanent, Indefinite Appropriations
Table 4.4
(Dollars in Thousands)

Permanent, Indefinite Appropriation	FY 2005 Actual	FY 2006 Enacted	FY 2007 Request
Federal Reserve Bank	$238,939	$220,000	$245,000
Financial Agent Services	$343,385	$322,000	$311,000

Bureau of the Public Debt

Mission

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

Appropriation Summary
Table 1.1
(Dollars in Thousands)

Appropriation	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Salaries and Expenses					
Wholesale Securities Services	$11,905	$11,812	$11,986	$174	1.47%
Government Agency Investment Services	13,360	13,255	13,451	196	1.48%
Retail Securities Services	147,298	147,529	149,711	2,182	1.48%
Summary Debt Accounting	5,602	5,558	5,641	83	1.49%
Total Appropriated Resources	$178,165	$178,154	$180,789	$2,635	1.48%

FY 2007 Priorities

- Conduct approximately 220 marketable securities auctions that will issue more than $5 trillion in Treasury bills, notes, bonds and inflation-protected securities (TIPS).
- Administer approximately $3.5 trillion in investments for over 230 federal trust funds.
- Manage approximately 7,000 State and local government accounts valued at approximately $250 billion.
- Shorten response standard for retail customer service transaction processing times from 13 to 12 business days.
- Produce daily financial statements.
- Reconcile more than $78 trillion in securities transactions.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Bureau of the Public Debt (BPD) annually auctions and issues more than $4 trillion in Treasury bills, notes and TIPS; effectively administers the regulation of the primary and secondary Treasury securities markets; ensures that reliable systems and processes are in place for issuing, transferring, paying interest on, and redeeming Treasury securities; issues and redeems more than 78 million savings bonds each year; administers approximately $3.4 trillion in investments for 232 Federal trust funds; and provides timely and accurate information on the public debt.

In support of Treasury's objective to finance the needs of the federal government at the lowest cost over time, Public Debt's top priority is to ensure that the most efficient systems are in place to conduct borrowings and deliver securities services to investors. To that end, Public Debt is working to enhance its automated auction system to take advantage of the benefits of current technology while continuing to develop its TreasuryDirect system through which retail customers can purchase and manage their holdings of electronic Treasury securities through the Internet. With the increased reliance on conducting business electronically, Public Debt also places a high priority on adopting new technological advances to ensure that its systems remain secure.

Wholesale Securities Services – This activity involves the announcement, auction, and issue of marketable Treasury bills, notes, and TIPS. This program ensures that the government's critical financing needs are met and that a robust and secure infrastructure is in place for the custody and transfer of Treasury securities in the wholesale market. Also included is the administration of regulations to ensure the integrity and efficiency of the primary and secondary markets in Treasury securities.

Government Agency Investment Services – This activity supports federal, state, and local agency investments in non-marketable Treasury securities as well as federal agency borrowing from Treasury. The two major non-marketable special purpose securities involved are the Government Account Series (GAS) and the State and Local Government Series (SLGS). GAS securities are issued only to funds managed by federal agencies with statutory investment authority. SLGS securities are offered to State and local governments as investment alternatives to assist issuers of tax-exempt securities in complying with yield restriction and arbitrage rebate provisions of the Internal Revenue Code.

Retail Securities Services – This activity serves more than 50 million retail customers who hold marketable and savings securities directly with Treasury. It includes the processing of marketable and savings bond issues in book-entry form. It also includes the servicing of outstanding definitive marketables and savings bonds in paper form. While relatively few marketable securities remain in paper form, there are approximately

700 million paper savings bonds outstanding. The program also enables holders of paper securities to convert their holdings to the more convenient and efficient book-entry form.

Summary Debt Accounting – Through this activity, Public Debt accounts for and reports on all financial activity related to the Public Debt of the United States. 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 debt financing operations in compliance with all requirements.

1B – Previous Highlights and Accomplishments

With the resources appropriated to Public Debt, it:
• Conducts some 200 marketable securities auctions annually, resulting in the issue of more than $4 trillion in Treasury bills, notes, and TIPS,
• Administers approximately $3.4 trillion in GAS investments, which comprise about 42 percent of the public debt outstanding,
• Manages approximately 6,400 active SLGS accounts valued at $225 billion,
• Serves more than 50 million retail customers holding marketable and savings securities,
• Accounts for and reports on the balance and composition on the more than $8 trillion public debt, the single largest liability on the federal government's balance sheet, and reconciles more than $76 trillion in securities transactions reported from numerous systems to cash flowing in and out of the federal government annually, and
• Receives clean audit opinions on the *Schedules of Federal Debt* every year since it was required to produce financial statements.

1C – Future Outlook

Public Debt's vision is to lead the way for responsible, effective government through commitment to service, efficient operations, openness to change, and values-based behavior. In keeping with this vision, BPD is dedicated to maintaining high levels of performance, and its budget is structured so as to programmatically align resources with performance.

Public Debt will continue to improve the process for submitting auction bids and enhancing auction systems. Future investments in technology and continuity of operations will ensure that payments to investors will be made timely with 100percent accuracy. BPD has improved its service to large institutional investors by enhancing the automated bid submission system for all competitive auction participants in order to keep it current and make it more efficient.

Public Debt will continue to provide efficient mechanisms that will enable federal, state and local government entities to easily invest in Treasury securities. Its goal is to conduct 65 percent of customer transactions online by FY 2006 and 75 percent by FY 2007. Additionally, BPD will continue to provide accurate accounting data with intragovernmental payments and implement other procedures to reduce/eliminate reconciliation problems in the federal government-wide financial statements.

Public Debt developed TreasuryDirect as the centerpiece of Treasury's effort to achieve all-electronic issuance of the securities it offers to retail customers. In TreasuryDirect, no paper securities are issued, and investors conduct their investment and account management activities online. Currently, Series EE and Series I bonds are available in TreasuryDirect for purchase. Holders of TreasuryDirect accounts are now being offered the option of converting their paper savings bonds to a more efficient electronic form. Since October 2005, customers have also been able to purchase marketable Treasury securities through their TreasuryDirect accounts. Additionally, investors with marketable holdings in Public Debt's legacy direct-access system can request their securities be transferred to TreasuryDirect. Planned enhancements to TreasuryDirect include adding the capability for establishing accounts for "non-individuals", such as fiduciaries, trust, and organizations. A key challenge for Public Debt will be communicating with its retail customers about the benefits of managing their purchases and holdings of Treasury securities securely via the Internet through TreasuryDirect.

While the timetable to meet the goal of issuing all Treasury securities electronically will depend on a number of factors, the end point is clear: Treasury is committed to withdrawing paper savings bonds from sale. As the public becomes increasingly comfortable with conducting financial business online, BPD believes its customers will appreciate the benefits of dealing directly with Treasury to learn about the services provided, securities available, and managing their investments online.

Public Debt is working to improve the clarity, utility and availability of Federal debt financial information. BPD's goal is to produce monthly public debt financial statements by FY 2006 and daily public debt financial statements by FY 2007. This supports the President's Management Agenda goal of providing accurate and timely financial information to program managers. Public Debt will also continue its focus on providing financial statements that receive clean audit opinions and support improved government-wide accounting.

Section 2 – Explanation of Increases and Decreases

2.1 – Budget Increases and Decreases Table

Budget Increases and Decreases
Table 2.1
(Dollars in Thousands)

Appropriation: BPD Salaries and Expenses	FTE	Amount	Budget Activity	Treasury Strategic Objective
FY 2005 Consolidated Appropriations (P.L. 108-447)	1,390	$179,566		
Rescission (P.L. 108-447)		(1,401)		
FY 2005 Enacted	1,390	178,165		
FY 2006 Appropriation (P.L. 109-115)	1,390	179,923		
Rescission (P.L.109-148)		(1,769)		
FY 2006 Enacted	1,390	178,154		
Changes to Base				
Proposed Pay Raise		2,249		
Pay Annualization		868		
Non-Pay Inflation Adjustment		1,545		
Non-Recurs		(5,113)		
Base Reinvestments		5,113		
Program Reduction				
Revised Customer Service Practices		(2,027)		
Total FY 2007 Base	1,390	180,789		
Total FY 2007 Request	1,390	180,789		
Program Changes				
Offsetting Fees				
User Fees		($3,000)		
Total Net FY 2007 Request	1390	$177,789		

2A – Budget Increases and Decreases Description

Changes to Base.. +$4,662,000
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 related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of $1,545,000.

Program Reduction.. -$2,027,000

Until the formation of the Citizen Service Levels Interagency Committee (CSLIC) in the spring of 2005, there were no Government-wide standards or metrics to measure citizen satisfaction or improvements to service delivery. The CSLIC, operating under the auspices of the President's Management Agenda and managed by the General Services Administration's USA Services E-Gov initiative, has recommended response times for federal agencies to various types of customer inquiries.

In its FY 2005 Program Assessment Rating Tool (PART) Review, Public Debt developed an aggressive long-term goal to process 90 percent of customer service transactions within 10 business days by the end of FY 2010. When comparing its responsiveness to customer inquiries to the standards developed by the CSLIC, Public Debt found that it was not only meeting but also often exceeding them.

By bringing its responsiveness to retail customer service inquiries more in line with the CSLIC standards, Public Debt will be able to forego slightly more than $2 million in overtime expenses beginning in FY 2007.

Program Reinvestments $0
Program Increases $0

FY 2006 Budget Adjustments
Public Debt continuously 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 available resources. In preparing for FY 2006, BPD became aware of several new requirements and funding shortfalls. Following past practice, Public Debt conducted an internal review of its programs to identify potential funding sources. As a result of this review, BPD was able to redirect funding to higher mission critical needs, while remaining within current funding levels.

Savings of $5,113,000 were identified for 1) non-recurs of miscellaneous printing, supplies and equipment items ($1,370,000) and 2) a non-recur of litigation support ($3,743,000).

The identified savings of $5,113,000 was used to fund the FY 2006 rescission of $1,769,000 and reinvested in the items outlined below.

Federal Protective Service Guard Contract…..……………………………$1,256,000
In July 2005, the Federal Protective Service (FPS) assumed the responsibility for providing guard services for all of Public Debt's facilities located in Parkersburg, West Virginia. Due to the regional contract developed and implemented by the FPS, BPD will incur a substantial increase in costs associated with guard services.

Homeland Security Presidential Directive (HSPD) 12…………………….……$700,000
HSPD-12 requires federal agencies to comply with specific requirements dealing with personal identity verification and access to federal facilities. In order to comply with the

directive, Public Debt is setting aside funding for its anticipated share of a Treasury enterprise solution that is currently unfunded.

Pay Raise Absorption……………………..……..……………………….....……$585,000
Public Debt must fund the difference between the President's proposed FY 2006 pay raise of 2.3 percent and Congress's enacted pay raise of 3.1 percent.

New Auction System Travel..………………..…..………………………..……$482,000
The replacement of Treasury's automated auction system, used by Public Debt to auction trillions of dollars in Treasury securities to finance the federal government, necessitates an increase in travel expenses to allow Public Debt staff to monitor and manage development of the new system. Additionally, increases in travel expenses caused by rising fuel prices have exceeded the 1.5 percent non-pay inflation increase approved by Congress.

HR Connect……………………………………………………………......…$321,000
HR Connect is Treasury's human resources enterprise system that allows all HR-related processing to be totally web-based. For example, employees can use HR Connect to update personal information, view benefits and produce an online resume. Managers use HR Connect to submit personnel actions and use reports to assist in strategic human capital decision-making. Public Debt's assessment from Treasury for its share of HR Connect costs have increased with the elimination of Treasury's initial project funding provided by Congress.

Section 3 – Budget and Performance Plan

3.1 – Appropriation Detail Table

Appropriation Detail
Table 3.1
(Dollars in Thousands)

Resources Available for Obligation	FY 2005 Enacted		FY 2006 Enacted		FY 2007 Request		% Change FY 2006 to FY 2007	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Newly Appropriated Resources:								
Wholesale Securities Services	92	$11,905	98	$11,812	98	$11,986	0.00%	1.48%
Government Agency Investment Services	105	13,360	112	13,255	112	13,451	0.00%	1.48%
Retail Securities Services	1,060	147,298	1,134	147,529	1,134	149,711	0.00%	1.48%
Summary Debt Accounting	44	5,602	46	5,558	46	5,641	0.00%	1.48%
Subtotal Newly Appropriated Resources	1,301	$178,165	1,390	$178,154	1,390	$180,789	0.00%	1.48%
Other Resources:								
Recoveries								
Offsetting Collections - Reimbursable	17	$7,181	64	$16,732	64	$16,919	0.00%	1.12%
Available multi-year/no-year funds		5,463						
Transfers In/Out								
Subtotal Other Resources	17	12,644	64	16,732	64	16,919	0.00%	1.12%
Total Resources Available for Obligation	1,318	$190,809	1,454	$194,886	1,454	$197,708	0.00%	1.45%

3A – Budget Activity Description

Wholesale Securities Services ($11,986,000 from direct appropriations and $952,000 from reimbursements) The Wholesale Securities Services program involves the announcement, auction and issue of marketable Treasury bills, notes, and TIPS. It also provides an efficient infrastructure for the transfer, custody and redemption of these securities. Large market participants buy, at auction, most of Treasury's marketable securities. In FY 2005, Public Debt conducted 220 marketable securities auctions resulting in the issuance of more than $4.4 trillion in Treasury bills, notes, and TIPS. Its commercial book-entry system holds approximately $4 trillion, or 98 percent, of Treasury marketable securities. Treasury uses this system to issue most of its marketable debt, make principal and interest payments, and support the active secondary market in Treasury securities. About $1.23 trillion per day in Treasury securities are transferred among account holders in the commercial book-entry system.

One of BPD's goals is to support Treasury's objective of financing the government at the lowest possible borrowing cost to taxpayers over time. To help achieve this goal, BPD continuously improves its auction and debt management systems to provide investors with critical auction-related information faster and to enhance customers' abilities to participate easily and securely in Treasury auctions. Also, BPD will seek opportunities, in global markets, to listen and learn from holders of its securities and to share information with them. The Bureau will also educate investors about Treasury's debt financing policies and the auction process and its securities.

Over the years, Public Debt has dramatically reduced the time required to complete marketable securities auctions. It now consistently releases auction results within two minutes, plus or minus 30 seconds, of the auction close. This is extremely important because shorter and consistent auction release times reduce the period of time auction bidders are exposed to the risk of adverse market movements. Hence, by limiting this risk, the implicit premium associated with this period of uncertainty is substantially lowered.

In addition, substantial upgrades were made to BPD's auction processing system and network to eliminate single points of failure in auction processing, which provides for more robust and reliable auctions. Finally, BPD has expanded its ability to provide contingency processing at three auction processing sites and provided a new feature to allow large bidders to submit their bids in a secure Internet environment.

Another responsibility the Bureau has is regulating the market for Government securities. Public Debt administers regulations that provide investor protection and maintain the integrity, liquidity, and efficiency in the government securities market under the Government Securities Act of 1986. BPD also administers the rules for Treasury's securities auctions and buybacks and prescribes provisions for collateral eligibility and valuation. One of its recent regulatory initiatives was to rewrite, in plain language, the Uniform Offering Circular, which explains Treasury's marketable securities auctions rules.

Other Resources
Reimbursements totaling $952,000 are collected for providing: administrative and IT support for the Treasury Franchise Fund Administrative Resource Center, Public Key Infrastructure (PKI) operations for Treasury and training request processing for the Alcohol and Tobacco Tax and Trade Bureau.

<u>Government Agency Investment Services</u> ($13,451,000 from direct appropriations and $3,469,000 from reimbursements) The Government Agency Investment Services program supports federal, state and local government agency investments in non-marketable Treasury securities as well as federal agency borrowing from Treasury.

Public Debt offers two major non-marketable special purpose investment programs to government agencies. GAS securities are issued only to federal agencies with statutory investment authority. There are currently about 232 trust and investment funds held by some 80 agencies. For 18 of the funds, Public Debt also maintains the investment accounts and performs additional administrative functions on behalf of the Secretary of the Treasury. These additional functions include processing receipts into and transfers out of the funds to the related federal program agencies for the purpose of administering the underlying programs that are supported by the Trust Funds. Some of the more recognizable Federal Trust Funds included in this group are the four Social Security and

Medicare Funds, as well as the Unemployment and Highway Trust Funds. With more than $3.4 trillion in investments, federal government and other entities' holdings of GAS securities comprise approximately 42 percent of the public debt outstanding.

SLGS securities are issued to State and local governments and municipalities across the nation. At approximately $225 billion outstanding, the SLGS program is important to over 6,400 State and local government entities that use these securities to help comply with provisions of the Internal Revenue Code.

BPD also accounts for and reports on the principal borrowings from and repayments to Treasury for approximately 80 funds managed by other federal agencies, as well as the related interest due to Treasury. These agencies are statutorily authorized to borrow from Treasury to make loans for a broad range of purposes, such as education, housing, farming, and small business support. The funds hold roughly $212 billion in loans and loan guarantees. These federal agencies can conduct their principal transactions online via the Government-Wide Accounting system. The corresponding interest transactions are also processed online through the Intra-governmental Payment and Collection system.

Public Debt is committed to continuously improving service to its agency customers who purchase GAS and SLGS securities and borrow money from Treasury. The Bureau will continue to encourage customers to conduct business online. BPD will also encourage federal agencies to use the optional services it offers to simplify their financial reporting and streamline the reconciliation processes associated with producing government-wide financial statements.

The systems for GAS, SLGS, and Borrowings securities represent significant steps forward in automation and expanded online services. These systems have already improved service to government agency customers, and planned improvements will offer additional investment and borrowing management capabilities. BPD is also exploring opportunities to consolidate Government Agency Investment Services systems to reduce costs and facilitate future enhancements.

At the federal level, Public Debt's services in this activity also directly assist customers in producing timely and accurate financial information that contributes to the reliability and usefulness of the government-wide financial statements. Instant access to account information has significantly simplified reconciliation and audit confirmation efforts across the country and assisted SLGS purchasers in complying with the Internal Revenue Service's requirements related to the issuance of tax exempt securities.

Other Resources
Reimbursements totaling $3,469,000 are collected for providing: investment accounting performed on behalf of the Secretary of Treasury, administrative and IT support for the Treasury Franchise Fund Administrative Resource Center, Public Key Infrastructure (PKI) operations for Treasury and training request processing for the Alcohol and Tobacco Tax and Trade Bureau.

Retail Securities Services ($149,711,000 from direct appropriations including $3,000,000 from user fee collections, and $12,050,000 from reimbursements) Public Debt's Retail Securities Services program serves more than 50 million retail customers who hold marketable and savings securities directly with Treasury. The focus of this program is to deliver Treasury securities services online at the lowest reasonable operational cost. By enabling investors to manage their savings bond and marketable securities holdings through the Internet-accessible TreasuryDirect system, Public Debt will serve customers more efficiently and manage resources more effectively.

TreasuryDirect offers savings bonds in book-entry form and will be expanded to include all Treasury securities offered to the public. Since electronic Series EE and I savings bonds were introduced, a payroll deduction feature was added in August 2004. This allows investors to send funds withheld from their pay to their TreasuryDirect accounts to purchase securities. In December 2004, a conversion feature was added in anticipation of inviting the owners of more than 700 million paper savings bonds to transfer them to electronic form. In early 2005, that invitation was extended and investors have started converting their paper bonds. The conversion effort will be a multi-year undertaking, but it will substantially accelerate the efficiencies that will result from paperless investing.

BPD began issuing marketable Treasury bills and notes in TreasuryDirect in October 2005. TreasuryDirect will eliminate the paper-based processing inherent in the Bureau's legacy direct-access system. The 417,000 investors who hold marketable securities in the legacy system will also be able to convert them to TreasuryDirect accounts. By doing so, they will enjoy an expanded range of Internet-based services not available in the legacy system.

Throughout this multi-year push toward book-entry and all-electronic processing, Public Debt will examine its current products and delivery systems, and when the time is right, BPD will introduce new services and discard systems that become outdated or do not fit into its vision for the future. These changes build on Public Debt's tradition of continuous operational improvement and position the Bureau to offer high quality and easy-to-use investment services to millions of retail customers.

Other Resources
Offsetting collections totaling $3,000,000 are collected for definitive securities issue and *TreasuryDirect* Investor Account maintenance fees, while $12,050,000 in reimbursements are collected for providing: administrative and IT support for the Treasury Franchise Fund Administrative Resource Center, Public Key Infrastructure (PKI) operations for Treasury and training request processing for the Alcohol and Tobacco Tax and Trade Bureau, and computer matches for the Social Security Administration.

Summary Debt Accounting ($5,641,000 from direct appropriations and $448,000 from reimbursements) The Summary Debt Accounting program accurately accounts for and reports timely on the outstanding public debt and related interest expenses. The program provides daily information on the balance and composition of the public debt, and summary level accounts represent the control totals for dozens of subordinate investment systems. Each year, Public Debt reconciles more than $76 trillion in securities transactions reported from numerous systems to cash flowing in and out of the federal government.

BPD's summary level accounting system provides detailed financial information on the more than $8 trillion public debt and associated interest expense for publication in the annual *Financial Report of the United States Government*, Treasury's *Performance and Accountability Report*, and the *Schedules of Federal Debt Managed by the Bureau of the Public Debt*. The Bureau publishes information on the balance and composition of the public debt in the *Monthly Statement of the Public Debt of the United States* and on its website. Strategically, BPD's direction is to make the *Schedules of Federal Debt* and other related financial data available on a daily basis.

Public Debt has always been committed to maintaining strong accounting controls to ensure the integrity of operations and the accuracy of the information provided to the public. The Bureau has consistently received unqualified audit opinions on the *Schedules of Federal Debt*, which presents details supporting the largest single liability on the government wide financial statement.

Other Resources
Reimbursements totaling $448,000 are collected for providing: administrative and IT support for the Treasury Franchise Fund Administrative Resource Center, Public Key Infrastructure (PKI) operations for Treasury and training request processing for the Alcohol and Tobacco Tax and Trade Bureau.

3.2 – Budget and Performance Plan Table

Budget and Performance Plan
Table 3.2
(Dollars in Thousands)

Treasury Strategic Goal: Managing the Government's Finances Effectively (F4)						
Resource Level [1/]	FY 2002 Enacted	FY 2003 Enacted	FY 2004 Enacted	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Requested
Treasury Strategic Objective F4B:						
Budget Activities: Wholesale Securities Services, Government Agency Investment Services, and Retail Securities Services						
Financial Resources						
Newly Appropriated Resources	N/A	$187,776	$171,239	$172,563	$172,596	$175,148
Other Resources	N/A	5,932	6,064	12,501	16,287	$16,471
Total Operating Level	N/A	$193,708	$177,303	$185,064	$188,883	$191,619
Human Resources						
Newly Appropriated FTE	N/A	1,431	1,289	1,257	1,344	1,344
Other FTE	N/A	5	5	17	62	62
Total FTE (direct and reimbursable)	N/A	1,436	1,294	1,274	1,406	1,406
Treasury Strategic Objective F4D:						
Budget Activity: Summary Debt Accounting						
Financial Resources						
Newly Appropriated Resources	N/A	$5,457	$5,788	$5,602	$5,558	$5,641
Other Resources	N/A	111	131	143	445	448
Total Operating Level	N/A	$5,568	$5,919	$5,745	$6,003	$6,089
Human Resources						
Newly Appropriated FTE	N/A	47	44	44	46	46
Other FTE	N/A				2	2
Total FTE (direct and reimbursable)	N/A	47	44	44	48	48
Treasury Strategic Goal F4:						
Total Financial Resources						
Total Newly Appropriated Resources	N/A	$193,233	$177,027	$178,165	$178,154	$180,789
Total Other Resources	N/A	6,043	6,195	12,644	16,732	16,919
Total Operating Level	N/A	$199,276	$183,222	$190,809	$194,886	$197,708
Total Human Resources						
Total Newly Appropriated FTE	N/A	1,478	1,333	1,301	1,390	1,390
Total Other FTE	N/A	5	5	17	64	64
Total FTE (direct and reimbursable)	N/A	1,483	1,338	1,318	1,454	1,454

Strategic Objective: Manage Federal Debt Effectively and Efficiently - F4B

Budget Activity: Wholesale Securities Svcs.

Performance Goal: Minimize the cost of the Federal Government's borrowing activities

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Cost per debt financing operation ($) (E)						
Target				Baseline	133,683	141,380
Actual				126,828		
Target Met?	N/A	N/A	N/A	Y		
Percent of auction results released in 2 minutes +/- 30 seconds (%) (Oe)						
Target			95	95	95	95
Actual			99.53	95		
Target Met?	N/A	N/A	Y	Y		

Budget Activity: Gov't Agency Investment Svcs.

Performance Goal: Fulfill customer expectations

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Cost per federal funds investment transaction ($) (E)						
Target				Baseline	90.15	91.41
Actual				88.74		
Target Met?	N/A	N/A	N/A	Y		
Percentage of Government Agency customer initiated transactions conducted online (%) (Oe)						
Target				Baseline	65	75
Actual				72.7		
Target Met?	N/A	N/A	N/A	Y		

Budget Activity: Retail Securities Svcs.

Performance Goal: Fulfill customer expectations

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Cost per TreasuryDirect assisted transaction ($) (E)						
Target				Baseline	7.75	7.08
Actual				8.51		
Target Met?	N/A	N/A	N/A	Y		
Cost per TreasuryDirect online transaction ($) (E)						
Target				Baseline	2.99	2.25
Actual				3.43		
Target Met?	N/A	N/A	N/A	Y		
Percentage of retail customer service transactions completed within 13 business days (%) (Oe)						
Target			90	90	90	90
Actual			92.5	88.7		
Target Met?	N/A	N/A	Y	N		

Strategic Objective: Optimize Cash Management and Effectively Administer the Government's Financial Systems - F4D

Budget Activity: Summary Debt Accounting

Performance Goal: Effectively account for the debt of the Federal Government

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Cost per summary debt accounting transaction ($) (E)						
Target				Baseline	12.82	13.00
Actual				12.62		
Target Met?	N/A	N/A	N/A	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

In the Wholesale Securities Services budget activity, Public Debt met its FY 2005 performance goal of releasing auction results within two minutes plus or minus 30 seconds 95percent of the time and plans to continue that effort into FY 2006 and FY 2007. In addition, substantial upgrades to BPD's auction processing system and network to eliminate single points of failure in auction processing have been made, which provides for more robust and reliable auctions. Public Debt has expanded its ability to provide contingency processing at the three major auction processing sites and provided a new feature that will allow large non-primary dealer auction participants to submit their bids in a secure Internet environment.

Public Debt established an efficiency measure to address the cost per debt financing operation (i.e., each Treasury security auction or buyback). Costs are incurred in Public Debt's annual appropriation as well as in a permanent indefinite appropriation used to reimburse Federal Reserve Banks that act as the Department's fiscal agents. The roughly $127,000 cost of each operation amounts to approximately 0.0008 percent (eight ten-thousandths of one percent) of the amount raised in an average $16 billion auction. The cost of each operation is projected to increase to $133,683 in FY 2006 and $141,380 in FY 2007 to account for Public Debt and Federal Reserve costs associated with replacing the current automated auction system and inflation.

In the Government Agency Investment Services budget activity, Public Debt is committed to ensuring that its applications supporting federal agency transactions will interface with the Government-Wide Accounting application that is being developed by the Financial Management Service to process intra-governmental transfers of funds more efficiently and effectively. BPD has established a long-term goal to expand automation to its customers. Currently, less than a quarter of all investment transactions are provided to the Bureau offline. The Bureau will enhance the online services provided to federal, state, and local government customers so that BPD will meet its long-term goal of conducting 80 percent of customer-initiated transactions online by the end of FY 2008. Public Debt's goal for FY 2006 is 65 percent and for FY 2007 is 75 percent.

Public Debt established an efficiency measure to address the cost per federal funds investment transaction. Federal investments are special-purpose securities issued only to federal agencies that manage trust, deposit and other special funds. Public Debt handles issuing, paying interest on, and redeeming the securities held by each fund, as well as handling all of the debt-related accounting and reporting for the securities on the Consolidated Financial Statement of the Federal government. In FY 2005, the cost of an investment transaction was $88.74. Due to inflation, Public Debt projects the cost per investment transaction to reach $90.15 in FY 2006 and $91.41 in FY 2007.

In the Retail Securities Services budget activity, BPD's goal of processing 90 percent of retail customer service transactions within 13 business days for FY 2005 was narrowly missed by 1.3percent. Two things contributed to this: abnormally high volumes of transaction requests were received during the year and the normal workflow was disrupted temporarily as a result of a planned business process reengineering. On the transaction side, the announced termination of the offering of Series HH bonds and the exchange of Series EE/E bonds for Series HH bonds resulted in a huge spike in transaction requests, particularly for the more complex exchanges. BPD believes that its efforts to reengineer the customer service business processes and workflow, while disruptive in the short-term, will produce substantial benefits for the long-term, including expediting the delivery of customer service. BPD expects to meet its customer service goal for FY 2006, largely due to its strategic reengineering and adoption of best practices.

For FY 2007, the Bureau's goal will be to complete 90 percent of retail customer service transactions within 12 business days and strive toward a long-term goal of completing 90 percent of retail customer service transactions within 10 business days by FY 2010.

With its TreasuryDirect system serving as the centerpiece of Treasury's effort to achieve all-electronic issuance of Treasury securities, Public Debt baselined two efficiency measures that gauge the systems impact on its Retail Securities Services program. The first measure is the cost per TreasuryDirect online transaction. With investors having online access to their holdings and self-service capability, it is important for Public Debt to know the cost of online transactions. These include establishing accounts in the system, purchasing and redeeming securities, and changing payment instructions online. In FY 2005, the cost of a TreasuryDirect online transaction was $3.43. In spite of expected inflation in both years, Public Debt projects productivity-related unit cost reductions to $2.99 in FY 2006 and $2.25 in FY 2007.

The second measure is the cost per TreasuryDirect assisted transaction. Although TreasuryDirect promotes self-sufficiency, there are times when assistance from a customer service representative is necessary. Representatives handle phone and email inquiries, offline authentication forms processing, and deceased-owner cases. In FY 2005, the cost of a TreasuryDirect assisted transaction was $8.51. In spite of expected inflation in both years, Public Debt projects productivity-related unit cost reductions to $7.75 in FY 2006 and $7.08 in FY 2007.

In the Summary Debt Accounting budget activity, Public Debt will continue its efforts to obtain unqualified audit opinions on the *Schedules of Federal Debt* as well as strive toward BPD's goal to produce monthly financial statements within three business days after the close of the quarter.

Public Debt established an efficiency measure to track the cost per transaction of performing Summary Debt accounting. Public Debt accounts for and reports on all financial activity related to the public debt of the United States. The transactions being tracked are those that must be accounted for to calculate the amount of public debt outstanding and interest paid on the public debt. These transactions include, for example, issues, redemptions, and interest payments on all Treasury securities. In FY 2005, the cost of a Summary Debt accounting transaction was $12.62. Public Debt projects productivity to partially offset the expected inflation for both years, resulting in summary debt accounting transactions to reach $12.82 in FY 2006 and $13.00 in FY 2007.

In support of both the Budget and Performance Integration component of the President's Management Agenda and Departmental guidance, Public Debt established at least one efficiency measure for each budget activity. These measures will more sharply focus BPD's attention on achieving the lowest possible operational cost while maintaining high quality operations.

For detailed information about each performance measure, including definition, verification and validation, please go to: http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

Competitive Sourcing

• Public Debt has met all competitive sourcing expectations. The Bureau has prepared an inventory of commercial and inherently governmental functions that is continually refined and updated.

• Public Debt has met all interim goals for job competitions using direct conversions and a streamlined competition process.

E-Government

• Before the push for expanding electronic government, Public Debt had adopted a citizen-centered approach to offering securities and services to its customers by providing convenient electronic access to information and transactions. The Bureau will continue to leverage technology and partner with other federal agencies to provide information to citizens faster, cheaper and securely.

• In all of Public Debt's major program areas, customers can process transactions electronically. In the future, Public Debt will ensure that its customers benefit as much as possible from additional electronic access and that the Bureau benefits through reduced operating costs.

• Because much of the information that Public Debt maintains relates to financial transactions and the investments of customers, BPD is especially aware of the sensitivity of the information. The Bureau will continue to take the necessary measures to safeguard data, protect confidentiality, and ensure that systems are secure.

Human Capital Management

• Most of Public Debt's employees are located in Parkersburg, West Virginia, where the Bureau ranks as a major employer. BPD is able to draw from a strong and relatively deep talent pool for positions in this location. As a result of this strong competitive position and the meaningful work that the Bureau performs, it is rare that BPD experiences significant difficulties in filling positions and retaining capable and dedicated people.

• Public Debt is sensitive to employee concerns and expectations and manages in a manner that supports recruitment and increases retention, productivity, and morale. Diversity is important and its benefits are valued. BPD's recruitment programs, relocation policies, and diversity programs are designed to introduce new ideas, experiences, and perspectives into its workforce.

Improved Financial Performance

• All of Public Debt's financial systems are well controlled; the financial systems used to account for the public debt comply with the Federal Financial Management Improvement Act and are audited routinely. The Bureau's systems are subject to both external audit and review by the Government Accountability Office and other auditors, as well as periodic examination as part of BPD's internal review program. Public Debt has received unqualified opinions on all financial statement audits as a result of its attention to financial performance.

Budget and Performance Integration

• For more than 20 years, Public Debt has used a formal strategic planning process. BPD's planning team, comprised of senior program officials, develops the strategic plan and annual performance targets as part of an ongoing planning and program evaluation process. The program evaluation process is supported by financial reports, linking cost to performance, which the planning team discusses on a regular schedule. BPD received an "Effective" PART rating from the Office of Management and Budget and has implemented all suggested recommendations including developing efficiency measures for every budget activity. During Public Debt's FY 2007 PART Review, the Bureau added a recommendation to identify long-term goals to improve efficiency and effectiveness.

3.3 – PART Evaluation Table

PART Evaluation
Table 3.3

PART Name:	Administering the Public Debt
Strategic Goal:	Manage the Government's Finances Effectively (F4)
Rating:	Effective

OMB Major Findings/Recommendations

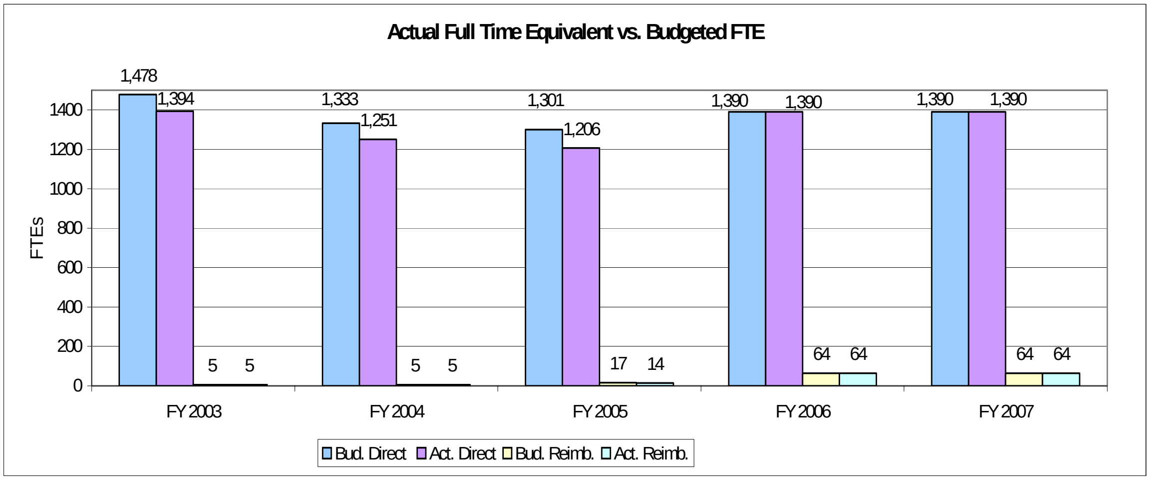
1. Continue to improve annual performance measures.
2. Identify new long-term goals to improve efficiency and effectiveness.

Bureau Actions Planned or Underway

Public Debt is identifying new long-term goals that will continue its long-standing tradition of operational efficiency and effectiveness.

Section 4 – Supporting Materials

4.1 – Human Resources Table



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Bud. Direct	1478	1333	1301	1390	1390
Act. Direct	1394	1251	1206	1390	1390
Bud. Reimb.	5	5	17	64	64
Act. Reimb.	5	5	14	64	64

CHANGES IN FULL-TIME EQUIVALENTS

		FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year		**1,256**	**1,220**	**1,454**
Increases:	*(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)*			
Reason #1:	Increase in direct FTE due to realignment of core administrative, policy, and IT functions back into Public Debt from the Franchise Fund as well as an increase in reimbursable FTE offset by a decrease in direct FTE due to productivity savings.		234	
Subtotal, Increases		**0**	**234**	**0**
Decreases:	*(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)*			
Reason #1:	Underutilization of direct FTE due to hiring lags.	-14		
Reason #2:	Decrease in direct FTE due to acceptance of buyouts for consolidation of Information Technology functions offset by an increase in reimbursable FTE.	-22		
Subtotal, Decreases		**-36**	**0**	**0**
Year-end Actual/Estimated FTEs		**1,220**	**1,454**	**1,454**
Net Change from prior year SOY to budget year EOY				**234**

4A – Human Capital Strategy Description

Public Debt's strategic management of human capital is consistent with its goals, visions, and priorities and supports not only the President's Management Agenda, but also the Treasury strategic goal of Managing the Government's Finances Effectively.

More specifically, Public Debt has high expectations of all employees and recognizes the value of their contributions. BPD's performance appraisal system is supplemented with specific expectations appropriate to the individual employee and the Bureau's current priorities and strategic initiatives. As a result, employees know what is expected of them and how these expectations relate to Public Debt's mission, objectives, and performance goals. Public Debt's appraisals effectively distinguish between high and low levels of performance.

Leadership training is important at Public Debt. The Bureau offers extensive in-house training and many opportunities to use the Office of Personnel Management's (OPM) Management Development Centers to develop leadership competencies in leads, supervisors, managers, and executives. Senior-level employees receive training through the Treasury Executive Institute, the Treasury Executive Leadership Program, and the Federal Executive Institute.

Human Capital initiatives, including succession planning, are an important part of Public Debt's Strategic Plan. The Bureau has a Management Cadre Program, a Management Candidate Development Program, and a SES Candidate Development Program that were designed and implemented to provide Public Debt with a trained, capable pool of managers and executives to fill future vacancies. All of these programs use Individual Development Plans (IDPs), mentoring, shadowing, position exchanges, and skills development to build leadership/management skills.

Public Debt has a comprehensive recruitment program in place to close skill gaps. The Bureau attends approximately 20 career fairs per year. Much of its recruitment occurs at colleges and universities with a diverse population or at diversity specific career fairs. Recruiting efforts are constantly refined to attract highly qualified diverse candidates to become part of its workforce. BPD values diversity and recognizes its benefits to the organization.

Public Debt uses the full realm of pay flexibilities to recruit and retain high quality candidates. Specifically, BPD uses recruitment bonuses, superior qualifications appointments, and retention allowances. The Bureau also uses special employment programs to hire quality candidates. The Federal Career Intern Program, Outstanding Scholar Hiring Authority, Student Career Experience Program, Veterans' Recruitment Act, etc. provide a source of highly qualified applicants. Public Debt developed a Student Loan Repayment Program and is using it as an added recruitment/retention incentive. The Bureau's recognition of the need for a balanced family and work life makes it an attractive employer. The use of Flexi-time, Alternative Work Schedule (AWS), and Flexi-place schedules assist BPD in recruiting and retaining highly talented individuals.

Public Debt believes that training is critical to keep employees' skills current and prevent skill gaps. Human Resources Specialists work with training focus groups created within each Public Debt Office to assess training needs, evaluate the effectiveness of completed training events, and develop future training opportunities. These groups concentrate on broad ranging disciplines including: Accounting, Administration and Analysis, Computer End-Users, Customer Service and Communication, Management, Information Technology, and Human Resources.

Public Debt is taking steps to improve its hiring statistics as they relate to the 45-day hiring model initiated by the OPM and adopted by the Department of the Treasury. In FY 2005, Public Debt implemented Treasury's automated staffing system, CareerConnector, to increase efficiencies in the area of hiring. As a result, the average time to fill positions through delegated examining decreased from 81 calendar days to 44 calendar days. Eighty percent of the Bureau's public hires meet the 45-day hiring model.

Public Debt is in the process of completing a Human Capital Strategic Plan in FY 2006 to formalize its policies and practices to promote and support Treasury's Human Capital Strategic Plan. Continual adjustment of BPD processes to match workforce needs and technology changes ensure that its Human Capital initiatives are being met.

Improvements to Public Debt's policies, programs, procedures, and operations are ongoing processes. Though improvement is always expected and sought, Public Debt believes that its current processes are meeting the intent of the President's Management Agenda. As Human Capital programs continue to grow and evolve, Public Debt will strive to achieve further improvements in this arena.

4.2 – Summary of IT and Non-IT Resources Table

Summary of IT and Non-IT Resources
Table 4.2
(Dollars in Millions)

Major Investments	FY 2005 Obligations	FY 2006 Enacted	FY 2007 Request
Information Technology:			
Wholesale Securities Services			
Oracle Federal Financials	0.192	0.220	0.263
Government Agency Investment Services			
InvestOne	1.728	1.785	1.845
Oracle Federal Financials	0.215	0.247	0.295
Special Purpose Securities System	1.720	1.776	1.836
Retail Securities Services			
Oracle Federal Financials	2.422	2.750	3.288
Savings Bond Replacement System	4.206	4.344	4.873
TreasuryDirect	4.442	5.013	5.191
Summary Debt Accounting			
Oracle Federal Financials	0.091	0.103	0.123
Public Debt Accounting and Reporting System	1.971	2.038	2.109
Subtotal	$16.987	$18.276	$19.824
Non-Information Technology:			
N/A			
Subtotal	$0.000	$0.000	$0.000
Total Major Investments	$16.987	$18.276	$19.824

4B – Information Technology and Non-Information Technology Strategy

Public Debt's major IT systems directly relate to and support its four budget activities. The goals of each of the four budget activities are specifically tied to the Bureau’s strategic and annual performance plans, and fully support Treasury’s long-term direction. Because BPD’s operations have been highly automated, these systems are the primary means by which they achieve objectives and address major challenges.

Public Debt has developed and continually enhances systems to process a wide range of servicing transactions, initiate trillions of dollars in customer payments, and account for the public debt at both the detail and summary accounting levels. By delivering services to customers online and automating work processes, these major IT investments support BPD's vision of responsible, effective government through commitment to service, efficient operations, openness to change, and values-based behavior. These major IT investments represent the most cost-effective means to conduct borrowings and deliver securities services to investors.

The Bureau's IT portfolio is comprised of certified and accredited applications, most of which are in a steady-state. Systems development expenses are being incurred for the continued development of the TreasuryDirect System, which will eventually serve as a replacement for other, more expensive, systems. To ensure continuity of operations for these significant technology investments, Public Debt partnered with the Financial Management Service for the use of one of their geographically remote processing centers for hot site contingency. Data is pre-staged and updated in near real time and recoverability at this location has been fully tested.

4.3 – Operating Levels Table

Operating Levels
Table 4.3
(Dollars in Thousands)

Appropriation Title: BPD Salaries & Expenses	FY 2005 Enacted	FY 2006 President's Budget as Amended	Cong. Action or Rescission	Transfers or Supplementals	FY 2006 Enacted Level	FY 2006 Proposed Operating Level	FY 2007 Proposed Operating Level
FTE	1,301	1,390			1,390	1,390	1,390
Object Classification:							
11.1 Full-Time Permanent Positions........................	$70,126	$82,940	$439		$83,379	$83,379	$85,736
11.3 Other than Full-Time Permanent Positions......	192	198	1		199	199	205
11.5 Other Personnel Compensation.......................	3,843	4,259	23		4,282	4,282	2,883
11.8 Special Personal Services Payments.............	0	0			0	0	0
11.9 Personnel Compensation (Total)....................	74,161	87,397	463		87,860	87,860	88,823
12.0 Personnel Benefits..	18,541	22,300	122		22,422	22,422	22,549
13.0 Benefits to Former Personnel..........................	16	16			16	16	16
21.0 Travel...	1,188	1,206			1,206	1,206	1,233
22.0 Transportation of Things.................................	7	7			7	7	70
23.1 Rental Payments to GSA................................	4,158	6,120			6,120	6,120	6,900
23.2 Rent Payments to Others...............................	95	96			96	96	98
23.3 Communications, Utilities, & Misc....................	18,156	16,528			16,528	16,528	16,892
24.0 Printing and Reproduction..............................	2,521	2,051			2,051	2,051	2,096
25.1 Advisory & Assistance Services.......................	210	213			213	213	218
25.2 Other Services..	30,631	24,582			24,582	24,582	24,467
25.3 Purchase of Goods/Serv. from Govt. Accts….	16,377	10,623	(1,584)		9,039	9,039	9,238
25.4 Operation & Maintenance of Facilities............	0	0			0	0	0
25.5 Research & Development Contracts...............	0	0			0	0	0
25.6 Medical Care..	0	0			0	0	0
25.7 Operation & Maintenance of Equipment.........	2,094	2,125			2,125	2,125	2,172
25.8 Subsistence & Support of Persons.................	0	0			0	0	0
26.0 Supplies and Materials...................................	2,623	2,662	(200)		2,462	2,462	2,516
31.0 Equipment..	7,336	3,946	(570)		3,376	3,376	3,450
32.0 Lands and Structures......................................	33	33			33	33	34
33.0 Investments & Loans......................................	0	0			0	0	0
41.0 Grants, Subsidies...	0	0			0	0	0
42.0 Insurance Claims & Indemn............................	4	4			4	4	4
43.0 Interest and Dividends…………………………	14	14			14	14	14
44.0 Refunds..	0	0			0	0	0
Total Budget Authority…………………………………	$178,165	$179,923	($1,769)	$0	$178,154	$178,154	$180,789
Budget Activities:							
Wholesale Securities Services………………………	$11,905	$12,306	($494)		$11,812	$11,812	$11,986
Government Agency Investment Services……………	13,360	13,812	(557)		13,255	13,255	13,451
Retail Securities Services………………………………	147,298	148,014	(485)		147,529	147,529	149,711
Summary Debt Accounting……………………………	5,602	5,791	(233)		5,558	5,558	5,641
Total Budget Authority…………………………………	$178,165	$179,923	($1,769)	$0	$178,154	$178,154	$180,789

NOTE: Total Budget Authority includes $3,000,000 in user fees for FY 2006 & FY 2007

4.4 – Required Annual Systems Modernization Report to Congress

BUREAU OF THE PUBLIC DEBT
ANNUAL REPORT ON SYSTEMS MODERNIZATION*
(Dollars in thousands)

No-Year Account

FY 05 Beginning Balance		$5,463
FY 05 Actual Expeditures		($1,959)
FY 05 Recoveries		$69
Balance at End of FY 05		$3,573
FY 06 Beginning Balance		$3,573
FY 06 Planned Funds Transfer		$0
FY 06 Planned Expenditures		($2,200)
Mainframe and Architecture Upgrades	($1,000)	
Enterprise Network Management Product	($700)	
Contingency Upgrades	($500)	
Balance at End of FY 06		$1,373
FY 07 Beginning Balance		$1,373
FY 07 Planned Funds Transfer		$0
FY 07 Planned Expenditures		($1,373)
Mainframe and Architecture Upgrades	($473)	
Enterprise Network Management Product	($400)	
Contingency Upgrades	($500)	
Balance at End of FY 07		$0

*As required by Conference Report 106-319 on H.R. 2490.

Public Debt relies on its Systems Modernization account to maintain and continually upgrade its information technology infrastructure, fully implement a comprehensive IT enterprise architecture, and provide for critical operational continuity to ensure reliable and uninterrupted financing of the Federal government. Enhancements ensure that a wide range of servicing transactions are completed effectively, trillions of dollars in customer payments are made timely, and the public debt is accounted for accurately. Additionally, this funding is essential to secure billions of dollars in TreasuryDirect customer account balances from evolving security threats including identity theft.

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

BUREAU OF THE PUBLIC DEBT

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

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 securities issue fees and *TreasuryDirect* 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 Treasury Appropriations Act, 2006)

Reimbursements to the Federal Reserve Banks

Public Law 101-509, 104 Stat. 1394, established a permanent indefinite appropriation to pay such sums as necessary to reimburse the Federal Reserve Banks (FRB) for acting as fiscal agents of the Federal government in support of financing the public debt. A permanent indefinite account was established in FY 1992. Claims for reimbursements or services related to this account are closely monitored for compliance with the Instructions for Filing Reimbursement Claims for Fiscal Agency Services Provided to the Bureau of the Public Debt (current edition). The FY 2007 funding to support FRB reimbursements is $123,497,688.

Government Losses in Shipment

Public Law 103-329 established a permanent indefinite appropriation to pay such sums as necessary to make payments for the replacement of valuables, or the value thereof, lost, destroyed, or damaged in the course of United States government shipments. The Government Losses in Shipment Act was approved July 8, 1937, to dispense with the necessity for insurance by the Government against loss or damage to valuables in shipment and for other purposes. The Act was amended in 1943 to cover losses resulting from the redemption of savings bonds (for example, stolen bonds which are fraudulently negotiated even though the paying agent followed identification guidelines established by the Treasury). All authority of the Treasury under the Act has been delegated to the Commissioner of the Bureau of the Public Debt. In FY 2007, the funding estimated to support payments for the replacement of valuables is $500,000.

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.

Resources Summary
Table 1.1
(Dollars in Thousands)

Resources	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Consolidated / Integrated Administrative Mgt.	$697,996	$785,288	$879,523	$94,235	12.00%
Financial Management Administrative Support	$72,598	$82,335	$90,569	8,234	10.00%
Financial Systems, Consulting & Training	13,299	12,740	13,250	510	4.00%
Total Resources	$783,893	$880,363	$983,342	$102,979	11.70%

FY 2007 Priorities

- Increase efficiency and effectiveness of administrative business processes.
- Enhance the system environment of administrative operations.
- Create a stronger shared services structure for Treasury.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The vision of the Treasury Franchise Fund is to transform the administrative support arena in the federal government by energizing a shared services business model that can offer marketplace success through competition.

The Franchise Fund businesses have been leaders in redefining the processes and methods for delivering administrative products and services that combine streamlined processes, simplified rules, full accountability, competitive costing, timely completion, and one-stop shopping for customers. Franchise Fund efforts have resulted in significant dollar savings throughout the Federal government primarily through the following franchising objectives:

- Promote efficiencies in the delivery of administrative products and services
- Reduce duplication of effort
- Foster competition
- Achieve full cost/self sufficiency
- Enhance customer satisfaction

The Treasury Franchise Fund is made up of four individual franchise businesses that are rolled into three Budget Activities that group their offerings into similar services.

Consolidated/Integrated Administrative Management – Includes FedSource

The mission of FedSource is to provide entrepreneurial business solutions for the acquisition and financial management of common administrative services and products in support of agency missions and objectives. FedSource focuses on Support Services and Copier/Printer Management.

Financial Management Administrative Support Services – Includes the Administrative Resources Center (ARC)

ARC's mission is to provide the best value in administrative system platforms and services with a focus on accounting, procurement, travel, and HR services.

Financial Systems, Consulting and Training – Includes Treasury Agency Services (TAS) and the Federal Consulting Group (FCG)

The mission of TAS is to help agencies improve the quality of government financial management. TAS, hosted by the Financial Management Service, is a reimbursable provider of information, advice, assistance, and training that is customized to meet today's environment and client agencies' requirements.

FCG's mission is to consult with other Federal government agencies to facilitate transformation efforts to being a more efficient, results-oriented agency. FCG focuses on customer satisfaction measurement using the American Customer Satisfaction Index (ACSI).

1B – Previous Highlights and Accomplishments

Demonstrated Success – Eliminating Duplication

Shared Platform & Services

The Administrative Resource Center (ARC) has reduced the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, and personnel functions. In addition, ARC acts as a shared service provider for many customers providing full-service transaction processing and reporting. ARC, an OMB-approved Center of Excellence for Financial Management, now provides:

- 28 organizations with administrative accounting services
- 28 organizations with travel services
- 32 organizations with procurement services
- 17 organizations with personnel services

The consolidation of these federal customers onto a shared systems platform has provided substantial savings to the federal government. These organizations now get better system license costs because the vendors offer large volume discounts. These organizations also share the costs associated with operations and maintenance. In addition to the cost savings, these organizations are upgraded to the latest version of the software simultaneously as opposed to each organization managing their upgrade independently.

In the past, the Department of the Treasury had a decentralized administrative service environment. There were 14 different Bureaus and organizations within Treasury running their own accounting, procurement, and travel systems on various platforms. Each organization trained separate staffs to manage their systems and process their transactions. With the evolution of the Administrative Resource Center (ARC), Treasury has now moved to a shared services environment where 11 of the 14 entities share systems on a single integrated platform. In addition, many of the Bureaus take advantage of ARC's experienced staff to process their transactions and provide their reporting.

Consolidating Agency Needs

FedSource has consolidated multiple requirements from several offices within the same agency into one procurement vehicle. For example, FedSource has combined copier equipment, software for the copy center, and placements to run the copy center– all for one price. They were able to give the customer one agreement for multiple services eliminating the need for the agency to seek several vendors. FedSource became "one-stop" shopping. In another example, FedSource established a single "master agreement' for one of its customers that eliminated the need for separate agreements for each of its customer's offices. That alone saved the customer agency time and reduced its administrative burden significantly. This not only proved to be a time saver, it also facilitated cost savings for the customer.

Demonstrated success – timeliness & accuracy

Timely Financial Information

The Administrative Resource Center has always been among Treasury's best in quality and timeliness of financial reporting. ARC continues to strive to set the example for efficiency and quality in the area of financial reporting. With Oracle's reporting tool (Discoverer), federal managers have real-time data at their fingertips any day of the month. By closing their customer's books by the 3rd business day following each month, timely financial data (such as unobligated balances) is quickly in the hands of federal mangers for decision-making. By closing the year-end books five business days after year-end, Federal managers have the data necessary to provide year-end reporting well ahead of their counterparts in other agencies.

There is no better test for the accuracy and quality of financial data than an annual financial statement audit. The Treasury Franchise Fund has received eight straight "clean" audit opinions. Externally, ARC has helped its customers receive over 40 consecutive clean audit opinions. ARC also maintains an exceptional internal control structure. Each year ARC undergoes a SAS 70 audit that verifies the entire control structure from disbursement processing to financial reporting. Each agency saves money on its annual financial statement audits because their auditors can rely on the work done during ARC's SAS 70 Audit.

Demonstrated Success – Efficiency

Efficiency is the ability to perform well or achieve a result without wasting energy, resources, effort, time or money. Competition, a cornerstone of the franchising concept, has been the impetus behind improving government efficiency. Competition has increased the focus of service providers on the needs of the customer, introduced the need for market solutions (instead of administrative bureaucracy), decentralized authority, and improved efficiency by delivering better services at lower costs in the most effective manner.

Reducing Overhead Costs

Many customers have realized reduced pricing, rebates, and volume discounts as a result of the economies of scale and improved efficiency of FedSource's services. In order to remain competitive, FedSource continues to find ways to reduce its operating (overhead) costs. FedSource is able to give a price reduction when obtaining large orders because in most instances its operating costs remain fairly constant. This is best illustrated by looking at its operating percentage, which quantifies operating costs as percentage of total revenue. The increase in revenue has outpaced the increase in operating costs. As a result, FedSource's operating percentage has steadily decreased from 7.0percent in FY 1998 to 2.7percent in FY 2004 representing a 61percent reduction.

Private Sector Accountability

FedSource worked with two of its largest vendors to enhance the methods in which they invoice the Government. This enabled FedSource to easily review each invoice for accuracy, which saved more than 10 days of staff time each month. In addition FedSource receives many invoices electronically, which allows their system to automatically check it against the contract for errors. As a result, FedSource is able to provide its customers with a more timely and accurate bill. In this case, the government and the private sector have become more efficient.

Awards and Public Recognition

- In 2005, OMB recognized the Administrative Resource Center as a Center of Excellence in the Financial Management Line of Business.

- The Administrative Resource Center received the Certificate of Achievement for a Government Travel Management Program from the Society of Government Travel Professionals (SGTP) for implementing the mLINQS commercial, off-the-shelf software (moveLINQ) to automate the relocation process as part of the eTravel implementation.

1C – Future Outlook

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.

Corporate Structure

The Treasury Department has been looking at the management structure of the Treasury Franchise Fund. In the past, the Fund has been managed through the participation of several Bureaus that directed the businesses they sponsored within the Fund. As the Fund has grown more and more in the shared services environment, Treasury is taking the opportunity to align the management of the Fund to create synergy with other Treasury policy makers.

Changes in the Businesses

Treasury's Financial Management Service (FMS), the host bureau for Treasury Agency Services (TAS), has made the initial decision to move TAS from the Treasury Franchise Fund back into FMS' Government-Wide Accounting Office. The initial plan is to phase out TAS by the end of FY 2006; however, it is too early to project the impact of this decision. As a result, the Franchise Fund budget figures continue to straight-line the TAS budget through 2007. TAS makes up less than 1percent of the total budget for the

Franchise Fund, so this should have little impact. As the phase-out plan becomes clearer, Franchise Fund will reflect changes in future budget submissions.

Creating Opportunities through Innovation

Government business has significant needs when it comes to information. Making information actionable is central to an entity's performance. The ability to collaborate and share ideas, to make better-informed decisions, and to connect with customers relies on effectively managing information. At the same time, reducing costs remains a long-term priority. For these reasons, the importance of information technology as a strategic asset has never been greater. Franchise Fund is collaborating with its private sector partners to create high-impact solutions that integrate across the organization, such as using technology to give its customers desktop access to critical information. Focusing on its customer's needs fuels its passion for innovation. Franchise Fund believes innovative technology has the power to eliminate obstacles and create opportunities. As such, Franchise Fund will focus much of its efforts in FY 2006 and beyond to further developing its on-line offerings.

Raising the Bar

Although Franchise Fund is proud of its marketplace success and track record of delivering innovation, quality and results to its clients, the time has come for us to raise the bar in the industry once again. OMB's designation of the Treasury Franchise Fund as a "Center of Excellence" in Financial Management will open new doors. Not only will this designation help expand the Administrative Resource Center's current target audience of small to mid-level agencies but it should provide the pathway to compete for the business of large cabinet level agencies. To ensure the Fund can meet these new opportunities the Fund has been making substantial investments today to enhance the power and value of its integrated system platform. Franchise Fund is optimistic about its long-term growth opportunities.

Section 2 – Not Applicable for Non-appropriated Bureaus

3.1 – Activity Summary Table

Dollars in Thousands

Activity Summary
Table 3.1
(Dollars in Thousands)

Description		FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated	% Change FY 2006 to FY 2007
Summary of Revenue and Expenses:					
Revenue:					
Consolidated / Integrated Administrative Mgt.	$	697,996	$785,288	$879,523	12.00%
Financial Management Administrative Support	$	72,598	82,335	90,569	10.00%
Financial Systems, Consulting & Training	$	13,299	12,740	13,250	4.00%
Total Revenue		$783,893	$880,363	$983,342	11.70%
Expenses:					
Consolidated / Integrated Administrative Mgt.		687,936	$777,112	$870,365	12.00%
Financial Management Administrative Support		72,558	81,675	89,843	10.00%
Financial Systems, Consulting & Training		11,884	12,688	13,196	4.00%
Total Expenses		772,377	$871,475	$973,404	11.70%
Net Results		$11,516	$8,888	$9,938	11.81%
Customer Growth					
Consolidated / Integrated Administrative Mgt.		2,769	3,184	3,566	12.00%
Financial Management Administrative Support		61	64	68	6.25%
Financial Systems, Consulting & Training		251	357	393	10.08%
Total Customer Growth		3,081	3,605	4,027	11.71%

3A – Budget Activity Description

Consolidated/Integrated Administrative Management ($879,523 from reimbursable funding)

The purpose of this budget activity is to provide voluntary government customers with entrepreneurial business solutions for the acquisition and financial management of common administrative services and products in support of agency missions and objectives. The Consolidated/Integrated Administrative Management activity includes FedSource which offers a “first choice” option or alternate source for the acquisition of these services and products in a fast, cost effective manner while continuing to assure quality and customer service.

FedSource has consolidated multiple requirements from several offices within the same agency into one procurement vehicle. For example, FedSource has combined copier equipment, software for the copy center, and placements to run the copy center– all for one price. They were able to give the customer one agreement for multiple services eliminating the need for the agency to seek several vendors. In another example, FedSource established a single “master agreement’ for one of its customers that eliminated the need for separate agreements for each of its customer’s offices. That alone saved the customer agency time and reduced its administrative burden significantly. This not only proved to be a time saver, it also facilitated cost savings for the customer.

Many customers have realized reduced pricing, rebates, and volume discounts as a result of the economies of scale and improved efficiency of FedSource’s services. In order to remain competitive, FedSource continues to find ways to reduce their operating (overhead) costs. FedSource is able to give a price reduction when obtaining large orders because in most instances their operating costs remain fairly constant. This is best illustrated by looking at their operating percentage, which quantifies operating costs as percentage of total revenue. The increase in revenue has outpaced the increase in operating costs. As a result, FedSource’s operating percentage has steadily decreased from 7.0percent in FY 1998 to 2.7percent in FY 2004 representing a 61percent reduction.

FedSource worked with two of its largest vendors to enhance the methods in which they invoice the Government. This enabled FedSource to easily review each invoice for accuracy, which saved more than 10 days of staff time each month. In addition FedSource receives many invoices electronically, which allows its system to automatically check it against the contract for errors. As a result, FedSource is able to provide its customers with a more timely and accurate bill. In this case, the Government and the private sector have become more efficient.

FedSource expects to continue to be one of the most efficient procurement options for the federal government. As FedSource grows that can demand even lower prices from their vendors based on their increased buying power derived from all their customers. FedSource is also working on a reorganization plan that will make it more efficient in its ability to deliver administrative services. At the core of their reorganization is the centralization of an Acquisition Center that will help FedSource ensure compliance with the many rules and regulations in the procurement arena.

Financial Management Administrative Support Services ($90,569 from reimbursable funding)

The purpose of the Financial Management Administrative Support Activity is to offer value to its customers through cost savings (system acquisitions and O&M) and quality services. The Financial Management Administrative Support Services activity includes the Administrative Resources Center. ARC provides traditional administrative support functions with a focus on accounting, procurement, travel, and HR services. This program has been very successful in meeting its mission goals as evidenced by the increasing demands for and satisfaction from their services.

The Administrative Resource Center (ARC) has reduced the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, and personnel functions. In addition, ARC acts as a shared service provider for many customers providing full-service transaction processing and reporting. ARC, an OMB-approved Center of Excellence for Financial Management, now provides:

- 28 organizations with administrative accounting services
- 28 organizations with travel services
- 32 organizations with procurement services
- 17 organizations with personnel services

The consolidation of these federal customers onto a shared systems platform has provided substantial savings to the federal government. These organizations now get better license costs because the vendors offer large volume discounts. These organizations also share the costs associated with operations and maintenance. In addition to the cost savings, these organizations are upgraded to the latest version of the software simultaneously as opposed to each organization managing its upgrade independently.

In the past, the Department of the Treasury had a decentralized administrative service environment. There were 14 different Bureaus and organizations within Treasury running their own accounting, procurement, travel and various system platforms. Each organization trained separate staffs to manage their systems and process the transactions. With the evolution of the Administrative Resource Center (ARC), Treasury has now moved to a shared services environment where 11 of the 14 entities share systems on a single integrated platform. In addition, many of the Bureaus take advantage of ARC's experienced staff to process their transactions and provide their reporting.

The Administrative Resource Center has always been among Treasury's best in quality and timeliness of financial reporting. ARC continues to strive to set the example for efficiency and quality in the area of financial reporting. With Oracle's reporting tool (Discoverer), federal managers have real-time data at their fingertips any day of the month. By closing their customer's books by the 3rd business day following each month, timely financial data (such as unobligated balances) is quickly in the hands of federal mangers for decision-making. By closing the year-end books five business days after year-end, Federal managers have the data necessary to provide year-end reporting well ahead of their counterparts in other agencies.

There is no better test for the accuracy and quality of financial data than an annual financial statement audit. The Treasury Franchise Fund has received eight straight "clean" audit opinions. Externally, ARC has helped its customers receive over 40 consecutive clean audit opinions. You can also count on the internal control structure that ARC maintains. Each year ARC undergoes a SAS 70 Audit that verifies the entire control structure from disbursement processing to financial reporting. Each agency saves money on its annual financial statement audits because those auditors can rely on the work done during ARC's SAS 70 Audit.

ARC already has agreements in place to add customers through FY 2007. ARC is in discussions with several agencies (small and large) to ensure work beyond FY 2007. ARC will generate substantial cost savings to these new customers through the year-one conversion phase. Customers will receive a compliant system platform at a fraction of the cost of the agency implementing their own new system. Customers also receive cost savings in out years by sharing system upgrade costs with ARC's other customers. Operations and maintenance costs are also lowered because ARC can negotiate much better system license costs with their vendors. As a result of the projected business, ARC hopes to help customers eliminate 15-20 duplicate financial related systems by FY 2007.

As ARC matures as a business they continue to add experienced personnel to their expert staffs. ARC can use the solutions that are implemented by one customer to help similar issues encountered by other customers. This "economies of skill" could not be obtained if the agencies performed their own work. ARC has also begun to re-look at their processes to streamline their procedures to gain new efficiencies. They are making great strides in developing internal output and efficiency measures.

Financial Systems, Consulting and Training ($13,250 from reimbursable funding)

The purpose of the Financial Management Administrative Support Activity is to offer value to customers by proving solutions through consulting and training. The Financial Systems, Consulting and Training activity consists of Treasury Agency Services and the Federal Consulting Group.

Treasury Agency Services shares one common purpose with their host bureau FMS—help agencies improve the quality of government financial management. TAS is a reimbursable provider of information, advice, assistance, and training that is customized to meet today's environment and client agencies' requirements. These services provide the venue for linking program objectives and services with best financial management practices. TAS' vision is to be the partner of choice for federal managers seeking financial management improvements and success. Its strength is Financial Management Service expertise combined with entrepreneurial initiative.

The mission of the Federal Consulting Group is to consult with other Federal government agencies to facilitate transformation efforts to being a more efficient, results-oriented agency. The FCG achieves its mission through its three Service Centers: Customized and Collaborative Consulting and Facilitation Services, Executive Coaching through its National Network of Qualified Coaches, and Strategies for Customer Service Improvement. Through its Service Centers customers are provided facilitation services, business process redesign, strategic planning, executive coaching, and team building. The FCG partners with both political and senior career leaders to create solutions specifically designed to meet unique organizational needs.

The Federal Consulting Group reduced the number of contractual actions, administrative steps, and management oversight required to assess and improve customer satisfaction in agencies throughout the federal government. By providing a "turn key" capability that includes access to best-of-breed analytical models, experienced program management, unsurpassed quality control and timely clearances from the Office of Management and Budget to conduct surveys of the public, the Federal Consulting Group provides unprecedented access to customer assessment and improvement services. These services are being used by over 200 federal agencies and programs to make important improvements in the widest possible variety of communication and service channels, including websites, call centers, and intranets.

Agencies in all departments of the government, as well as many small independent agencies, have taken advantage of this “one-stop” service. The service is saving time at all levels of government and reducing administrative costs significantly. Agencies pursuing their own customer assessment work often pay much higher prices and can spend months getting approval for their surveys through the Office of Management and Budget. In addition, many client agencies have realized reduced pricing and volume discounts. One prominent client, the National Institutes of Health, saved $800,000 in one year based on prices negotiated by the Federal Consulting Group or a savings of nearly $2 million over commercial prices. What’s more, the Federal Aviation Administration, Social Security Administration, and Internal Revenue Service have reportedly saved dozens of manpower positions by using the services provided through the Federal Consulting Group to direct customers into more efficient channels of communication. Almost all bureaus in the Department of the Treasury are using the service to guide redesign and evolution of their websites.

Federal Consulting Group continues to function as one of the most cutting edge consulting options in the federal government. As the pressure grows to achieve results, measure performance, increase trust and confidence toward government in the minds of citizens, and prepare the next generation of leaders, the demand for and related value of the services provided to client agencies will continue to climb. FCG’s mantra of experience meeting government’s challenges makes to big difference to client agencies, who want to work with those. Further, through several cross-government communities of practice and training activities, the Federal Consulting Group is emerging as an important influence and knowledge center on matters ranging from customer assessment and mentoring to business process improvement and Baldridge-based strategic planning. These forums not only focus on lessons learned and sharing best practices but also serve as an effective tool for enhancing communication between departments and generating enthusiasm and demand for FCG services.

3.2 – Budget and Performance Plan

Dollars in Thousands

Budget and Performance Plan

Table 3.2

(Dollars in Thousands)

Treasury Strategic Goal: Ensure Professionalism, Excellence, Integrity, and Accountability in the Mgt and Conduct of the Dept of Treasury (M5)						
Resource Level	FY 2002 Obligated	FY 2003 Obligated	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated
Treasury Strategic Objective M5B:						
Revenue by Budget Activities						
Consolidated / Integrated Administrative Mgt.	$258,718	$351,860	$480,478	$701,150	$785,288	$879,523
Financial Management Administrative Support	38,966	49,904	64,450	74,850	$82,335	$90,569
Financial Systems, Consulting & Training	12,059	12,182	12,920	12,250	12,740	13,250
Total Operating Level	$309,743	$413,946	$557,848	$788,250	$880,363	$983,342
FTE by Budget Activity						
Consolidated / Integrated Administrative Mgt.	49	52	80	80	86	93
Financial Management Administrative Support	362	418	531	580	626	677
Financial Systems, Consulting & Training	62	58	50	50	50	50
Total FTEs (reimbursable)	473	528	661	710	762	820

Strategic Objective: Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service - M5B

Performance Goal: Ensure Business Activities are Self-Sufficient and Efficient

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Operating expenses as a percentage of revenue--Consolidated/Integrated Administrative Management (%)(E)						
Target			Baseline	4	12	12
Actual			4	4		
Target Met?	N/A	N/A	N	Y		
Operating expenses as a percentage of revenue--Financial Management Administrative Support (%) (E)						
Target			Baseline	11	12	12
Actual			9	9		
Target Met?	N/A	N/A	N	Y		
Operating expenses as a percentage of revenue--Financial Systems, Consulting and Training (%) (E)						
Target			Baseline	12	12	12
Actual			14	11		
Target Met?	N/A	N/A	N	Y		

Performance Goal: Ensure Customers are Satisfied with all Aspects of Service Provided - Quality of Products/Services, Delivery, Price and Conduct of Business

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Customer Satisfaction Index - Financial Mgmt Admin Support Services (%) (Oe)						
Target					Baseline	TBD
Actual						
Target Met?	N/A	N/A	N/A	N/A		
Customer Satisfaction Index - Financial System, Consulting & Training (%) (Oe)						
Target					Baseline	TBD
Actual						
Target Met?	N/A	N/A	N/A	N/A		
Customer Satisfaction Index - Consolidated/Integrated Administrative Mngmnt (%)(Oe)						
Target					Baseline	TBD
Actual						
Target Met?	N/A	N/A	N/A	N/A		
Customer satisfaction approval rating--Financial System, Consulting & Training (%) (Ot) [DISCONTINUED FY 2006]						
Target	80	80	80	80	Discontinued	Discontinued
Actual	93	87	87	88		
Target Met?	Y	Y	Y	Y		
Customer satisfaction approval rating-Financial Management Administrative Support Services (%) (Ot) [DISCONTINUED FY 2006]						
Target	80	80	80	80	Discontinued	Discontinued
Actual	90	94	85	96		
Target Met?	Y	Y	Y	Y		
Customer satisfaction approval ratings--Consolidated/Integrated Administrative Management (Ot) (%) [DISCONTINUED FY 2006]						
Target	80	80	80	80	Discontinued	Discontinued
Actual	93	81	87	81		
Target Met?	Y	Y	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

Customer Satisfaction

It is imperative that the Franchise Fund customers are satisfied with all aspects of the services provided. In the past the Fund used an 80percent benchmark because of the scales used by the businesses to assess customer satisfaction. In FY 2005, the Franchise Fund used the American Customer Satisfaction Index (ACSI). As a result, the Fund's base-line measures have changed.

Operating Expenses as a Percentage of Revenue

The Franchise Fund will either maintain or decrease the cost of goods sold as a percentage of revenue year to year. Cost of goods sold is defined as the costs actually incurred in producing the product or service. It is the direct cost of production or service.

In FY 2005, the Franchise Fund adopted the American 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.

3C – PMA Evaluation Description

Improved Financial Management

- Accelerated Close (Timeliness): The Administrative Resource Center quickly puts timely financial data (such as unobligated balances) in the hands of federal mangers for decision-making by closing their customer's books by the 3rd business day following each month. By closing the year-end books five business days after year-end, ARC's customers have the data necessary to meet the agency deadline of producing financial statements by November 15th and government-wide deadline of December 15th. These accelerated closing dates are available to all 28 accounting customers.

- Audited Year-End Financial Statements (Reliable & Accurate): There is no better test for the accuracy and quality of financial data than an annual financial statement audit. The Treasury Franchise Fund has received eight straight "clean" audit opinions. Externally, ARC has helped its customers receive over 40 consecutive clean audit opinions. These results are due to the expert staff that ARC has been able to attract being located in Parkersburg, WV. ARC has hired over 36 Certified Public Accountants making up roughly 23percent of their total accounting staff.

- Strengthening Management's Responsibility for Internal Controls: Each year ARC undergoes a SAS 70 Audit that verifies the entire control structure from disbursement processing to financial reporting. Each agency saves money on its annual financial statement audits because those auditors can rely on the work done during ARC's SAS 70 Audit. ARC has received 2 consecutive clean opinions since it began requesting these independent 3rd party reviews.

- Reducing Improper Payments: In FY 2004 the government-wide improper payment rate was 3.9percent. For non-Medicare programs the improper payment rate was 2.7percent (from OMB's "Improving the Accuracy and Integrity of Federal Payments" 1/25/05). While the Treasury Franchise Fund's payments, as well as the payments made on behalf of their customers, are not material to the government-wide figures, ARC's improper payment rate was 0.2percent in FY 2004 for its Treasury customers (35 of 19,687 payments). Please note: All 35 improper payments were recovered. ARC assists their customers in implementing the Improper Payments Act of 2002 by helping them with their risk assessments and compiling some of their data.

Expanded E-Government

- Financial Management Line of Business: The Franchise Fund has taken a leadership role in the cross-servicing arena. As an industry leader Franchise Fund have served as the model of the Financial Management Line of Business initiative. The Franchise Fund's Administrative Resource Center (ARC) has been providing financial services to its customers since FY 1998. Based on their demonstrated success, ARC was selected by the Office of Management and Budget as one of the Centers of Excellence for Financial Management in FY 2004. By allowing customers to share the same systems platform, the Fund has allowed agencies to reduce their initial investment costs and ongoing operation and management costs involved with financial management. ARC has reduced the number of federal administrative systems by providing access to an integrated system platform for accounting, travel, procurement, and personnel functions. ARC's core financial system is the Joint Financial Management Improvement Program compliant Oracle Financials 11i. Through ARC's efforts as a leader in federal financial management, the Fund is helping all of its customers improve their financial management performance. ARC's role as a Center of Excellence has allowed it to achieved the results listed under PMA-3 Improved Financial Management.

- E-Travel: ARC led the Treasury initiative to rollout Northup Grumman's GovTrip, which makes Treasury one of the first agencies to meet this portion of the PMA's E-Government initiative. ARC was the first provider to place an E-Travel task order. ARC enabled Treasury to be the first agency to successfully implement E-Travel from end-to-end including an interface to the financial system. Additionally, ARC received the Certificate of Achievement for a Government Travel Management Program from the Society of Government

Travel Professionals (SGTP) for implementing the mLINQS commercial, off-the-shelf software automate the relocation process as part of the eTravel implementation. ARC has successfully migrated all their customers to E-travel.

3.3 – PART Evaluation Table (not applicable to the Franchise Fund)

Section 4 – Supporting Materials

4.1 – Human Resources Table

CHANGES IN FULL-TIME EQUIVALENTS

		FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year		**686**	**710**	**762**
Increases:				
	Reason #1: All due to Shared Services (such as providing admin services for another agency/bureau).	24	52	58
	Subtotal, Increases	**24**	**52**	**58**
Decreases:				
	Subtotal, Decreases	**0**	**0**	**0**
Year-end Actual/Estimated FTEs		**710**	**762**	**820**
Net Change from prior year SOY to budget year EOY				**110**

4A – Human Capital Strategy Description

The Fund relies heavily on its host Bureaus (BPD, FMS, and DO) to provide the basis of its human capital strategy. Each bureau has does significant work in this area. The Fund, in a supplemental role, continues to improve recruitment, retention, professional development and evaluation strategies. The Fund makes full use of special hiring authorities, such as the Federal Career Intern, Outstanding Scholar and Student Career Experience Programs. With a significant portion of the Fund's FTE's located in Parkersburg, WV, the Fund has had a great deal of success recruiting highly qualified personnel. For example, the Fund's core business line – ARC's Financial Management Services – has been able attract over 36 Certified Public Accountants making up roughly 23percent of their total accounting staff.

The Treasury Franchise Fund recently unveiled its "EthicSmart" initiative that will increase awareness of ethical dilemmas that are heightened in a service business environment. This initiative helps support one of the Fund's goals of complying with relevant laws and regulations. The program is designed to help convey management's desire to create an environment where employees can make the right decision and take the right course.

4.2 – Summary of IT and Non-IT Resources Table

The Treasury Franchise Fund does not have any IT or Non-IT investments that meet the identified criteria.

4B – Information Technology and Non-Information Technology Strategy

The TFF determines what IT investments should be added to its portfolio using an Investment Review Board (IRB). The Fund's Advisory Board acts as the IRB and looks at investment activity monthly. All IT investments must be supported by a business need and the investment must add value to the services TFF provides its customers. When reviewing investments, the TFF IRB considers/addresses these questions:

- Does the IT investment support core/priority mission functions that need to be performed by the Treasury Franchise Fund?
- Does the project have to be undertaken by the Franchise Fund because no alternative private sector or government source can more efficiently support the function?
- Does the investment support work processes that have been simplified or otherwise redesigned to reduce costs, improve effectiveness, and make maximum use of commercial, off-the-shelf technology?
- Does the investment eliminate redundant systems and centralize core functions?

The Administrative Resource Center's IT portfolio is managed by the Bureau of the Public Debt, while Treasury Agency Service's portfolio is managed by the Financial Management Service. FedSource and FCG's IT portfolio is managed by the Treasury Franchise Fund's IRB. The Treasury Franchise Fund does not have any IT or Non-IT investments in their current portfolio.

4.3 – Operating Levels Table

Dollars in Thousands

Operating Levels
Table 4.3
(Dollars in Thousands)

	FY 2005 Actuals	FY 2006 Estimated	FY 2007 Estimated
	710	762	820
Object Classification:			
11 Personnel Compensation…………………………	$43,172,786	$56,389,599	$62,984,975
12 Personnel Benefits..	15,216,248	15,336,871	17,130,685
13 Ben. Former Personnel..	(918)	78,181	87,325
21 Travel and Transportation of Persons……….	1,281,088	1,779,150	1,987,241
22 Transportation of Things...	209,018	374,197	417,963
23 Rents Communications, Utilities, and Misc. Charges................	4,462,759	6,058,487	6,767,093
24 Printing and Reproduction…………………………………	233,891	2,773,931	3,098,372
25 Other Services...	698,400,182	772,393,756	862,733,589
26 Supplies and Materials…………………………	1,241,709	2,935,630	3,278,984
31 Equipment…………………..	7,973,740	11,592,168	12,947,997
32 Land and Structures…………………………	170,428	1,763,031	1,969,236
42 Insurance Claims and Indemnities	5,000	-	-
43 Interest	10,706	-	-
Total…………………………………………………………..	$772,376,637	$871,475,000	$973,403,460
Budget Activities:			
Consolidated/Integrated Administrative Management	687,935,554	777,112,000	870,365,440
Financial Systems, Consulting and Training	11,883,508	12,688,000	13,195,520
Financial Management Administrative Support Services	72,557,575	81,675,000	89,842,500
Total…………………………………………………………..	$772,376,637	$871,475,000	$973,403,460

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

FRANCHISE FUND

The Treasury Franchise Fund was made permanent by P.L. 108-447 and codified as 31 U.S.C. 322, note.

Justification of Language Changes

No Changes

Legislative Proposals (if any)

No Legislative Proposals

Changes to budget structure (if any)

No Changes

United States Mint

Mission

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

Resources Summary
Table 1.1
(Dollars in Thousands)

Resources	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
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%
Total Resources	**$1,014,143**	**$1,886,154**	**$1,930,059**	**$43,904**	**2.3%**

FY 2007 Priorities

- In 2007, the United States Mint will produce and ship coins as legislated in the Presidential $1 Coin Act of 2005 (Public Law 109-145): Presidential $1 coins and Sacagawea-design $1 coins, First Spouse Bullion coins, and Buffalo Gold Bullion coins.

- In 2007, the United States Mint will continue to produce and sell the new 24-karat gold bullion coins (to be introduced in 2006).

- The United States Mint plans to produce and distribute 15.7 billion coins for circulation during FY 2007.

- The United States Mint expects to sell $451 million in numismatic products directly to the general public, and $981 million in bullion investment products.

- In 2007, the 50 State Quarters Program® will depict designs for Montana, Washington, Idaho, Wyoming, and Utah.

- The United States Mint will improve performance, with targets to reduce conversion cost per 1,000 coin equivalents to $6.18 and to improve cycle time to 64 days in FY 2007.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Mission

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 United States Mint's mission is to apply world-class business practices in manufacturing, selling, and protecting the nation's coinage and assets.

Since FY 1996, the United States Mint has operated under the United States Mint's Public Enterprise Fund (PEF). As authorized by Public Law 104-52 (31 U.S.C. § 5136), the PEF eliminates the need for appropriations to the United States Mint. Proceeds from the sales of circulating coins to the Federal Reserve Bank (FRB) system and numismatic items to the public are the sole source of funding for United States Mint operations. 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.

Strategic Focus

The United States Mint continues its strategic focus on realizing world-class performance, maximizing taxpayer value, and developing a model workplace. For the United States Mint, world-class performance translates to a smart, agile, efficient organization that is in position to successfully take on new initiatives, produce new, innovative products using new technologies, sell products in new markets, and speed the development of new products. In order to maximize taxpayer value, United States Mint operations require continuous improvement to become faster and leaner in order to reduce costs. Exploiting opportunities to reduce costs results in more funds returned to the Treasury General Fund. A model workplace is one in which all United States Mint employees are treated with dignity and respect, valued for their contributions, rewarded fairly for their achievements, and receive training and assignments for the future.

Priorities

The United States Mint has established three priorities to align activities and initiatives to achieve progress toward the strategic focus. The priorities are:

- Developing New Products and Programs
- Staying Competitive
- Fostering a Model Workplace, Developing Skills in the Workforce

See Section 1C Future Outlook (page Mint – 6) for more information on these priorities and associated initiatives.

Budget Activities

Manufacturing and Sales – The United States Mint manufactures and sells coins and coin-related products. These products are grouped into three programs: Circulating Coinage, 50 State Quarters®, and Numismatic.

Protection – The United Sates Mint Police protects over $100 billion in Treasury and other government assets, over 2,000 employees and the many visitors who tour the Denver and Philadelphia facilities each year.

1B – Previous Highlights and Accomplishments

Growing Revenue

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 performance measures that improved in FY 2005 are cost per 1,000 coin equivalents and cycle time. The cost per 1,000 coin equivalents decreased 6% to $7.42 in FY 2005 from $7.93 in FY 2004, missing the target of $7.03. The Mint plans to continue to reduce conversion costs for given production volumes through further implementation of lean 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, but missed the target of 53 days. 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.

Awards and Recognition

Customer Satisfaction: The United States Mint continued to rank as a top federal agency in the University of Michigan's American Customer Satisfaction Index (ACSI) with a rating of 88 in 2005. This score is an improvement from 86 in 2004 and ranks among the top in government agencies and private sector companies.

ISO 14001 Certification: The United States Mints at Denver, Philadelphia and West Point have been examined in detail for conformance to the requirement of International Organization for Standardization (ISO) 14001, First Edition, 1996-09-01, and have been determined to be in conformance with all provisions of this international standard. The ISO 14001 Certification provides recognition of a working Environmental Management System (EMS) and measures environmental performance against the set of international standards developed by the ISO. The EMS at Denver, Philadelphia and West Point were registered to ISO 14001 during FY 2005. This certification is increasingly used by private organizations to emphasize their commitment to environmental performance.

OSHA's Highest Award for Safety: The Occupational Safety and Health Administration (OSHA) awarded the United States Mint at Philadelphia the Voluntary Protection Program (VPP) Star status flag on June 6, 2005. OSHA's Star status is the highest honor a worksite can achieve under the VPP safety program. In 2002, the United States Mint at Philadelphia was cited for 81 OSHA violations with 139 specific examples of unsafe and potentially unsafe conditions. At that time, coin production was suspended at the facility for six weeks to improve conditions. Employees, managers and two unions worked closely with OSHA to improve standards and strengthen procedures. The facility conducted inspections, self-audits, re-training, and maintenance. Employee injury rates improved dramatically, falling 86 percent from 2000 to 2004. The Star status flag recognizes the United States Mint at Philadelphia as one of the safest worksites in the country. Only five federal facilities from around the world have received this award.

1C – Future Outlook

Future demand for circulating coins is expected to remain relatively flat. The sales of numismatic products are expected to increase significantly and the sales of bullion products are expected to increase substantially with the introduction of the 24-karat gold bullion program. In FY 2007, the United States Mint plans to produce 15.7 billion coins for circulation, sell $451 million in numismatic products, and sell $981 million in bullion products. Total revenues from all products are estimated to be $2.7 billion with an estimated total operating cost of $1.9 billion. Net results from operations and the corresponding transfer to the Treasury General Fund are estimated to increase from $775 million in FY 2005 to $782 million in FY 2006 and $816 million in FY 2007. In response to flat demand for circulating coins, plans for FY 2006 and FY 2007 call for right-sizing the organization to realign resource needs. The United States Mint plans to reduce Full Time Equivalent (FTE) usage and associated personnel costs by approximately five percent per year from FY 2005 plan levels. The metal cost component of the FY 2006 and FY 2007 budgets increases to $1,480 million and $1,529 million respectively from $653 million in FY 2005, primarily in response to the introduction of the new 24-karat gold bullion coins starting in FY 2006.

Developing New Products

- In 2007, the United States Mint will develop new 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 Bullion coins. Also included 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".

- In 2006 the United States Mint will introduce the new 24-karat gold bullion coins currently being developed. The new 24-karat gold bullion coins will complement the popular 22-karat American Eagle gold bullion coins. The new coins will give investors a second option backed by the United States Government in the global precious metal market. This budget submission includes substantial revenue growth expected from the

24-karat gold bullion program of $754 million in FY 2006 and FY 2007. Metal costs are high since this is a precious metal investment coin and are estimated at $721 million in both FY 2006 and FY 2007.

- The United States Mint plans to introduce other new coins in FY 2006 and FY 2007. The Westward Journey Nickel Series™ has launched the final 2005-dated coin design “Ocean in View” on August 1, 2005. In 2006, the nickel will revert to one design, with an image of Monticello on the reverse. Other new designs will include commemorative coins, medals, and any changes to circulating coins as legislated by Congress.

- The 50 State Quarters® Program will introduce quarters representing Nevada, Nebraska, Colorado, North Dakota, and South Dakota in 2006. The 2007 quarters will depict designs for Montana, Washington, Idaho, Wyoming, and Utah. Looking forward in the longer term, the 50 State Quarters® program will conclude in 2008. The United States Mint is assessing strategies for fostering the health of numismatics products in light of the conclusion of this program.

- The United States Mint Artistic Infusion Program includes 27 artists (seven visual art students and 20 professional visual artists) who submit designs for selected new coin and medal programs. This program augments the contributions of the United States Mint sculptor-engravers. In their first assignments, the artists of the program submitted beautiful and evocative proposed designs for the 2005-dated nickels in the Westward Journey Nickel Series™. The artist pool will continue to be relied upon to contribute design proposals for upcoming new coins.

Staying Competitive

Initiatives toward improving competitiveness include new technologies and new materials, reducing the time to market, implementing lean manufacturing techniques at all facilities, and continuing to streamline administrative and related support services. All of these initiatives are aimed at allowing the United States Mint to operate more efficiently, reduce overall costs, and improve performance. By holding costs down, the United States Mint will return more funds to the Treasury General Fund – providing value to the American public.

- The United States Mint is researching and developing new technologies and new materials in order to achieve greater capabilities and efficiencies in the design and manufacture processes. Initiatives include establishing a technology center at the United States Mint at Philadelphia, assessing new technologies in digital engraving, and developing a plan to improve the response and capability of die manufacturing operations.

- The United States Mint is working to reduce the time to market for new products. Speeding the process to bring coins from legislation or authorization to sale and delivery to the customer leads to increased revenues and profits. Customers are presented with increased product offerings, available more times throughout the year, increasing the opportunities for revenue. Less time and money are spent on activities that occur before the United States Mint receives revenues from sales, making products more profitable.

- The United States Mint continues to implement lean manufacturing and improved supplier partnerships to increase efficiency and cut costs. Lean manufacturing is focused on achieving productivity improvements throughout the entire supply chain. The United

States Mint is currently working with the FRB, the armored carrier industry, and commercial banking industry to reduce and balance coin inventories and reduce the costs of coin production and inventories management. Initiatives include improving circulating coin inventory management by implementing a coin supply chain pilot with the Cleveland Federal Reserve district, and taking a broad look at opportunities to reengineer the manufacturing process, inventory handling, and procurement methods for purchasing precious metals.

- The United States Mint plans to cut overall Sales, General and Administrative (SG&A) costs by about five percent each year through FY 2007 even as sales continue to increase. Examples of SG&A expenses are overhead and marketing costs. In a manufacturing organization like the United States Mint, the focus is on minimizing SG&A costs where practicable to improve financial performance and to return more funds to the Treasury General Fund.

- In an effort to streamline administrative and related support services, the United States Mint is planning to continue to right-size the work force given current coin demand. Estimated FTE usage is forecasted to decrease by 213 from the start of FY 2005 of 2,115 to 1,902 in FY 2007 (see Section 4.1 page Mint – 19). Process improvements will continue to lead to productivity gains at the manufacturing facilities. Lean administration techniques will complement the lean manufacturing initiatives in the production facilities.

- In the first quarter of FY 2006, the United States Mint transferred some of its human resource support functions to the Bureau of the Public Debt's Administrative Resource Center (ARC). In FY 2006 the United States Mint will transfer some of its simplified procurement support, and its e-travel support to ARC to take advantage of economies of scale, and other business improvements resulting from increased standardization and transparencies of a shared services environment. Beginning in FY 2007, the United States Mint will transfer more of its procurement functions and its finance and accounting functions to ARC as the business case supports. Federal agencies are expected to provide certain services as a Center of Excellence (COE) or migrate to a designated COE to share services. ARC is a designated COE, serving 11 of 14 Treasury bureaus and other federal agencies.

Model Workplace

A model workplace is necessary to accomplish the previously identified initiatives. The United States Mint continues to foster a model workplace in which all employees are treated with dignity and respect; are valued for their contributions; are rewarded fairly for their achievements; and receive training and assignments for the future.

- The United States Mint conducted a workforce planning study in the First Quarter FY 2006 that will be used to identify the organization's human capital needs and workforce levels over the next five years. This will be done in the context of the strategic plan and projected business environment and direction. There will be a comparison of the current skill profile to future skill needs, with recommended strategies that specifically address overcoming identified skill gaps.

- The United States Mint will continue improving communications between managers and employees, and continue efforts to reduce Alternative Dispute Resolution (ADR) and Equal Employment Opportunity (EEO) cases.

- Rotational assignments will broaden employee understanding of the organization, much like those used by other federal organizations and private companies to familiarize employees with other employees' jobs.

- The United States Mint will continue to administer the "Pulse Check" survey – a quarterly assessment of employees' attitudes concerning their workplace. In FY 2005, the scores showed that the United States Mint is at or exceeds the industry benchmark in 10 of 14 measured areas.

Other Initiatives

- The budget also includes funding to accomplish improvements in information technology (IT) capabilities and management. The United States Mint plans to comply with Homeland Security Presidential Directive (HSPD)–12, "Policy for a Common Identity Standard for Federal Employees and Contractors." This directive mandates a common form of identification for all federal employees and contractors. The end vehicle for this implementation is a smart-ID card containing physical and logical access factors that can be easily adapted to accommodate facility and information system access across the government.

- An IT strategic plan will be developed to provide a framework and set of strategies to ensure the effective utilization and management of information technology within the context of the United States Mint's strategic plan. The IT strategic plan will outline actions to achieve compliance with the Clinger-Cohen Act. The plan will apply to all United States Mint activities that provide or use IT, and that administer, plan, manage, develop, acquire, or operate information capabilities across the United States Mint. It will set forth the mission, vision, key results, and measures to evaluate the success of the United States Mint in applying IT to improve program delivery and ensure proper alignment with the business needs of the stakeholders. These efforts will enable the United States Mint to respond to changing environments and to make sound decisions regarding the future application of emerging technologies.

Challenges

Circulating coin shipments, which have declined over the last five years, are forecasted to hold steady or grow moderately over the next few years. The increased use of electronic transactions, coin counting machines, and improved distribution will likely moderate demand for newly minted coins. Rising metal prices present a challenge to the profitability of circulating coins. The United States Mint continually assesses and analyzes operations to monitor the per-unit costs of production.

Continued success will demand new products, new markets, new technologies, greater efficiencies, and most important, commitments to and from the United States Mint's employees and partners. The United States Mint's success in achieving world-class business practices would not be possible without the contributions of its people. The United States Mint is strongly committed to its people, their skills and knowledge, and will build upon the progress already made in fostering a model workplace. The future results of coin manufacturing and sales will depend upon the expertise and flexibility of the United States Mint in use of new technology and the application of job experience.

Efforts to migrate to shared services arrangements are expected to lead to cost savings in the long term. The immediate challenge will be to handle the migration of the proposed functions smoothly and appropriately, with no impact on the level and quality of service provided to the customers of these functions.

Section 2 – Not Applicable for Non-appropriated Bureaus

Section 3 – Budget and Performance Plan

3.1 – Activity Summary Table

Dollars in Thousands

Description	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated	% Change FY 2006 to FY 2007
Summary of Revenue and Expenses:				
Revenue:				
Circulating	$480,971	$529,732	$536,421	1.3%
Comm. Quarters	663,873	757,118	778,817	2.9%
Numismatic	626,083	1,381,414	1,431,279	3.6%
Total Revenue	**$1,770,927**	**$2,668,263**	**$2,746,517**	**2.9%**
Expenses:				
Manufacturing and Sales				
Circulating	$163,703	$181,209	$182,126	0.5%
Comm. Quarters	322,148	386,437	390,438	1.0%
Numismatic	493,309	1,281,619	1,321,481	3.1%
Subtotal Manufacturing and Sales	$979,159	$1,849,265	$1,894,045	2.4%
Protection	34,984	36,889	36,013	-2.4%
Total Expenses	**$1,014,143**	**$1,886,154**	**$1,930,059**	**2.3%**
Net Results	**$756,784**	**$782,109**	**$816,459**	**4.4%**
Coin Shipments (in Millions):				
Circulating:				
Pennies	7,224	7,734	7,767	0.4%
Nickels	1,417	1,887	1,837	-2.6%
Dimes	2,669	2,831	2,872	1.4%
Quarters	2,655	3,028	3,115	2.9%
Half-Dollar	2	-	-	NA
Dollar	70	75	80	6.4%
Total Circulating	**14,037**	**15,555**	**15,671**	**0.7%**
Numismatic	**11**	**13**	**13**	**0.0%**
Bullion	**9**	**11**	**11**	**0.0%**

3A – Budget Activity Description

<u>*Manufacturing and Sales*</u> *($1,894,045,200 from reimbursable funding)* The United States Mint manufactures and sells products. These products are grouped into three programs: Circulating Coinage, 50 State Quarters®, and Numismatic. Budgetary information is presented in detail for each of these three programs.

Circulating Coinage

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 FRB for distribution as demanded by commerce.

The United States Mint is working hard to implement performance based budgeting practices. The numbers in Table 3.1 include metal and manufacturing costs for the forecasted units plus administrative overhead and other non-production costs. FY 2007 is over a year away and these estimates will be revised up or down as economic conditions change and the plan year approaches. The current FY 2007 budget estimate includes resource needs of $182 million to produce and ship 12.6 billion coins and generate $536 million in revenues.

In 2005, the United States Mint continued the new designs for the nickel that honors the bicentennial of the Louisiana Purchase and the subsequent Lewis and Clark Expedition. The obverse design for the 2005 nickels bears a new likeness of Thomas Jefferson. The "Liberty" inscription on the coin is based upon Jefferson's own handwriting. On August 1, 2005, the United States Mint introduced the fourth and final nickel design in the series. Depictions of Monticello and Thomas Jefferson will return to the nickel in 2006.

By spending $182 million on circulating coinage in FY 2007, the United States Mint will accomplish the following:

- Produce and ship approximately 7.8 billion pennies, generating revenue of $78 million.
- Produce and ship approximately 1.8 billion nickels, generating revenue of $91 million.
- Produce and ship approximately 2.9 billion dimes, generating revenue of $287 million.
- Produce approximately 20 million and ship approximately 80 million dollar coins, generating revenue of $80 million[1],

50 State Quarters® Program

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 quarters are circulating coins. However, by statute the revenue from the 50 State Quarters® Program is considered numismatic for budgetary purposes. The program is displayed separately in the narrative and the financial schedules to present a clearer picture of the program's impact. The United States Mint plans to spend $390 million to produce and ship approximately 3.1 billion quarters, generating revenues of $779 million dollars in FY 2007.

Numismatic Program

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)

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[1] These dollar coin production and shipment estimates were generated prior to The Presidential $1 Coin Act of 2005, Public Law 109-145 (December 22, 2005). The impact of the legislation on dollar coin volume estimates is being evaluated, and subsequent budget submissions will be revised to show the impact in FY 2007 and beyond.

Recurring Coin Programs, 4) Commemorative Coins and 5) Medals. The program focuses on providing quality products and services, expanding markets and supporting the long-term. The current FY 2007 budget estimate includes resource needs of $1,321 million to generate $1,431 million in revenues from the sale of numismatic products.

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. The bullion products include platinum, gold, and silver coins issued in uncirculated quality. Gold and platinum bullion coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Silver bullion coins are issued with one ounce of silver metal content. The demand for bullion coins can be greatly affected by the performance of other investment options such as equities markets or currency markets, and therefore is highly unpredictable.

In 2006 the United States Mint will introduce the new 24-karat gold bullion coins currently being developed. The new 24-karat gold bullion coins will complement the popular 22-karat gold bullion coins. 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. The Manufacturing and Sales activity includes about $721 million in metal cost to produce approximately 1,650,000 ounces of 24-karat gold bullion coins. Current statutory authority at 31 U.S.C. section 5112(i) (4) authorizes the Secretary of the Treasury to mint 24-karat gold bullion coins.

American Eagle Proof coins are the United States Mint's premier collectible products. American Eagle Proof coins are platinum, gold, and silver coins issued in proof quality. Gold and platinum proof coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Silver proof coins are issued with one ounce of silver metal content. The proof quality coins are considered numismatic products and are sold directly to consumers from the United States Mint, either as individual coins or in sets.

Recurring Products are circulating-derived products such as proof sets; uncirculated sets; and rolls and bags of nickels, quarters, half-dollars, and dollars designed for mass appeal.

Commemorative coins are authorized by Congress to celebrate and honor American people, places, events, and institutions. Each commemorative program is produced by the United States Mint in limited quantity and is available only for a limited time. Included in the price of commemorative coins is a surcharge that goes to the designated recipient organizations or projects that benefit the community. In FY 2006, the United States Mint will offer the Benjamin Franklin Commemorative Coins. Public Law 108-464, dated December 21, 2004, authorizes the production of two silver dollar designs with a mintage limit of 250,000 coins for each design, limiting the total for the program to 500,000 coins. Surcharges from the sale of these coins are authorized to be paid to the Franklin Institute for the purposes of the Benjamin Franklin Tercentenary Commission.

<u>*Protection*</u> *($36,013,300 from reimbursable funding)* 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 needs to continue to pursue innovative threat assessment strategies to effectively prevent and counteract any security threats against United States Mint operations.

3.2 – Budget and Performance Plan

Dollars in Thousands

Treasury Strategic Goal: Preserve the Integrity of Financial Systems (F3)						
Resource Level	**FY 2002 Obligated**	**FY 2003 Obligated**	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Estimated**	**FY 2007 Estimated**
Treasury Strategic Objective F3C:						
Budget Activities						
Manufacturing and Sales	$704,914	$805,744	$956,173	$979,159	$1,849,265	$1,894,045
Protection	28,977	34,964	38,975	34,984	36,889	36,013
Total Operating Level	**$733,891**	**$840,708**	**$995,148**	**$1,014,143**	**$1,886,154**	**$1,930,059**
Human Resources						
Manufacturing and Sales	2,086	1,946	1,764	1,681	1,638	1,556
Protection	335	355	351	334	364	346
Total FTEs (direct and reimbursable)	**2,421**	**2,301**	**2,115**	**2,015**	**2,003**	**1,902**

Strategic Objective: Increase the Reliability of the U.S. Financial System - F3C

Budget Activity: Manufacturing & Sales

Performance Goal: Meet or exceed the needs of the Federal Reserve and the public by designing, selling, and delivering quality circulating and numismatic coins.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Cost per 1000 Coin Equivalents ($)(E)						
Target		Baseline	9.78	7.03	6.62	6.18
Actual		9.96	7.93	7.42		
Target Met?	N/A	N	Y	N		
Cycle Time (E)						
Target	Baseline	150	53	53	67	64
Actual	112	73	85	69		
Target Met?	N	Y	N	N		
Order Fulfillment (%)(Oe)						
Target				Baseline	95	96
Actual				94		
Target Met?	N/A	N/A	N/A	Y		

Budget Activity: Protection

Performance Goal: Protect assets entrusted to the United States Mint and ensure a secure environment is provided to design, sell, and deliver quality products.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Protection Cost Per Square Foot ($) (E)						
Target			Baseline	31.86	32	31
Actual			32.51	32.43		
Target Met?	N/A	N/A	N	N		
Total Losses ($) (Oe)						
Target			Baseline	250,000	15,000	10,000
Actual			3,109	1,135		
Target Met?	N/A	N/A	N	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

Cycle Time

The United States Mint wants to minimize the amount of time it takes to process raw materials into finished goods by eliminating non-value added steps from the processes and reducing the amount of raw material in inventory. The cycle time measure assesses the time it takes material to flow through the United States Mint's processes, from raw material to order fulfillment. As of September 2005 the United States Mint's cycle time was 69 days, an improvement of 16 days from 85 days as of September 2004. The targeted cycle time was 53 days. The primary cause for not reaching the target is the size of the dollar coin inventory maintained by the United States Mint. No new production of dollar coins is taking place for circulation; demand is currently being met by existing inventory. Measured without the dollar coin, Cycle Time improved to 48 days in FY 2005 compared with 55 days in FY 2004.

The United States Mint plans to continue improving the cycle time of circulating coinage through further implementation of lean manufacturing techniques. The United States Mint is currently working with the Federal Reserve Banks, the armored carrier industry, and commercial banking industry to reduce and balance coin inventories. Initiatives include improving circulating coin inventory management by implementing a coin supply chain pilot with the Cleveland Federal Reserve district, and taking a broad look at opportunities to reengineer the manufacturing process and inventory handling.

Cost per 1000 Coin Equivalents

The United States Mint's costs vary by product, and the product mix has been variable over time. This makes it difficult to compare operating results from year to year. The coin equivalent calculation converts the production output to a common denominator based on the circulating quarter. Production costs excluding metal and fabrication are then divided by this standardized production level, thus resulting in "conversion costs per 1000 coin equivalents." This allows comparison of performance over time by negating the effects of changes in the product mix. The Cost per 1,000 Coin equivalents during FY 2005 was $7.42, an improvement of 6 percent from $7.93 in FY 2004. The performance did not meet the target of $7.03. This ambitious target was an 11 percent drop from the FY 2004 actual result and was set based upon forecasted volume and cost estimates. Differences in the actual volumes from forecast may impact the achievement of specific targets in any given year. Coin equivalent production increased to 19.9 billion in FY 2005 compared with 17.8 billion in FY 2004 (12 percent). The associated conversion cost increased at a lesser rate (4 percent) to $147 million from $141 million in FY 2004 due to cost cutting initiatives and process improvements.

The United States Mint plans to continue to reduce conversion costs for given production volumes through further implementation of lean manufacturing techniques at the manufacturing facilities.

Order Fulfillment

Order Fulfillment is a new measure that tracks the overall order fulfillment for the circulating coins shipped to the Federal Reserve and the numismatic coins sold to the public. The Order Fulfillment was 94 percent in FY 2005. Essentially, this means that 94 percent of the United States Mint's revenue was earned from products that were shipped to the customer in a timely fashion. This is a new performance measure and will continue to be tracked for appropriateness and for setting future targets.

Total Losses

Total Losses in FY 2005 were $1,135 compared with $3,109 in FY 2004. This performance beat the target of $250,000. Total Losses measures the results of fraud cases (e.g. credit card fraud during the purchase of Mint products by the public), theft cases, or intrusions that cause damage to Mint property. The result is from cases that have been investigated and closed during the fiscal year. The United States Mint also keeps track of exposure, or the dollar amount of open cases. As of September 2005, the exposure is $276,295. The FY 2005 target was set based on prior exposure levels; the United States Mint has revised its future targets to be more in line with the recent actual performance.

Protection Cost per Square Foot

Protection cost per square foot in FY 2005 was $32.43, a slight improvement from $32.51 in FY 2004. FY 2005 performance is 2 percent higher than the targeted $31.86. Protection expenses are highly labor intensive, which results in continual upward pressure on costs. The Protection function requires that adequate staffing and coverage must be maintained at all times. The ability to apply downward pressure on costs is taken with a long-term view and must be tempered by the level of readiness necessary to fulfill the Protection mission.

The United States Mint Protection office is analyzing future personnel needs and budget requirements in order to look for ways to keep costs manageable while maintaining adequate protection of assets and employees. Plans include efforts to leverage new technology to enhance security by automating entry and exit procedures at United States Mint facilities.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

Competitive Sourcing

- Powered Industrial Trucks competition was completed in September 2005. Anticipated annual savings are $1.5 million.

- Blanking, Annealing, and Upsetting competition is anticipated to be complete by May 2006. Anticipated annual savings are $5.1 million.

E-Government

- The United States Mint maintains a robust information security program through its Office of Information Security, which is charged with ensuring compliance with the federal Information Security Management Act, OMB requirements and Treasury Directives. This program has previously been rated by Treasury Security Compliance at 99 percent Performance/Exceed Requirements (2004), and continues to contribute GREEN status to Treasury's FISMA scorecard.

- Treasury assessed the United States Mint’s Enterprise Architecture (EA) program maturity at level Green using the OMB EA Maturity Assessment Framework v1.5. The Mint continues to support Treasury EA to move all Treasury scores to Green.

Budget & Performance Integration

- As of FY 2005 all United States Mint programs have been reviewed by OMB’s PART process. The Protection program was reviewed in FY 2005, following the “Coinage Production” and “Numismatics” programs which received high scores and the “Effective” rating.

- Improved performance in efficiency and outcome measures – cycle time, cost per 1,000 coin equivalents, order fulfillment, total losses, and protection cost per square foot are key efficiency and outcome measures that are used in management decision making.

3.3 – PART Evaluation Table

Coin Production (PART conducted FY 2003)

PART Name:	Coin Production
Strategic Goal:	Increase the reliability of the U.S. financial system (F3)
Rating:	Effective

FY 2004 OMB Review

OMB Major Findings/Recommendations

This assessment of the Mint found that the Mint has established performance measures focused on customer satisfaction and improving cost efficiencies.

- The Mint needs to improve customer satisfaction survey scores
- The Mint has shown some efficiency improvements in achieving reduced manufacturing costs (19 percent reduction since 1997)

Bureau Actions Planned or Underway

The Mint is implementing a series of reforms to address these findings. These reforms include:

1. Reducing the maintenance down time of coin manufacturing machinery.
2. Competing customer service and order mailing staff to determine if contractors could handle these functions more efficiently.
3. Establishing a performance target to reduce the time required to process raw materials into finished goods.

FY 2005 OMB Review

Bureau Actions Planned or Underway

Recommended Follow-up Actions	**Status**
Reducing the maintenance down time of coin manufacturing machinery.	Action taken but not completed
Establishing a performance target to reduce the time required to process raw materials into fir	Completed

Update on follow-up actions

In order to reduce maintenance down time of coin manufacturing currency, the Mint is implementing an information system in manufacturing facilities that allows the Mint toidentify, quantify, and analzye equipment downtime and implement improvements.

Numismatic (PART conducted FY 2004)

PART Name:	Numismatic Program
Strategic Goal:	Increase the reliability of the U.S. financial system (F3)
Rating:	Effective

OMB Major Findings/Recommendations

The assessment of the Mint's numismatic program found that the Mint has established performance measures focused on customer satisfaction and improved cost efficiencies.

• The Mint has made enormous strides over the past several years to streamline the production of numismatic products. Between 1999 and 2003, the Mint reduced costs by 38 percent and reduced workforce by 50 percent. During that same time period, production levels increased by 46 percent.

• The Mint has an excellent internal management structure that is able to receive and analyze real-time financial, production, and other operating data on a daily basis. This enables the Mint to respond quickly to changing production and customer needs.

• In 2003, the Mint's numismatic program scored an 87 on the American Customer Satisfaction Index (CSI). This CSI score was the highest of any government agency, and second highest of all entities (public and private) evaluated. In 2004, the Mint's CSI score dropped to 78 percent. The lower score was the result of an increase in call center volume at the same time call center staff reductions were made in anticipation of outsourcing this function in 2005.

• The Mint is making significant progress toward meeting its inventory turnover target of 4.2 in 2005, which reflects the number of times per year the Mint works through its inventory. This measure improved 27 percent from 1.96 in 2003 to 2.48 in 2004. By improving performance, the Mint reduces costs associated with inventory and the production planning process runs more efficiently.

Bureau Actions Planned or Underway

1. Ensure a smooth transition for the Mint's call center as it moves to an outside contractor so that customer service is not significantly interrupted.

2. Continue substantial progress toward reaching the Mint's target goal for inventory turnover. In 2005, the Mint will focus on reducing the time from when a product concept is developed to when the product goes into production, and on improving production planning.

Note on OMB Major Findings/Recommendations

In the third bullet above, OMB discussed the United States Mint customer satisfaction performance. There is a difference between the American Customer Satisfaction Index (ACSI) and the United States Mint's internal performance measure Customer Service Index (CSI). The United States Mint has continued to rank as a top federal agency in the University of Michigan's American Customer Satisfaction Index (ACSI) with ratings of 86 in 2004 and 88 in 2005. The result of 87 in 2003 actually represents the internal measure "customer service index" (CSI) which combines factors of the rates of timely order fulfillment and product returns. The internal CSI increased to 91 in FY 2005 from 78 in FY 2004.

Protection (PART conducted FY 2005)

PART Name:	Protection Program
Strategic Goal:	Increase the reliability of the U.S. financial system (F3)
Rating:	Effective

OMB Major Findings/Recommendations

• The Mint has developed adequate long-term performance measures with ambitious targets and timeframes. The Mint's target for total losses is $250,000 in 2005 and $0 in 2010.

• Mint's Protection program has a clear purpose, is well planned, and managed effectively. However, it is somewhat duplicative of other Federal efforts aimed at protecting money, such as the Bureau of Engraving and Printing, and the Federal Reserve Police forces.

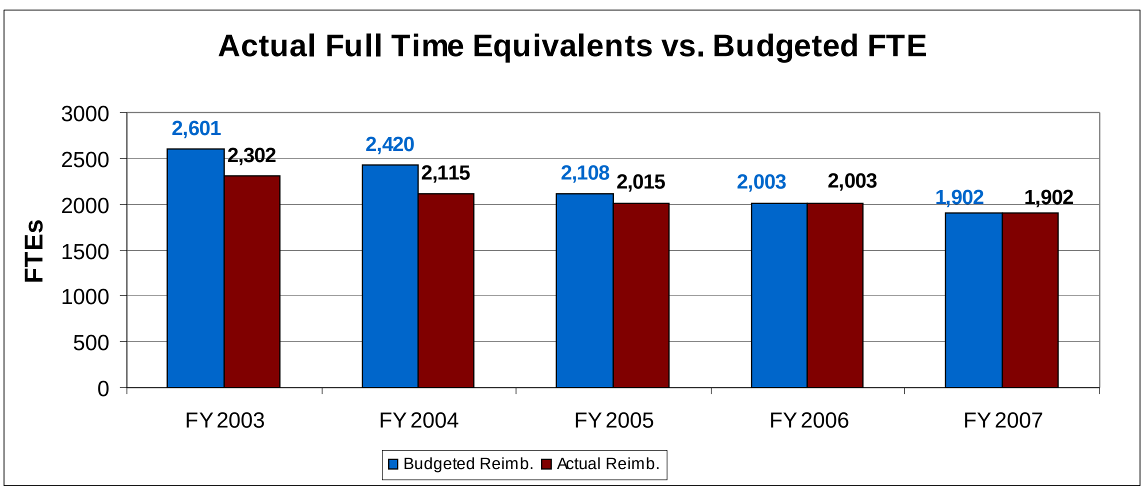
• The Mint regularly achieves its annual performance goals and works with other law enforcement partners to assess threat levels and assist in achieving future goals. The Mint is a participant in the multi-agency Counter-Terrorism Program.

Bureau Actions Planned or Underway

1. Continue to assess and implement ways in which the cost of protection per square foot can be minimized.
2. Continue to improve employee confidence in the Mint protection program.

Section 4 – Supporting Materials

4.1 – Human Resources Table



CHANGES IN FULL-TIME EQUIVALENTS

		FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year		**2,115**	**2,015**	**2,003**
Increases:	*(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)*			
Reason #1:	N/A			
Subtotal, Increases		**0**	**0**	**0**
Decreases:	*(Break-out the FTE changes by as many reasons for the change as possible, and include a description for each the increase or decrease)*			
Reason #1:	Normal Attrition, Shared Services	-100	-12	-101
Subtotal, Decreases		**-100**	**-12**	**-101**
Year-end Actual/Estimated FTEs		**2,015**	**2,003**	**1,902**
Net Change from prior year SOY to budget year EOY				**-213**

4A – Human Capital Strategy Description

To best position the United States Mint for the future, the bureau undertook a major workforce planning effort led by the United States Mint Workforce Planning Steering Committee comprised of senior leaders and managers, which will identify the organization's human capital needs and workforce levels over the next five years. The effort resulted in:

- Identification of the organization's human capital needs and workforce levels over the next five years in the context of the Mint's strategic plan and projected business environment and direction
- Comparison of the agency's current skill profile to its future skill needs and identify the gaps that result
- Recommended strategies that specifically address overcoming identified skill gaps
- Forward-looking analysis of factors and expected trends affecting occupations specific to the Mint that may affect retention, recruitment, and employee development.

The workforce plan will link to the agency strategic plan and the projected business environment and direction. The plan included the organization's current and future human capital needs and workforce levels over the next five years, the competencies needed to fulfill the mission, and specific strategies to mitigate identified skill gaps. Workforce planning will be conducted on an on-going basis.

4.2 – Summary of IT and Non-IT Resources Table

Dollars in Millions

Major Investments	FY 2005 Obligations	FY 2006 Estimated	FY 2007 Estimated
Information Technology:			
Coins ERP System	4.312	7.666	6.751
RS2 (ESPII - Electronic Commerce)	11.618	4.783	4.849
Subtotal	**$15.930**	**$12.449**	**$11.600**
Non-Information Technology:			
Total Non-IT Capital	-	20.000	20.000
Subtotal	**$0.000**	**$20.000**	**$20.000**
Total Major Investments	**$15.930**	**$32.449**	**$31.600**

Infrastructure funding is consolidated into the Treasury Departmental Integrated IT Infrastructure Exhibit 300.

4B – Information Technology and Non-Information Technology Strategy

The United States Mint's capital projects are focused on improving processes, developing new coin 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 shifts in market demands. The following major IT investments are planned for 2007:

COINS Enterprise Resource Planning (ERP) System

The Mint COINS System consists primarily of PeopleSoft ERP functionalities that control and integrate both manufacturing and financial operations. Data is produced in real time with better accuracy, due to single point of data entry that eliminates redundant transactions and minimizes data errors. This enables personnel to focus more on process improvements and less on problem resolution. A system that is not fully integrated would slow the reconciliation and decision-making processes, especially as it relates to controlling cost.

Retail Sales System (RS2)

The United States Mint's Retail Sales System (RS2), formerly reported as the e-Business Solution Project (eSP), was developed in response to a growing need to meet the rapidly expanding numismatic market and to take advantage of new technology that would better support the United States Mint's business requirements. RS2 was designed to meet high public demand for E-Government services and provide an easy and secure way for customers to order products directly from the United States Mint. An integrated mail order and cataloging system supports both the United States Mint's core mission as well as the President's E-Government initiative.

Capital Investments	FY 2005 Obligations	FY 2006 Estimated	FY 2007 Estimated
Circulating & Protection Capital Investments			
Circulating Information Technology & Other	$3.16	$7.48	$6.67
Circulating Building Improvements	3.95	4.10	4.85
Circulating Equipment	3.01	4.05	4.78
Protection	3.70	3.31	3.46
Total Circulating and Protection	**$13.81**	**$18.93**	**$19.75**
Numismatic Capital Investments			
Numismatic Information Technology & Other	$2.52	$1.98	$1.73
Numismatic Building Improvements	0.80	4.85	8.53
Numismatic Equipment	2.42	7.00	1.85
Total Numismatic	**$5.74**	**$13.83**	**$12.11**
Total Capital Investments	**$19.55**	**$32.76**	**$31.86**

The Mint's FY 2007 circulating and protection capital request is $19.8 million, which is $10.4 million below the forecasted circulation and protection depreciation (capital limit) amount of 30.2 million. Therefore, no additional budget authority is needed in FY 2007 for capital investments.

Each year the United States Mint commits funds for capital projects to maintain, upgrade or acquire physical structures, equipment, physical security, and information technology systems. Total capital projects are estimated to be $31.9 million in FY 2007. This includes approximately $16.3 million for circulating projects, $3.5 million for security improvement projects, and $12.1 million for numismatic projects.

4.3 – Operating Levels Table

Dollars in Thousands

	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated
FTEs	**2,015**	**2,003**	**1,902**
Object Classification:			
11.1 Full-Time Permanent Positions..................................	121,568	121,363	115,295
11.3 Other than Full-Time Permanent Positions.............	1,152	160	152
11.5 Other Personnel Compensation................................	10,146	5,442	5,170
11.8 Special Personal Services Payments....................	421	96	91
11.9 Personnel Compensation (Total)............................	-	-	-
12.0 Personnel Benefits..	34,476	37,679	35,795
13.0 Ben. Former Personnel..	154	1,330	1,264
21.0 Travel..	2,422	2,868	2,912
22.0 Transportation of Things...	19,637	24,202	26,505
23.1 Rental Payments to GSA..	793	32	29
23.2 Rent Payments to Others..	17,757	19,038	19,608
23.3 Commun., Util., & Misc...	13,324	13,451	14,868
24.0 Printing and Reprod..	2,282	2,370	3,474
25.1 Advisory & Assistance Services................................	38,474	48,833	53,346
25.2 Other Services..	10,657	41,236	45,642
25.3 Purchase of Goods/Serv. from Govt. Accts……	2,582	-	-
25.4 Operation & Maintenance of Facilities..................	4,032	-	-
25.5 Research & Development Contracts.........................	2,986	-	-
25.6 Medical Care...	-	-	-
25.7 Operation & Maintenance of Equipment....................	8,180	11,835	12,014
25.8 Subsistence & Support of Persons...........................	-	-	-
26.0 Supplies and Materials..	24,208	31,116	32,827
26.0 Metal and Fabrication..	653,163	1,480,343	1,520,605
31.0 Non-Capital Equipment..	1,360	1,009	1,014
33.0 Investments & Loans...	-	-	-
41.0 Grants, Subsidies..	-	-	-
42.0 Insur. Claims & Indemn...	45	144	148
43.0 Interest and Dividends…………………………………	-	-	-
44.0 Refunds..	-	-	-
- Depreciation..	44,324	43,607	39,299
Total Operating……………………………………………….	**$1,014,143**	**$1,886,154**	**$1,930,059**
Object Classification:			
31.0 Capital Equipment...	14,643	23,808	18,482
32.0 Lands and Structures...	4,906	8,950	13,375
Total Capital…………………………………………………….	**$19,549**	**$32,758**	**$31,857**
Budget Activities:			
Manufacturing and Sales………………………………	$979,159	$1,849,265	$1,894,045
Protection…………………………………………………………	34,984	36,889	36,013
Total……………………………………………………….	**$1,014,143**	**$1,886,154**	**$1,930,059**

4C – Appropriations Language

DEPARTMENT OF THE TREASURY

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 Engraving and Printing

Mission

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

Resources Summary

Table 1.1

Dollars in Thousands

Resources	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated	$ Change FY 2006 To FY 2007	% Change FY 2006 to FY 2007
Manufacturing	$436,000	$445,000	$493,000	$48,000	**9.7%**
Protection and Accountabiltiy of Assets.	56,000	61,000	63,000	2,000	**3.2%**
Total Resources	$492,000	$506,000	$556,000	$50,000	**9.0%**

FY 2007 Priorities

- Produce and deliver the most secure currency for the nation in the most cost effective manner possible. BEP expects to produce and deliver 9.0 billion notes to the Federal Reserve System in 2007, an increase of nearly 10 percent over the 2006 program.

- Redesign the $100 note, as part of the current multi-year initiative to implement the most ambitious currency redesign in U.S. history.

- Continue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program.

- Attain ISO 14001 certification for its environmental management systems to institutionalize its commitment to sound environmental stewardship.

- Research possible state-of-the-art counterfeit deterrent features for use in future currency notes in support of the Bureau's program of continuous currency redesign efforts.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The mission of the Bureau of Engraving and Printing is to design and manufacture high quality security documents that deter counterfeiting and meet customer requirements for quality, quantity and performance.

The Bureau of Engraving and Printing began printing currency in 1862. The Bureau operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a) (4) to engrave and print currency and other security documents. Operations are financed by a means of a revolving fund established in 1950 in accordance with Public Law 81-656. 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. This eliminated the need for appropriations from Congress.

The Bureau's vision is to maintain its position as a world-class securities printer providing our customers and the public superior products through excellence in manufacturing and technological innovation. The Bureau strives to produce U.S. currency of the highest quality, as well as many other security documents issued by the Federal government. Other activities at the Bureau include engraving plates and dies; manufacturing inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with the requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence.

The Bureau's top priorities for FY 2007 include the introduction of the redesigned $100 notes. The new note will contain enhanced security features including subtle background colors. Background colors help consumers, particularly those who are visually impaired, to tell the denominations apart. The Bureau is currently evaluating additional counterfeit deterrent features for possible inclusion in the $100 note. 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.

Manufacturing – The Bureau of Engraving and Printing manufactures high quality security documents that deter counterfeiting. These products are grouped into two programs: Federal Reserve notes and other security documents.

Protection and Accountability of Assets – Because of the value of the products manufactured, the Bureau must maintain an accurate and cost effective system of accountability for all Bureau products, which will ensure that products are accounted for while in production and that its customers receive the correct quantity of the product ordered. The protection and accountability of assets is a joint effort crossing many divisions within the Bureau; products are tracked and accounted for at every step of the production process. The Bureau's Office of Security primary mission is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, facilities and equipment.

1B – Previous Highlights and Accomplishments

Redesigned Federal Reserve Notes

The redesigned $10 note was unveiled on September 28, 2005 at a ceremony held at the Statue of Liberty in New York Harbor. The ceremony's location was in keeping with one of the symbols of freedom depicted on the new note, Lady Liberty's torch. The $10 note, which will enter circulation in March 2006, is the third denomination in the new currency series which incorporates enhanced security features, subtle background colors and symbols of freedom into their design.

Work is continuing on the development of new counterfeit deterrent features and the redesign of the $100 note. The redesigned $100 is expected to be introduced to the public in FY 2007. The $1 and $2 notes will not be redesigned.

The continued redesign of U.S. currency is an ongoing effort to stay ahead of the technological advances available to counterfeiters. The redesigned notes retain three important counterfeit deterrent features that were first introduced in the late 1990's and are easy for consumers and merchants to verify:

> The watermark -- the faint image similar to the large portrait, which is part of the paper itself, is visible from both sides when the note is held up to light.
>
> The security thread -- also visible from both sides when held up to light, this vertical strip of plastic is embedded in the paper and spells out "USA" as well as the denomination.
>
> The color-shifting ink -- the numeral in the lower-right corner on the face of the note changes from copper to green when the note is tilted. The color shift is more dramatic and easier to see on the new design notes.

Counterfeiting has been kept at low levels through a combination of improvements in security features, aggressive law enforcement and education efforts to inform the public about how to authenticate their currency. To stay ahead of counterfeiters as advances in technology make counterfeiting of currency less difficult, the Bureau expects to redesign U.S. currency every seven to ten years.

Because the improved security features in the redesigned currency are more effective only if the public knows about and uses the features, a broad, public education program is an integral part of the anti-counterfeiting effort. This program ensures that people all over the world recognize and use the enhanced security features of the new currency. With nearly $700 billion in U.S. currency in circulation worldwide, public education is crucial to counterfeit deterrence.

Cost Reduction Efforts

The Bureau strives to provide its customers with superior products for the lowest possible price. The Bureau continuously looks for ways to cut costs without compromising quality. During 2005, performance on all key program performance measures was favorable. Direct manufacturing costs for both the currency and postage stamp programs were below established standards for cost and spoilage. As a result of lower than anticipated spoilage rates, improved operating efficiency and staff reductions in administrative and support areas, the Bureau was able to reduce its average currency billing rate to the Federal Reserve.

1C – Future Outlook

The Bureau is committed to developing state-of-the-art counterfeit deterrent features for use in future currency notes through new, more innovative technologies. For the long term, the Bureau is committed to a program of continuous currency design enhancement that deters counterfeiting and is easier to authenticate.

The redesigned $100 note is scheduled to be introduced to the public in 2007. A public education campaign will be conducted for the new $100 note following the successful campaigns for the redesigned $20, $50 and $10 notes. No paid media in the U.S. will be included in the $100 campaign.

In addition, the Advanced Counterfeit Deterrent (ACD) Steering Committee, which includes members from BEP, the Department of the Treasury, the U.S. Secret Service, and the Federal Reserve Board, is evaluating additional counterfeit deterrent features for possible use in a redesigned $100 note to further protect it. Eleven companies submitted prototype samples in the dimensions proposed for use on currency notes. Evaluations of the prototypes, including adversarial analysis of the counterfeit deterrent features and tests on the durability of the new features will be completed and provided to the ACD committee. The most feasible features will then be presented to the Secretary of the Treasury for approval.

Along with innovative, cutting-edge designs, BEP will maintain its focus on producing high quality security products in the most cost effective manner possible. The Bureau will continue to pursue process improvements as required of an ISO 9001 certified organization, a designation that indicates to current and prospective customers that the Bureau employs a rigorous quality management program. Continuous process improvements will be the catalyst for world class quality and improved cost performance through streamlined processes and low spoilage. In 2007, the Bureau plans to attain ISO 14001 certification for its environmental management systems to institutionalize its commitment to sound environmental stewardship.

BEP's success would not be possible without the contributions of its people. The Bureau remains strongly committed to the development of its workforce through an array of career development programs tailored to the demand and skill requirements of a high-technology workplace. Strategic investment in people and technology will continue to be the critical factors in maintaining the Bureau's status as a world class securities manufacturer.

Section 2 – Not Applicable for Non-appropriated Bureaus

Section 3 – Budget and Performance Plan

3.1 – Activity Summary Table

(Dollars in Thousands)

Description	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated	% Change FY 2006 to FY 2007
Revenue:				
Federal Reserve Notes	$476,800	$500,000	$550,000	10.0%
Postage Stamps	17,300	0	0	0.0%
Other Security Products	17,900	6,000	6,000	0.0%
Total Revenue	**$512,000**	**$506,000**	**$556,000**	**9.9%**
Expenses:				
Direct Manufacturing				
Paper and Ink	$143,000	$125,000	$175,000	40.0%
Direct Labor	35,000	32,000	33,000	3.1%
Other Direct Mfg Costs	7,000	6,000	7,000	16.7%
Subtotal Direct Manufacturing Costs	185,000	163,000	215,000	31.9%
Indirect Manufacturing Support	290,000	282,000	278,000	-1.4%
Total Manufacturing Activity Costs	475,000	445,000	493,000	10.8%
Total Protection & Accountability of Assets Activity Costs	56,000	61,000	63,000	3.3%
Total Expenses	**$531,000**	**$506,000**	**$556,000**	**9.9%**
Net Results	**($19,000)**	**0.0**	**0.0**	**0.0%**
Federal Reserve Notes Manufactured (in Billions)	**8.5**	**8.2**	**9.0**	9.8%
Postage Stamps Manufactured (in Billions)	**5.0**	**0.0**	**0.0**	0.0%

3A – Budget Activity Description

<u>*Manufacturing*</u> *– ($493,000,000 from reimbursable funding)* BEP's Manufacturing Activity supports Treasury's strategic objective, Increase the Reliability of the U.S. Financial System. The mission of the Bureau is to design and manufacture high quality security documents that meet customer requirements for quality and performance, including counterfeit deterrence. 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.

In 2005, the Bureau delivered 8.5 billion Federal Reserve Notes to the Federal Reserve Banks. In addition, the Bureau delivered 5.0 billion postage stamps to the United States Postal Service. This was the last year of postage stamp production at the Bureau in accordance with a five-year agreement with the U.S. Postal Service. The currency and stamp orders were fulfilled on schedule, at lower cost and spoilage than anticipated. The Federal Reserve has ordered 8.2 billion notes for delivery in FY 2006. The order is estimated at 9 billion notes for FY 2007.

Protection and Accountability of Assets – ($63,000,000 from reimbursable funding)
The Bureau's Protection and Accountability of Assets Activity also supports Treasury's strategic objective, Increase the Reliability of the U.S. Financial System. 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 nations' 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 Bureau's Office of Security primary mission is to preserve the integrity of and safeguard critical Bureau resources and assets such as personnel, products, plant facilities and equipment.

3.2 – Budget and Performance Plan Tables

Dollars in Thousands

Treasury Strategic Goal: Preserve the Integrity of Financial Systems (F3)

Resource Level	FY 2002 Obligated	FY 2003 Obligated	FY 2004 Obligated	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated
Treasury Strategic Objective F3C						
Budget Activities						
Manufacturing	$412,000	$462,000	$481,000	$436,000	$445,000	$493,000
Protection and Accountability of Assets	51,000	56,000	58,000	56,000	61,000	63,000
Total Operating Level	$463,000	$518,000	$539,000	$492,000	$506,000	$556,000
Human Resources						
Manufacturing	1,973	1,942	1,841	1,787	1,800	1,800
Protection and Accountability of Assets	469	485	490	495	500	500
Total FTE's (direct and reimbursable)	2,442	2,427	2,331	2,282	2,300	2,300

Strategic Objective: Increase the Reliability of the U.S. Financial System - F3C

Budget Activity: **Protection and Accountability of Assets**

Performance Goal: **Maintain an accurate and cost-effective system of accountability for Bureau products, which will ensure that products are accounted for during production and that customers receive the correct quantities of product**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Currency shipment discrepancies per million notes ($) (Oe)						
Target	.01	.01	.01	.01	.01	.01
Actual	0	0	.01	0		
Target Met?	Y	Y	Y	Y		
Security costs per 1000 notes delivered ($) (E)						
Target			Baseline	5.95	6.25	6
Actual			5.95	5.75		
Target Met?	N/A	N/A	N	Y		

Budget Activity: **Manufacturing**

Performance Goal: **Meet customer's delivery requirements cost effectively.**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Manufacturing costs for currency (dollar costs per thousand notes produced) ($) (E)						
Target	25	31	35	31	28.5	32.5
Actual	30.03	29.14	28.06	28.83		
Target Met?	N	Y	Y	Y		

Budget Activity: **Manufacturing**

Performance Goal: **Produce consistently high quality counterfeit deterrent notes**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%) (Oe)						
Target	Baseline	99.9	99.9	99.9	99.9	99.9
Actual	100	99.9	100	99.9		
Target Met?	Y	Y	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

Manufacturing Costs for Currency (dollar cost per 1000 notes produced)

Manufacturing Costs for Currency is an indicator of currency manufacturing efficiency and effectiveness of program management. This standard is developed annually based on the past year's performance, contracted price factors, and anticipated productivity improvements. Actual performance against the standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals established for this product line. The formula used to calculate this measure is the total cost of production divided by the number of notes produced divided by 1000.

Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements

This measure is an indicator that reflects the Bureau's ability to provide a quality product. All notes delivered to the Federal Reserve go through rigorous quality inspections. These inspections ensure that all counterfeit deterrent features, both overt and covert are functioning as designed. Any discrepancies found are reported to BEP on a per shipment basis. Reviews are performed by BEP on all Federal Reserve inspection systems as well as the procedures followed in reporting data to BEP. These reviews are conducted on an annual basis with additional reviews performed upon request by the Federal Reserve Banks.

Currency Shipment Discrepancies

This measure is an indicator of the Bureau's ability to provide effective product security and accountability. This measure refers to product overages or underages of as little as a single currency note in shipments of finished notes to the Federal Reserve Banks. Any discrepancies are reported on a monthly basis based on information provided by the customer. All discrepancies are researched and if necessary, procedures are corrected.

Security costs per 1000 notes delivered

Security costs are an indicator reflecting the cost of providing effective and efficient product security and accountability. This measure is developed annually based on the past year's cost performance and anticipated cost changes. The formula used to calculate this measure is the total cost of security divided by the number of notes produced divided by 1000.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

Competitive Sourcing

- To date, all standard competitions were completed in a 12-month timeframe; and all streamlined competitions were done within a 90-day timeframe.
- BEP has completed 17 competitions since January 2001 involving 217 FTEs.

E-Government

- BEP is conducting a pilot, using Treasury's Public Key Infrastructure (PKI) to evaluate a digital signature capability.

- In conjunction with the PKI initiative BEP is piloting the use of a smart card and fingerprint biometric for network authentication. In addition, BEP is currently using the smart card/biometric and the Treasury Certificate Authority as a resource to encrypt and transmit sensitive images between our facilities.

- BEP is implementing the standard Treasury eTravel system.

- BEP recently implemented a commercial off-the-shelf ePayroll solution designed for Federal agencies that use services provided by the USDA National Finance Center. This internet-based program automates time submission and provides electronic signature functionality.

- BEP partnered with the Financial Management Service (FMS) to pilot the Internet Payment Platform (IPP). This system successfully processed E-commerce transactions for purchase orders, invoices and payments to providers of goods and services to the government. BEP continues to work with FMS in the development of specifications for the Next Generation Disbursement Platform (NGDP), the successor to IPP.

Human Capital Management

- Mission critical training for all Bureau employees is documented in the "BEP Master Training Plan." In collaboration with management, mission critical training is identified and made available to all Bureau employees.

- Management's annual performance goals and accomplishment of strategic goals are directly linked to the achievement of organizational goals.

- All employee performance plans include core elements directly linked to organizational goals.

- As part of its succession planning, the Bureau selected seven individuals for a Senior Executive Service (SES) Developmental Program in 2005.

3.3 – PART Evaluation Table

PART Name:	New Currency Manufacturing
Strategic Goal:	Increase the reliability of the U.S. financial system (F3)
Rating	Effective

OMB Major Findings/Recommendations

1. Monitor design and overhead costs related to the manufacture of New Currency to ensure the most efficient production and distribution of future denominations.

2. Continue to work with Federal partners to assess the impact of New Currency on counterfeiting performance measures across government.

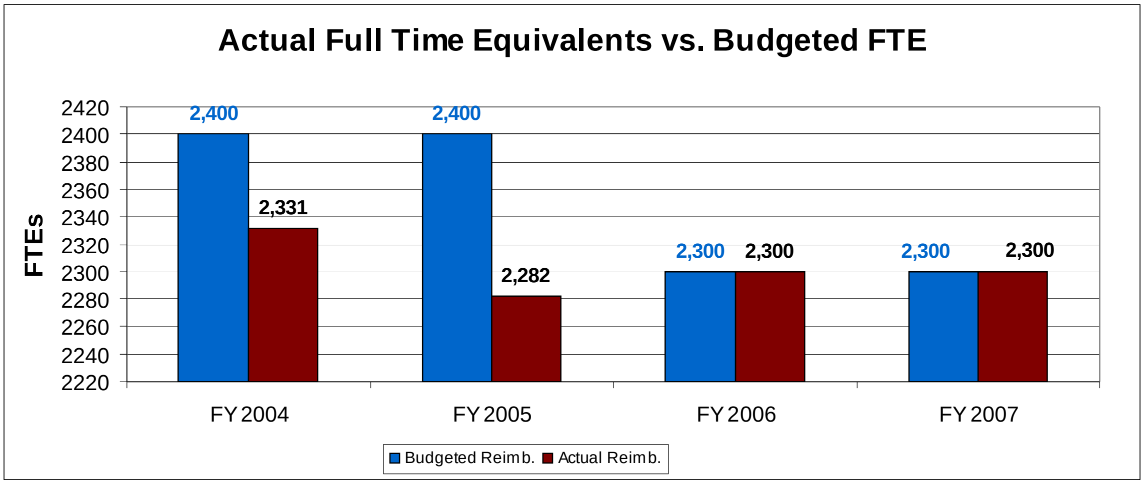
Bureau Actions Planned or Underway

1. BEP works closely with the ACD Steering Committee to indentify and evaluate future counterfeit deterrent designs.

2. BEP/Treasury/Federal Reserve/U.S. Secret Service work together within the Advanced Counterfeit Deterrent Steering Committee to assess impacts. The Bureau participates jointly with these federal agencies to determine the effectiveness of current counterfeit deterrence features. The focus of the program is on both the reliability of the manufacturing process in incorporating advanced counterfeit deterrent features in bank notes and the effectiveness of these features through the course of daily cash transactions.

Section 4 – Supporting Materials

4.1 – Human Resources Table



CHANGES IN FULL-TIME EQUIVALENTS
Table 4.1

		FY 2005	FY 2006	FY 2007
BASE: Year-end Actual from Prior Year		2,331	2,282	2,300
Increases:				
Reason #1:	Production of Redesign $100 (possible additional production Step)	0	45	0
Subtotal, Increases		0	45	0
Decreases				
Reason #1	Competitive Sourcing- Machine Shop Services	-7	0	0
Reason #2	Competitive Sourcing- Ink Production	-17	0	0
Reason #3	Competitive Sourcing- Security Screening (non-add, reflects overtime FTE savings)	0	-10	0
Reason #4	FY 2005 Buyouts	-25	-27	0
Subtotal, Decreases		-49	-27	0
Year end Actual/Estimated FTEs		2,282	2,300	2,300
Net Change from prior year SOY to budget year EOY:				18

4A – Human Capital Strategy Description

The Bureau of Engraving and Printing's human capital strategy has been improved in the following ways:

- All performance elements are directly linked to the goals and objectives of the BEP Strategic Plan.

- Successfully utilized human capital flexibilities to encourage voluntary separations for employees impacted by downsizing due to program termination and Fair Act (A-76) competitions. Utilized a combination of retirement incentives, early retirements, reassignments, and cross training, which resulted in avoiding the use of Reduction in Force procedures. As a result, over 300 BEP employees retired in FY 2004 and FY 2005.

- Commensurate with succession planning goals, the BEP recruited and made seven selections for its 2005 Senior Executive Service (SES) Candidate Development Program. In addition, the Bureau is finalizing procedures to launch Management Intern and Procurement Trainee Programs. In FY 2004, succession planning achievements included the conversion of three (3) cooperative education students to competitive positions, appointment of (3) graduates of the SES Candidate Development Program into mission critical positions without interruption in leadership, and the enrollment of four managers into the Federal Executive Institute to develop the future BEP management team.

- Successfully utilized pay incentive flexibilities to retain unique expertise that enabled the Bureau to fully implement a $1 million dollar automation application.

- Established the Bureau's first Career Transition and Resources Center in order to assist displaced employees in conducting job searches and making successful career changes as appropriate.

4.2 – Summary of IT and Non-IT Resources Table

Summary of IT and Non-IT Resources
Table 4.2
(Dollars in Millions)

Major Investments (In millions)	FY 2005 Obligations	FY 2006 Estimated	FY 2007 Estimated
Information Technology			
Subtotal	0	0	0
Non-Information Technology			
Tour Upgrade (DC)			7
Currency Press Line Replacment (DC)	10	40	25
Window/Door Replacement			15
Subtotal	10	40	47
Total Major Investments	10	40	47

Infrastructure funding is consolidated into the Treasury Departmental Integrated IT Infrastructure Exhibit 300.

4B – Information Technology and Non-Information Technology Strategy

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.

Currency Press Line Replacement

Currency press line replacement in the D.C. facility will allow the Bureau to more cost effectively meet customer requirements for existing advanced counterfeit deterrent features. The project includes the acquisition of intaglio presses and processing and finishing equipment. This initiative will enable the Bureau to better meet requirements for counterfeit deterrence, improve product quality and satisfy any new technical demands. It will also provide more flexibility in the manufacturing process, while significantly reducing production costs, release of volatile organic compounds, and waste.

Tour Upgrade

The Bureau has plans to renovate and modernize its Washington, D.C. tour facility. Over the past twenty years there have been few enhancements made to the tour facility; it has only seen refurbishments and minor renovations. Already encased in an 85 year old building, the tour is dated in appearance and requires modifications to the visitor flow route to accommodate the increased number of visitors since the 1980's.

4.3 – Operating Levels Table

Dollars in Thousands

Object Classification	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated
11.1 Full-Time Permanent Positions	$ 168,000	$ 167,000	$ 170,000
11.2 Other than Full- Time Permanent Positions	1,500	1,500	1,500
11.5 Overtime	10,000	8,000	8,500
11.5 Other Personnel Compensation	2,000	2,000	2,000
11.8 Special Personal Services Payments	-	-	-
11.9 Personnel Compensation (Total)	181,500	178,500	182,000
12.0 Personnel Benefits	47,000	43,500	46,000
13.0 Ben. Former Personnel	-	-	-
21.0 Travel	2,300	1,750	1,750
22.0 Transportation of Things	200	100	150
23.1 Rental Payments to GSA	2,000	2,000	2,000
23.2 Rent Payments to Others	1,000	1,000	1,000
23.3 Communications, Utilities & Misc.	13,000	13,000	14,000
24.0 Printing and Reproduction	3,000	850	800
25.1 Advisory & Assistance Service	3,000	4,000	5,000
25.2 Other Services	53,000	50,000	51,000
25.3 Purchase of Goods/Services from Govt. Accts.	-	-	-
25.4 Operation & Maintenance of Facilities	5,200	8,200	8,200
25.5 Research & Development Contracts	3,500	3,000	3,000
25.6 Medical Care	-	-	-
25.7 Operation & Maintenance of Equipment	4,200	6,000	7,000
25.8 Subsistence & Support of Persons	-	-	-
26.0 Supplies & Materials	150,000	134,000	184,000
31.0 Equipment	23,000	60,000	50,000
32.0 Lands & Structures	-	-	-
33.0 Investments & Loans	-	-	-
41.0 Grants, Subsidies	-	-	-
42.0 Insurance Claims & Indemn/	100	100	100
43.0 Interest and Dividends	-	-	-
44.0 Refunds	-	-	-
TOTAL	**$ 492,000**	**$ 506,000**	**$ 556,000**
Budget Activities			
Manufacturing	$ 436,000	$ 445,000	$ 493,000
Protection and Accountability of Assets	56,000	61,000	63,000
TOTAL	**$ 492,000**	**$ 506,000**	**$ 556,000**

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.

Resources Summary
Table 1.1
(Dollars in Thousands)

Resources	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Supervise	408,091	488,450	510,169	21,719	4.4%
Regulate	64,011	72,579	75,887	3,308	4.6%
Charter	15,011	18,372	19,190	818	4.5%
Total Resources	**$487,113**	**$579,401**	**$605,246**	**$25,845**	**4.5%**

FY 2006 Priorities

- Regulate and supervise approximately 1,933 national banks and 51 Federal branches with assets exceeding $5.8 trillion,
- Conduct risk-based examinations based on the risk profile of individual national banks to ensure they are safe and sound, sufficiently capitalized and comply with consumer protection laws and regulations,
- Combat fraud and money laundering and protect the integrity of the financial system by ensuring national banks' compliance with the Bank Secrecy Act, anti-money laundering and USA PATRIOT Act laws and regulations,
- Work with other Federal banking regulators on the implementation of Basel II Capital Accord,
- Support interagency efforts on regulatory burden relief, and
- Fill key examiner positions in the Large Bank Supervision program and continue recruitment of entry-level examiners.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

The Office of the Comptroller of the Currency (OCC) was created by Congress 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.

As of September 30, 2005, the OCC supervised 1,933 banks and 51 Federal branches of foreign banks in the United States. At that time, commercial national bank assets totaled approximately $5.8 trillion or 67 percent of total commercial banking assets. The number of institutions continues to decrease, but the size and complexity of the institutions in the national banking system continue to grow, creating increasing challenges for the OCC.

The OCC has its headquarters in Washington, D.C. and operates four district offices in Chicago, Dallas, Denver and New York and field and satellite offices throughout the U.S. Resident examiner teams are located in the largest banking companies and there is an examining office in London, England.

The OCC's operations are funded primarily (97 percent) from semiannual assessments levied on national banks. Revenue from investments in U.S. Treasury securities and licensing and other fees comprises the remaining three percent of the OCC's funding. The OCC does not receive Congressional appropriations to fund any portion of its operations.

As the regulator of national banks, the OCC has established four strategic goals that help to support a strong economy for the American public: 1) a safe and sound national banking system, 2) a flexible legal regulatory framework that enables the national banking system to provide a full competitive array of financial services, 3) fair access to financial services and fair treatment of bank customers and 4) an expert, highly motivated and diverse workforce and efficient utilization of other agency resources. To achieve the goals and objectives outlined in its strategic plan, OCC organizes its activities under three programs: Supervise, Regulate and Charter.

The OCC's FY 2006 priorities include supervisory issues related to: potential adverse changes in banks' credit and liquidity risk profiles, the effect of Basel II implementation on capital requirements for national banks, compliance with Bank Secrecy Act/Anti-money laundering (BSA/AML) and USA PATRIOT Act requirements, consumer protection and reputation risk. Filling key examiner positions in the Large Bank Supervision program and the continued recruitment of entry-level examiners are also critical initiatives for the OCC.

1B – Previous Highlights and Accomplishments

Basel II

Along with the other Federal bank and thrift regulators, OCC worked to implement the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," generally known as Basel II. A key aspect of this work was the fourth quantitative impact study completed in FY 2005. This study was designed to provide the financial regulators with a better understanding of how implementation of the Basel II Framework might affect minimum required risk-based capital within the U.S. banking system. The study was one of the key features of the implementation plan, one other being the solicitation of public comments through a notice of proposed rulemaking (NPR).

Preliminary analysis of the QIS4 results caused the agencies to delay the publication of the NPR until further analysis is completed. This delay will ensure that any proposed changes to capital adequacy rules are consistent with safety and soundness, good risk management practices and the continued competitive strength of the U.S. banking system.

Bank Secrecy Act/Anti-Money Laundering

In October 2005, the Treasury Office of Inspector General cited Anti-Money Laundering (AML) and Terrorist Financing/Bank Secrecy Act (BSA) Enforcement as one of the five challenges facing the Department.

During FY 2005, the OCC took numerous actions to improve its BSA/AML compliance program, many of which address the findings and recommendations in a final report emanating from an internal review of the agency's BSA/AML supervision. The OCC:

- Enhanced BSA/AML expertise by creating and filling a new position, Director for Bank Secrecy Act and Anti-Money Laundering Compliance, to consolidate anti-money laundering activities within the agency; increased the number of BSA policy staff in its Washington headquarters; established BSA/AML as a focal point for the OCC's Examiner Specialized Skills Program; and augmented staff dedicated to BSA/AML compliance by expanding the contractor pool to include BSA skills,

- Conducted 1,530 BSA/AML/USA PATRIOT Act examinations,

- Published enforcement policy to provide additional guidance on situations in which formal actions should be taken,

- Worked with the other Federal banking agencies and Treasury's Financial Crimes Enforcement Network (FinCEN) to develop and issue guidance on providing banking services to money services businesses,

- Issued, jointly with other Federal financial banking agencies and FinCEN, a new and comprehensive Federal Financial Institutions Examination Council (FFIEC) BSA/AML Examination Manual and conducted interagency training and outreach sessions for examiners and bankers on the new Manual,

- Conducted a teleconference for almost 5,000 national bank participants to educate and answer questions about BSA,

- Created a money laundering risk assessment system to help examiners identify potentially high-risk bank activities that may warrant increased scrutiny,

- Enhanced internal tracking systems to ensure timely follow-up on BSA/AML compliance deficiencies cited in examination reports, and

- Worked with FinCEN and other agencies to improve information sharing and data analysis.

Consumer Protection

The OCC fulfills its consumer protection role through the supervision of national banks and their operating subsidiaries. The OCC issued guidance on consumer protection issues, including credit card marketing practices (e.g., "teaser rates" and interest rate increases and changes in terms on open accounts) and secured credit cards (e.g., security deposit charges and the significant diminution of available credit due to the structure of the credit account). The OCC worked closely with banks issuing credit cards to ensure compliance with the minimum payment, negative amortization and other provisions of the Credit Card Account Management and Loss Allowance guidance. The OCC developed and issued jointly with the Federal Deposit Insurance Corporation, the Federal Reserve and National Credit Union Administration, guidelines and best practices on overdraft protection programs to address safety and soundness and consumer protection risks associated with this increasingly prevalent credit feature of consumer deposit accounts. The OCC is incorporating expanded Home Mortgage Disclosure Act data into its existing Fair Lending supervision program. Additionally, interagency guidance was published to provide guidance on the development and implementation of a response program to address unauthorized access to, or use of, customer information that could result in substantial harm or inconvenience to a customer, including when to notify customers.

The OCC adopted regulations that establish enforceable standards to prevent abusive or predatory lending practices in connection with residential mortgage lending by national banks and their operating subsidiaries. These new guidelines set out criteria to ensure that a bank's mortgage practices are consistent with safety and soundness standards and appropriate treatment of consumers.

As part of its objective to ensure fair treatment and fair access to financial services for all Americans, the OCC conducts outreach with a variety of organizations, including advocacy groups, research organizations, community development practitioners and community development membership organizations whose constituencies include or affect low- and moderate-income consumers, distressed communities and small and minority-owned businesses.

In FY 2005, the OCC's Customer Assistance Group (CAG) closed over 72,000 consumer complaints that resulted in the payment of more than $6.3 million in disputed fees and other charges to customers of national banks. Additionally, the CAG monitors trends in consumer complaint activity by both product type and banking company and provides reports to the supervision offices on pertinent consumer issues to be considered in compliance examinations.

The OCC also provides information on a variety of consumer and community development topics through the publication of *Community Development Insights* publications, *Community Developments* newsletter, resource directories and other on-line information. The Comptroller also serves on the Financial Literacy and Education Commission that was created to develop a national strategy for financial education. As part of the work with the Commission, the OCC has provided input on the National Financial Literacy Strategy developed by the Treasury Department pursuant to the mandate of the Fair and Accurate Credit Transactions Act.

Supervision Staffing

The OCC has established a nationwide recruitment and training program for entry-level bank examiners. Since the program's inception in FY 2003, more than 250 examiners have been hired. In FY 2005, 96 entry-levels examiners completed their training team assignments and were placed into permanent field positions. Another 100 entry-level examiners began their training assignments. Specific initiatives and strategies to locate experienced examiners to address critical Large Bank Supervision needs were implemented in FY 2005.

1C – Future Outlook

The OCC will continue to closely monitor financial sectors and markets in FY 2006. 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.

The OCC will continue its focus on compliance with BSA/AML regulations, as well as issues related to privacy, predatory lending and fairness in home mortgage lending practices.

Corporate governance, accounting and financial and consumer disclosures will continue to be important issues for the banking industry and large banks in particular, accentuating the need for strong corporate governance, accounting transparency, strong internal controls and audit and compliance programs.

Risk measurement is becoming increasingly quantitative in nature and Basel II is expected to accelerate this trend. The OCC will work to ensure banks that rely on models to measure risk and determine minimum regulatory capital develop and implement appropriate control mechanisms and validation practices to govern the proper use of such models.

Credit quality, allowance of loan and lease losses (ALLL) adequacy, off-balance-sheet activities and liquidity and interest rate risk management will continue to require close supervisory attention.

Industry consolidation and earnings pressures will continue to create incentives for banks to reduce overhead, outsource technology- or people-intensive operations to third party vendors and search for new or expanded products and services. Assessing the adequacy and effectiveness of banks' transaction, strategic and reputational risk management processes (including processes for approving and monitoring new products and outsourcing activities) will continue to be a critical component of OCC's supervisory strategies.

In the aftermath of Hurricane Katrina, all of the national banks in the affected areas resumed services as quickly as possible and were operational within a few days, although some branches and facilities remain closed. National banks continue to cooperate with each other, their State bank counterparts and with Federal, State and local officials to accommodate the needs of communities impacted by the disaster. The OCC will remain in constant contact with these institutions to provide assistance and support as recovery and rebuilding efforts continue. Through the bank supervision process, the OCC will monitor the future long-term economic impact to its institutions in the affected area and work with its Federal Financial Institutions Examination Council (FFIEC) counterparts to take appropriate supervisory actions.

Section 2 – Not Applicable for Non-appropriated Bureaus

Section 3 – Budget and Performance Plan

3.1 – Activity Summary Table

Dollars in Thousands

Description	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated	% Change FY 2006 to FY 2007
Revenue:				
Assessments	557,823	608,900	639,400	5.0%
Interest	16,959	17,400	22,000	26.4%
Other Income	2,961	3,000	3,000	0.0%
Total Revenue	**$577,743**	**$629,300**	**$664,400**	**5.6%**
Obligations Incurred:				
Supervision	408,091	488,450	510,169	4.4%
Regulate	64,011	72,579	75,887	4.6%
Charter	15,011	18,372	19,190	4.5%
Total Obligations Incurred	**$487,113**	**$579,401**	**$605,246**	**4.5%**
Contribution to Reserves				
Asset Replacement Reserve Contribution	23,104	35,400	14,267	-59.7%
Contingency Reserve Contribution	67,526	14,499	44,887	209.6%
Total Reserve Contribution	**$90,630**	**$49,899**	**$59,154**	**18.5%**

3A – Budget Activity Description

Supervise *($488,450,000)* The Supervise program consists of those ongoing supervision and enforcement activities undertaken to assure that each national bank is operating in a safe and sound manner and is complying with applicable laws, rules and regulations relative to the bank and the customers and communities it serves. This program includes bank examinations and enforcement activities; resolution of disputes through the National Bank Appeals process; ongoing monitoring of banks; and analysis of 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.

An important issue for the OCC is to ensure sufficient staffing for the effective supervision of the increasing asset size and complexity of national banks. The OCC will continue its recruiting efforts to identify and hire entry-level examiners to fill vacancies as staff moves from the community bank line of business to the more complex mid-size bank and large bank lines of business. A particular challenge for the OCC will be to recruit experienced examiners to fill key positions in the Large Bank Supervision program for the largest and most complex national banks located where historically it has been difficult to attract and retain staff.

The OCC will continue to evaluate Basel II implementation by mandatory and opt-in banks. The OCC faces the challenge of attracting and retaining the same advanced modeling skills that the banks seek for their implementation of Basel II requirements. The OCC must effectively integrate its modeling skills and Basel expertise into the large bank supervisory process.

In FY 2006, the OCC will complete its 2005 – 2006 BSA/AML action plan. The OCC will fully implement the new Money Laundering Risk system that will assist examiners in measuring risk levels within individual banks. Information on high-risk products, services, customers and geographies will be made available to examiners. The OCC will ensure timely and effective follow-up on BSA/AML compliance deficiencies. The OCC will increase and expand BSA/AML training for examiners and supplement resources needed for BSA/AML compliance through the realignment of examiners and use of contractors.

Regulate *($72,579,000)* The Regulate program consists of those ongoing activities that result in the establishment of regulations, policies, operating guidance and interpretations of general applicability to national banks. These regulations, policies and interpretations may establish system-wide standards, define acceptable banking practices, provide guidance on risks and responsibilities facing national banks, or prohibit (or restrict) banking practices deemed to be imprudent or unsafe. The program also provides analysis and legal opinions on Federal preemption of State law. This program includes the establishment of examination policies, handbooks and interpretations for examiners as well as representing the OCC's regulatory authorities and interpretations in administrative, judicial and congressional hearings.

The OCC will continue its evaluation of the quantitative impact analysis (QIS4) and assess the effect on the planned January 2008 implementation date for Basel II. After this evaluation is complete, the OCC and other agencies will publish the notice of proposed rulemaking that was delayed from FY 2005. The OCC will continue cross-functional and interagency efforts for implementation of Basel II, including supervisory guidance for advanced Internal Ratings Based approach for commercial and retail credit and for operational risk under the Advanced Measurement Approach. The OCC will provide Basel II training and make Basel information sources available on-line to large bank examiners.

Charter *($18,372,000)* The Charter program involves those ongoing activities that result in the chartering of national banks as well as the evaluation of the permissibility of structures and activities of national banks and their subsidiaries. This includes the review and approval of 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.

e-Corp, a web-based application that has been operational for two years, allows national banks to file corporate applications and notices electronically at no cost to them. Electronic filing accounted for 38 percent of all filings and exceeded the OCC's target of 35 percent for FY 2005. In FY 2006, the OCC will continue efforts to promote the use of e-Corp by the industry.

Bureau-wide Initiatives

In addition to major program initiatives, the FY 2006 budget includes funding for significant training initiatives related to BSA/AML and Basel II, the comprehensive training teams for the large number of entry-level examiners brought onboard in late FY 2005 and those planned for FY 2006 and leadership training in support of OCC's succession planning. The FY 2006 budget also reflects staffing needs in several support areas, including: improving its intranet/extranet websites, filling key technical positions that support effective management of information technology projects and programs and implementing new requirements set forth in Office of Management and Budget (OMB) Circular A-123 and the Homeland Security Presidential Directive 12.

The OCC will accomplish its FY 2006 program initiatives at an estimated 2,886 FTE level, an increase of 200 FTEs or 7.4 percent over the 2,686 FTE utilization in FY 2005. The FY 2006 budget is 95 FTEs or a 3.4 percent increase over the FY 2005 planned level of 2,791 FTEs. The underutilization of FTEs in FY 2005 resulted from two primary factors: the cyclical process of filling examiner positions and the external response to recruitment efforts did not yield hiring results sufficient to offset attrition for non-examiner positions. A large part of the increased needs have been for the Large Bank Supervision program. The examiners needed for large banks come from Mid-size/Community Bank Supervision and, to a lesser extent, experienced industry hires. The burden of replacing examiners who have transferred into Large Bank Supervision primarily falls on the Community Bank Supervision recruitment program that was established in 2003. This influx of staff from the examiner recruitment program occurs in January and June. The 151 new entry-level examiners that were hired in January and June of 2005 will generate the full FTE effects in FY 2006. The additional 155 entry-level examiners that will be hired during the same time frames in FY 2006 also increase the FTEs needed for FY 2006, but the full FTE effects will not occur until FY 2007.

Although OCC underutilized planned FTEs for FY 2005, funds were reallocated to supplement supervisory needs by expanding the use of contractors in FY 2005. Funds also were reallocated to fund several information technology initiatives and to establish technology portfolio management funds that are available to fund projects as needs arise rather than delaying them until the annual budget process. OCC management believes establishment of these funds serves to improve the overall identification, analysis and approval of new technology projects and initiatives.

3.2 – Budget and Performance Plan

Dollars in Thousands

Treasury Strategic Goals: Preserve the integrity of financial systems (F3)/Promote prosperous U.S. and World economies (E1)						
Resource Level	**FY 2002 Obligated**	**FY 2003 Obligated**	**FY 2004 Obligated**	**FY 2005 Obligated**	**FY 2006 Estimated**	**FY 2007 Estimated**
Treasury Strategic Objective F3C:						
Budget Activity						
Supervise	381,557	407,434	371,252	408,091	488,450	510,169
Treasury Strategic Objective E1B:						
Budget Activities						
Regulate	24,660	25,501	61,763	64,011	72,579	75,887
Charter	11,185	11,327	16,448	15,011	18,372	19,190
Subtotal	$35,845	$36,828	$78,211	$79,022	$90,951	$95,077
Total Operating Level	**$417,402**	**$444,262**	**$449,463**	**$487,113**	**$579,401**	**$605,246**
Human Resources						
Supervise	2,540	2,513	2,212	2,250	2,467	2,467
Regulate	173	173	368	353	332	332
Charter	79	75	98	83	87	87
Total FTEs (direct and reimbursable)	**2,792**	**2,761**	**2,678**	**2,686**	**2,886**	**2,886**

Strategic Objective: Increase the Reliability of the U.S. Financial System - F3C

Budget Activity: **Supervise**

Performance Goal: Achieve effective and efficient supervision, regulation, and chartering of national banks

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Total OCC costs relative to every $100,000 in bank assets regulated ($) (E)						
Target					Baseline	9.45
Actual						
Target Met?	N/A	N/A	N/A	N/A		

Budget Activity: **Supervise**

Performance Goal: Achieve effective rehabilitation of problem national banks

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe)						
Target	Baseline	40	40	40	40	40
Actual	47	32	40	44		
Target Met?	Y	N	Y	Y		

Budget Activity: **Supervise**

Performance Goal: Maintain a national banking system that effectively complies with consumer laws and regulations

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)						
Target		94	94	94	94	94
Actual		96	96	94		
Target Met?	N/A	Y	Y	Y		

Budget Activity: **Supervise**

Performance Goal: Maintain a safe and sound national banking system through effective supervision

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of national banks with composite CAMELS rating 1 or 2 (%) (Oe)						
Target	Baseline	90	90	90	90	90
Actual	95	94	94	94		
Target Met?	Y	Y	Y	Y		

Budget Activity: **Supervise**

Performance Goal: Maintain a well capitalized national banking system

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of national banks that are well capitalized (%) (Oe)						
Target	Baseline	95	95	95	95	95
Actual	99	99	99	99		
Target Met?	Y	Y	Y	Y		

Strategic Objective: Provide a Flexible Legal and Regulatory Framework - E1B

Budget Activity: **Charter**

Performance Goal: Complete licensing applications and notices in a timely manner.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percentage of licensing applications and notices completed within established timeframes. (%) (Oe)						
Target	95	95	95	95	95	95
Actual	96	97	96	96		
Target Met?	Y	Y	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure

3B – Description of Performance

Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated

Beginning in FY 2006, the OCC will implement a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. Total bank assets represent the growth and complexity of the national banking system. This measure supports the OCC's strategic goal of efficient use of agency resources. The OCC's ability to control its costs while ensuring the safety and soundness of the banking system benefits all national bank customers.

Rehabilitated National Banks

Problem banks can ultimately reach a point where rehabilitation is no longer feasible. OCC's early identification of and intervention with, problem banks can lead to successful remediation of these banks. The OCC recommends corrective actions to problem banks for improving their operations and as a result, 44 percent of banks with composite CAMELS rating of 3, 4 or 5 one year ago have improved their ratings to either 1 or 2 this year. This is an improvement from the 40 percent achieved in FY 2004 and the 32 percent achieved in FY 2003.

National Banks with Consumer Compliance Rating of 1 or 2

To ensure fair access to financial services and fair treatment of bank customers, the OCC evaluates a bank's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern. National banks continue to show strong compliance with consumer protection regulations with 94 percent earning a consumer compliance rating of either 1 or 2.

National Banks with Composite CAMELS Rating of 1 or 2

The composite CAMELS rating reflects the overall condition of a bank. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for evaluating all significant financial, operational and compliance factors inherent in a bank. Evaluations are made on: **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity to market risk. The rating scale is 1 through 5 where 1 is the highest rating granted. CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in CAMELS. In FY 2005, 94 percent of national banks earned a composite

CAMELS rating of either 1 or 2, signifying an overall safe and sound national banking system and a foundation for a strong U.S. economy.

Well Capitalized National Banks

The Federal Deposit Insurance Act established a system of prompt corrective action that classifies insured depository institutions into five categories (well capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their capital levels relative to their risks. At the fiscal year-end, 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.

Licensing Applications and Notices Completed within Time Frames

The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. The volume of corporate applications and notices was approximately 2,100 in FY 2005, a 14 percent decrease from FY 2004. Time frames have been established for completing each type of application and notice. The OCC completed 96 percent of applications and notices within the time standard. Institutions receiving decisions on their corporate applications and notices rated the OCC's overall licensing services an average of 1.2. The licensing survey is based on a five-point rating scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

Competitive Sourcing

The OCC is green on this initiative based on conducting studies for 85 of the baseline inventory of 273 commercial FTEs (current inventory is 313 which includes those already studied). The new standards for success are stated in terms applicable at the Treasury level and the OCC will work with Treasury to determine how the new standards will be applied at the bureau level.

E-Government

The OCC has current business cases for its major IT projects. Also, the OCC has completed certification and accreditation of all its IT systems. The OCC has developed a current and target Enterprise Architecture (EA) that is integrated and embedded in the Treasury EA. The OCC supports E-Government initiatives as follows:

1. The OCC's ALICE (e-training) system is aligned with the Federal GoLearn initiative. ALICE is an operational level datamart that enables OCC management to more effectively report on and analyze OCC's usage of the GoLearn environment. This initiative complements the functionality offered by GoLearn as it is an internal management and reporting tool. The ALICE system uses courseware through the Office of Personnel Management and the GoLearn initiative (SkillSoft/Smartforce and MindLeaders). Use of this courseware will help to identify skill gaps and ensure the workforce has the appropriate skills to meet the bureau's mission.

2. The OCC is participating in the Federal Document Management System that will allow interested parties to electronically view and comment on proposed OCC rules.

3. The OCC has the lead role on the E-Government initiative to automate human resource-related forms that employees complete when first hired. This initiative will convert current government-wide and agency unique human resources forms to electronic web-based forms that could take up to 75 percent less time to complete by eliminating duplicate data entry.

4. As noted previously, banks submitted 38 percent of corporate filings through the OCC's automated application system, e-Corp.

Human Capital Management

The OCC continues to work with the Department on human capital initiatives to move from a yellow rating to green. Specifically, the OCC is supporting the Department's focus on leadership development, succession planning, diversity hiring and 45-day hiring this year. See additional discussion under *Human Capital Strategy Description*.

Budget and Performance Integration

To improve performance on this initiative, the OCC was successful in working with Treasury to develop an efficiency performance measure for implementation in FY 2006. As discussed earlier, this performance measure evaluates the efficiency of OCC's operations relative to the bank assets it regulates.

Improved Financial Management

The OCC meets all of the standards for success on this initiative, which includes receiving an unqualified audit opinion with no material weaknesses noted in its internal controls. The OCC continues to evaluate its system of internal controls over financial data to ensure data integrity is maintained. The OCC plans to complete the documentation for the processes related to financial reporting to meet the requirements of OMB Circular A-123, Appendix A and has established a Senior Assessment Team to ensure these requirements are implemented effectively and communicated throughout the agency.

3.3 – PART Evaluation Table

PART Name:	Bank Supervision
Strategic Goals:	Preserve the integrity of financial systems (F3)
	Promote prosperous U.S. and World economies (E1)
Rating:	Effective

OMB Major Findings/Recommendations

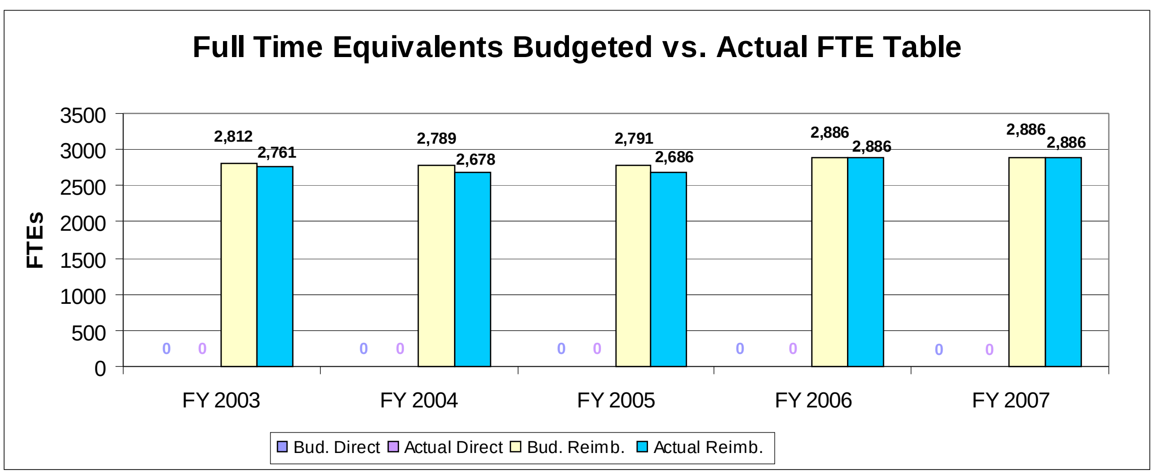
1. The FY 2003 assessment of the OCC's Bank Supervision found that the program purpose is clear, goals are outcome-oriented, program measurements are clear, program is efficiently and effectively managed, but the program is not unique in that other agencies perform similar types of regulatory functions in the banking industry.
2. Federal banking regulatory agencies, including the OCC, the Office of Thrift Supervision (OTS), the National Credit Union Administration (NCUA), the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), should work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.

Bureau Actions Planned or Underway

1. Regulatory agencies that include the OCC, OTS, NCUA, FDIC, Federal Reserve, Office of Federal Housing Enterprise Oversight (OFHEO), Securities and Exchange Commission (SEC), and the Federal Housing Finance Board (FHFB) continue to share their strategic plans, performance plans, and performance measures on a regular basis. This allows each agency to consider the approaches used by the other agencies when developing or revising their goals and measures. The OCC and OTS, as bureaus in the Department of the Treasury, continue to work together to maintain alignment of their performance measures.

Section 4 – Supporting Materials

4.1 – Human Resources Table



CHANGES IN FULL-TIME EQUIVALENTS

	FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year	**2,678**	**2,686**	**2,886**
Increases:			
Increased Hiring: Bank Supervision for large banks and increasing complexity of the national banking system; community bank supervision recruiting; and anticipated retirements OCC-wide	134	323	110
Subtotal, Increases	**134**	**323**	**110**
Decreases:			
Normal Attrition/Anticipated Retirements	-126	-123	-110
Subtotal, Decreases	**-126**	**-123**	**-110**
Year-end Actual/Estimated FTEs	**2,686**	**2,886**	**2,886**
Net Change from prior year SOY to budget year EOY			**200**

4A – Human Capital Strategy Description

The OCC fully supports the Department's Human Capital Strategic Plan and the goals articulated in it. OCC developed bureau-specific human capital goals. The first is to align and employ OCC workforce resources consistent with current and projected agency priorities. Strategies to achieve this goal include: 1) using all qualified personnel on priority assignments, realizing the increasing dependence and need for "fungibility" among and within various disciplines; 2) using the mid-size/community banks area as the primary entry-level recruitment, training and development vehicle to provide a diverse bank examiner selection pool for many departments and divisions in the bureau; 3) continuing to implement OCC's Strategic Plan for Active Recruitment, Retention and Career Development (SPARC); 4) building a more inclusive, accepting environment for differences and better assist employees in effectively navigating in OCC's work environment; and 5) identifying skill gaps and using them to establish recruitment and training priorities as part of OCC's ongoing strategic planning process.

SPARC is the bureau's five-year diversity strategy that includes goals, objectives and activities for the recruitment, hiring and development of all OCC employees, including women, minorities and individuals with disabilities. It has been used successfully to attract, hire and retain a diverse pool of applicants with superior qualifications. Recruiting has been very successful in meeting the OCC's targeted hiring numbers and diversity objectives. More than half of the entry-level examiners hired were female and more than 40 percent were minorities.

A second human capital goal is to develop current and future leaders who demonstrate strong strategic, people management and technical skills. To achieve this goal, the OCC is in the process of designing a leadership development program based upon identified competencies. The OCC also will focus on aligning leadership performance expectations with organizational goals and preparing leaders to create and sustain a productive work environment and to assume responsibility for developing staff.

A third human capital goal is to maintain strategic compensation and benefit programs and performance systems that link with organizational goals and mission accomplishment, enable the OCC to recruit and retain critical positions and reward high performers. To accomplish this goal, the OCC regularly reviews and adjusts compensation and benefits and performance management programs to ensure that they support OCC objectives. The OCC operates under a merit-based performance system. Annual across-the-board increases are not granted; rather salary increases are awarded based on merit to reward employee performance, employee development that is relevant to OCC needs and employee contributions to OCC's priorities. The OCC continually evaluates its programs to ensure that there is an appropriate correlation between pay and performance.

4.2 – Summary of IT and Non-IT Resources Table

Dollars in Millions

Major Investments	FY 2005 Obligations	FY 2006 Estimated	FY 2007 Estimated
Information Technology:			
Supervise Activity:			
Supervisory Information System	3.154	2.200	2.300
Charter Activity:			
Licensing Information System	3.787	3.347	0.050
Bureau-wide Activity			
Management and Accountability Reporting Tools	2.881	1.628	1.590
Subtotal	**$9.822**	**$7.175**	**$3.940**
Non-Information Technology:			
None			
Subtotal	**$0.000**	**$0.000**	**$0.000**
Total Major Investments	**$9.822**	**$7.175**	**$3.940**

4B – Information Technology and Non-Information Technology Strategy

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

4.3 – Operating Levels Table

Dollars in Thousands

	FY 2005 Obligated	FY 2006 Estimated	FY 2007 Estimated
FTEs	**2,686**	**2,886**	**2,886**
Object Classification:			
11.1 Full-Time Permanent Positions........................	249,456	292,758	308,981
11.1 Other than Full-Time Permanent Positions......	6,565	7,380	7,385
11.5 Other Personnel Compensation.......................	468	1,545	1,615
11.8 Special Personal Services Payments.............	0	10	10
11.9 Personnel Compensation (Total).....................	256,489	301,693	317,991
12.0 Personnel Benefits..	88,551	94,324	98,314
13.0 Ben. Former Personnel....................................	519	276	276
21.0 Travel...	31,265	37,700	39,222
22.0 Transportation of Things..................................	1,726	1,720	1,830
23.1 Rental Payments to GSA.................................	218	186	192
23.2 Rent Payments to Others................................	25,338	25,037	26,569
23.3 Commun., Util., & Misc....................................	7,534	12,035	12,318
24.0 Printing and Reprod...	1,044	1,177	2,432
25.1 Advisory & Assistance Services.......................	54,527	71,997	72,993
25.2 Other Services..	0	0	0
25.3 Purchase of Goods/Serv. from Govt. Accts….	0	0	0
25.4 Operation & Maintenance of Facilities............	0	0	0
25.5 Research & Development Contracts...............	0	0	0
25.6 Medical Care..	0	0	0
25.7 Operation & Maintenance of Equipment..........	0	0	0
25.8 Subsistence & Support of Persons.................	0	0	0
26.0 Supplies and Materials..................................	3,161	6,426	5,714
31.0 Equipment..	13,623	17,047	17,397
32.0 Lands and Structures.....................................	3,042	9,667	9,882
33.0 Investments & Loans......................................	0	0	0
41.0 Grants, Subsidies...	0	0	0
42.0 Insur. Claims & Indemn..................................	76	116	116
43.0 Interest and Dividends…………………………	0	0	0
44.0 Refunds..	0	0	0
Total…………………………………………………….	**$487,113**	**$579,401**	**$605,246**
Budget Activities:			
Supervise…………………………………………………	408,091	488,450	510,169
Regulate……………………………………………………	64,011	72,579	75,887
Charter…………………………………………………….	15,011	18,372	19,190
Total…………………………………………………….	**$487,113**	**$579,401**	**$605,246**

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.

Resources Summary

Table 1.1

(Dollars in Thousands)

Resources	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated	$ Change FY 2006 to FY 2007	% Change FY 2006 to FY 2007
Supervision of the thrift industry	187,434	215,500	220,888	5,388	2.5%
Total Resources	$187,434	$215,500	$220,888	$5,388	2.5%

FY 2006 Priorities

- Examine, supervise and regulate approximately 900 savings associations with total assets exceeding $1.4 trillion,
- Examine and regulate approximately 500 registered holding company enterprises with total assets exceeding $7.1 trillion,
- Tailor examinations to the risk profile of the institution and streamline the examination of smaller institutions,
- Conduct safety and soundness examinations of savings associations every 12-18 months that also incorporate an assessment of compliance with consumer protection laws and regulations,
- Continue efforts to minimize regulatory burden,
- Abate money laundering and terrorist financing by examining savings associations for compliance with the Bank Secrecy Act, the USA PATRIOT Act and other anti-money laundering laws, and
- Continue efforts to implement the international Basel II risk-based capital framework.

Table of Contents

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

Mission

The mission of the Office of Thrift Supervision is 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.

Established by Congress as a bureau of the Department of the Treasury on August 9, 1989, OTS charters, examines, supervises and regulates Federal savings associations insured by the Federal Deposit Insurance Corporation (FDIC). OTS's primary statutory authority is the Home Owners' Loan Act originally enacted in 1933. 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 (SLHCs) and other affiliates.

OTS is the only Federal banking agency that both charters depository institutions and supervises their holding companies. The focus of most savings and loan holding companies is the ownership of a thrift institution. However, OTS regulates over 70 SLHCs that engage in businesses other than banking or lending related activities. These include insurance, securities and commercial firms such as American International Group, John Deere, General Electric, General Motors, ING, Merrill Lynch and Nordstrom.

OTS is headquartered in Washington D.C. with four regional offices located in Jersey City, Atlanta, Dallas and San Francisco. The headquarters office develops nationwide policies and programs for the agency and coordinates the operations of OTS. The regional offices examine and supervise institutions and process most applications. Approximately 75 percent of OTS's staff of 900 employees work in regional offices.

The President, with Senate confirmation, appoints OTS's Director for a 5-year term. OTS's Director also serves as a member of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC) and a director of NeighborWorks® America.

Health of the Thrift Industry

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 examines savings associations every 12-18 months for safety and soundness and compliance with consumer protection laws and regulations. During these 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.

As of September 2005, OTS regulated 866 savings associations with total assets of $1.4 trillion. Savings associations operate in a safe and sound manner with 94 percent achieving an overall composite CAMELS rating of 1 or 2. The CAMELS rating reflects OTS's evaluation of an institution's Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to market risk. The industry's capital position remains strong with over 99 percent of savings associations meeting the well-capitalized standards.

As of September 2005, OTS supervised 486 holding company enterprises with approximately $7.1 trillion in consolidated assets. Over half of all savings associations and 80 percent of total savings association assets are owned by OTS-regulated holding companies.

<u>OTS Strategic Goals</u>

- *A safe and sound thrift industry,*
- *A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services,*
- *Fair access to financial services and fair treatment of thrift customers, and*
- *A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.*

<u>OTS Strategic Priorities</u>

OTS's FY 2006 budget totals $215.5 million. The budget directly supports OTS's strategic and performance goals that provide for proactive supervision of the industry, reduced regulatory burden and improved credit availability. The FY 2006 budget enables OTS to continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry.

Following are key strategic priorities for OTS during FY 2006:

<u>Supervision:</u> OTS assesses the financial condition and risk profile of savings associations and the consolidated enterprises within which they operate. OTS also identifies violations of law and regulation and potential financial and economic problems. OTS will continue to strive to maintain a thrift industry that is sufficiently capitalized, conduct examinations in an efficient and effective manner, encourage continuous communication with savings association management and minimize regulatory burden.

<u>Financial Crimes:</u> To combat fraud and money laundering and protect the integrity of financial systems, OTS examines savings associations for compliance with the requirements of the Bank Secrecy Act, the USA PATRIOT Act and other anti-money laundering laws. Through examinations, guidance and training, OTS will continue to

assess the financial condition and risk profile of the thrift industry and identify violations of law and regulation.

Credit Risk: As community-based lenders, the majority of savings associations' loans are made to consumers. Direct loans to consumers, including single-family mortgages, made up 63 percent of savings association assets as of September 2005. Savings associations' asset quality is dependent on stable real estate values, a favorable employment environment and consumers' continued ability to service their debt. Credit review is a significant priority in OTS's examination process.

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

Fair Access: A strong and healthy thrift industry helps to support a strong domestic economy. OTS addresses unfair or deceptive practices of regulated savings associations and promotes fair access to financial services for all Americans and fair treatment of customers. OTS will continue to work with savings associations on ways they can assist underserved markets in their communities. Examinations help to prevent development or continuation of unsafe operating practices and to ensure compliance with consumer protection laws and regulations.

Global Financial Services: OTS is actively working with both domestic and international supervisors to ensure that the thrift industry remains a healthy and robust component of the domestic and global financial services marketplace. The Basel Committee and U.S. bank and thrift regulators are attempting to improve upon our current system by making capital standards more risk sensitive. OTS is evaluating issues to ensure that the new framework results in safe and sound capital adequacy standards and risk management, while maintaining fair competition among all financial institutions.

OTS continues to engage in active dialog with foreign financial supervisors to discharge OTS's duties as a consolidated thrift holding company supervisor by working in conjunction with foreign functional supervisors. Another objective of OTS cross-border discussions includes receiving additional equivalency determinations under the European Union (EU) directives for OTS supervised financial conglomerates, banking groups, investment firms and insurance groups with operations in the EU. OTS is also focused on enhancing cooperation in the international community through active participation on international committees and working groups, pursuit of information sharing agreements with those foreign supervisors involved in the supervision of foreign operations of OTS supervised savings associations and savings and loan holding companies and participation in foreign technical assistance programs that utilize OTS examiner skills and expertise.

Regulatory Burden: OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases and reviewing statutes and regulations that may impose regulatory burdens on thrifts. It tailors examinations to the risk profile of the individual institutions, streamlines the examination procedures for small institutions and conducts comprehensive examinations that combine safety and soundness and compliance.

The Federal financial regulatory agencies began a multi-year effort in 2003 to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. The interagency Economic Growth and Regulatory Paperwork Reduction Act project team continues its outreach efforts to review regulations and legislation to identify unnecessary burden.

Technology/Operational Risks: The growth of internet banking, foreign outsourcing and the continued rapid pace of technological and financial innovation is creating new challenges and concerns. Identity theft and the significant increases in electronically perpetrated consumer scams are impacting consumer confidence in electronic banking. OTS's Information Technology examiners and specially trained safety and soundness examiners assess savings associations' use of technology. Data and customer security and foreign outsourcing are receiving increased supervisory attention. OTS evaluates these risks on a consolidated basis in those cases where a savings association is part of a complex conglomerate that manages IT risk on an enterprise-wide basis.

1B – Previous Highlights and Accomplishments

The following activities highlight recent OTS accomplishments and strategic achievements:

Countering Financial Crime

The Federal banking regulatory agencies, including OTS, are working in partnership with the credit union regulatory agency and the Financial Crimes Enforcement Network (FinCEN) to abate money laundering and terrorist financing. The approach the regulatory agencies have taken to achieve these goals is to ensure examination consistency and provide guidance to financial institutions for developing policies and programs to comply with anti-money laundering requirements.

The regulatory agencies recently issued interagency guidance on a wide variety of specific topics, such as customer identification program requirements, the provision of services to foreign embassies and foreign political figures and information sharing requirements under section 314(a) of the USA PATRIOT Act. To address the specific issue of examination consistency, the agencies recently issued examination procedures that provide valuable guidance to both examiners and the banking industry. These interagency examination procedures are being augmented by nationwide examiner training and banker outreach efforts.

OTS expects savings associations to take a risk-based approach in developing and administering their anti-money laundering compliance programs. OTS recognizes that, due to the diversity of the U.S. financial system, this is not an area that lends itself to a prescriptive, one-size-fits-all approach. OTS's approach allows savings associations the flexibility to design programs that are appropriate for their particular business operations, provided the programs are consistent with regulatory requirements.

The Federal regulatory agencies and FinCEN executed an information sharing agreement to enhance implementation and communication regarding the Bank Secrecy Act (BSA). OTS augmented its data collection and internal tracking systems to ensure timely follow-up on BSA/anti-money laundering (AML) compliance deficiencies and to facilitate information sharing with FinCEN.

Global Financial Services

OTS serves on several international task forces and working groups responsible for developing and implementing the Basel II capital accord. Domestically, OTS is working with the other Federal banking agencies to ensure Basel II will serve as a modern, risk-based capital framework that enhances risk management and refines capital adequacy on a basis broadly consistent with capital standards governing foreign banking organizations. A key aspect of this work was the fourth quantitative impact study designed to provide the agencies with a better understanding of how implementation of the Basel II Framework might affect minimum required risk-based capital within the U.S. banking system. The study results will help the Federal banking agencies develop an interagency notice of proposed rulemaking and comprehensive guidance.

OTS is a leader among the four Federal banking agencies in developing capital modifications to Basel I for the considerable majority of financial institutions that will not adopt Basel II.

The European Union directive on financial conglomerates became effective January 2005. One of the directive's objectives is to ensure that financial conglomerates headquartered outside EU member countries and conducting financial operations in the EU are subject to an equivalent level of supervision by foreign supervisors. The directive also emphasizes coordination among relevant supervisors. OTS is the supervisor for U.S. thrift holding companies, including a number of financial conglomerates active in the EU. OTS received "equivalency" status under the EU financial conglomerates directive for an American financing company and continues to work with the appropriate EU supervisors responsible for other OTS supervised conglomerates with EU operations. OTS recently executed supervisory information sharing agreements with Australia, Canada, France, Germany, the United Kingdom, the Netherlands and Poland. OTS is also a signatory to an existing framework agreement for sharing supervisory information between the EU and U.S. Federal banking agencies. OTS is discussing supervisory information sharing agreements with banking and insurance authorities in China, Italy and France.

Regulatory Burden Reduction

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

The Federal banking agencies have also identified burdens that would require legislative changes to the underlying statutes before changes can be made to the regulations. These changes were presented to Congress in 2005 as a list of consensus items that also enjoy industry support as being meaningful reductions in burden.

Based on industry comments, OTS changed its application and reporting requirements in an interim final rule in November 2004. The changes were designed to reduce burden to the extent consistent with the safe and sound supervision of the banking and thrift industries. On August 31, 2005, OTS finalized this rule. The rule: 1) modifies application and notice requirements that apply to branch and agency offices operated by thrifts; 2) revises the publication and public comment procedures for various OTS applications and notices; and 3) revises procedures for formal and informal meetings held in connection with OTS applications.

For the third consecutive year, OTS managed its operations to ensure that assessment rate increases did not exceed the inflation rate.

Comprehensive Examination Initiative

In April 2002, OTS began combining its separate compliance and safety and soundness examinations into one comprehensive examination. The combination allows for greater efficiencies in the examination process, improved assessment of risk within the industry and a broader range of development opportunities for its examiners. OTS examination teams issue one report of examination that covers both compliance and safety and soundness. The approach allows OTS to comprehensively assess an institution's risk management programs, business strategy and operations. OTS is also able to evaluate compliance management programs and compliance with the Bank Secrecy Act, Fair Lending and Privacy on a more frequent basis. The majority of OTS-regulated institutions indicate a favorable response to the comprehensive examination approach.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. It issues one information request package at the start of each examination. It examines lending portfolios from both compliance and safety and soundness perspectives at the same time. It also prepares one comprehensive examination report that details all examination findings. OTS launched a new comprehensive examination handbook that combines its compliance and safety and soundness examination guidance. Over time, OTS expects this comprehensive approach will further reduce savings association cost and burden while promoting efficient, risk-focused examinations.

To maintain its rigorous staff accreditation standards, OTS requires that its examiners: 1) undergo formal, informal and independent training, 2) pass proficiency tests, 3) receive on-the-job training to become proficient in both disciplines and 4) serve as examiner in charge of at least two comprehensive examinations prior to accreditation. OTS also recognizes that there may be very complex and highly technical issues that arise in connection with our comprehensive examination approach. For this reason, OTS continues to maintain compliance, lending, capital markets, trust and information technology specialists to assist examiners in addressing these matters.

1C – Future Outlook

OTS will continue to address the key strategic priorities outlined in Section 1 while monitoring the effects of external economic factors. Each priority and its associated activities support the OTS mission and its effort to ensure that the thrift industry thrives and remains healthy.

The 2005 devastation of Hurricanes Katrina and Rita in the Gulf Coast states is representative of how quickly external factors reprioritize the regulatory support that OTS and the thrift industry must provide to preserve the integrity of financial systems and to serve their affected customers. On August 29, OTS issued a news release encouraging thrifts to assist customers in areas affected by Hurricane Katrina and stating that OTS would work with thrifts to identify ways to assist in the recovery efforts of their customers and communities. OTS issued a news release in conjunction with the Federal Reserve System, Conference of State Bank Supervisors, FDIC, NCUA and OCC encouraging insured depository institutions to assist displaced customers.

The needs and issues presented by Hurricane Katrina are unprecedented and will take a long time to resolve. In addition to participating in various interagency relief efforts, OTS communicates with all thrift institutions in the affected area to determine resources and assistance that may be needed for recovery. To assist savings associations and their customers affected by hurricanes, OTS provides a toll-free hotline number on its internet site for hurricane-related questions. OTS also provides access to the OTS press releases addressing hurricane-related issues plus information from government sponsored enterprises and trade groups, community service groups (such as the American Red Cross and Habitat for Humanity) and information from State agencies.

OTS is helping its institutions restore branch facilities, including temporary facilities and is encouraging thrifts in the affected areas to work with their customers and communities by:

- Considering temporarily waiving late payment charges and early withdrawal of savings penalties,
- Reassessing the current credit needs of their communities and offering prudent loans to help rebuild damaged property,
- Restructuring borrowers' debt obligations, where appropriate, by altering or adjusting payment terms,
- Soliciting State and Federal guarantees and other means to help mitigate excessive credit risks, and
- Considering all available programs offered by the Federal Home Loan Banks.

In order to facilitate rebuilding efforts in the areas affected by the hurricanes, OTS is working with institutions to grant emergency exceptions to applicable appraisal standards and to provide for the allowance of reasonable loan documentation deficiencies necessitated by thrift office relocation or personnel shortages. OTS will continue to monitor the effects of the hurricanes on the regional and national economy throughout 2006.

The rise in home values coupled with low interest rates and favorable tax treatment have made residential mortgage loans and home equity lines of credit extremely attractive to consumers. To date, delinquency and loss rates on home equity loans and lines have been at historical lows. A number of new mortgage products, underwriting risk factors and lending trends have attracted increased supervisory scrutiny. OTS will reinforce close attention to underwriting standards and safe and sound lending practices with savings associations using these new product lines.

OTS will continue to combat fraud and money laundering and protect the integrity of the financial system by building upon the success of the common examination procedures, guidance and outreach that occurred in 2005. OTS will also strive to continue its efforts to reduce regulatory burden and to support the recommendations of the EGRPRA interagency team.

Section 2 – Not Applicable for Non-appropriated Bureaus

Section 3 – Budget and Performance Plan

3.1 – Activity Summary Table

Dollars in Thousands

Description	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated	% Change FY 2006 to FY 2007
Summary of Revenue and Expenses:				
Revenue:				
Supervision				
Assessments	187,419	206,000	211,150	2.5%
Rental Income	5,114	4,739	4,857	2.5%
Interest	5,709	5,800	5,945	2.5%
Fees & Other	8,612	6,461	6,623	2.5%
Total Revenue	**$206,854**	**$223,000**	**$228,575**	**2.5%**
Expenses:				
Supervision				
Compensation & Benefits	153,905	176,047	180,448	2.5%
Travel & Transportation	11,089	12,310	12,618	2.5%
Facilities	10,759	12,895	13,217	2.5%
Other Services & Supplies	11,681	14,248	14,604	2.5%
Total Expenses	**$187,434**	**$215,500**	**$220,888**	**2.5%**
Net Results	**$19,420**	**$7,500**	**$7,687**	**2.5%**

3A – Budget Activity Description

Supervision of the Thrift Industry ($215,500,000) OTS's budget supports the supervision program. OTS receives no appropriated funds from Congress; the income of the bureau is derived principally from assessments on savings associations and savings and loan holding companies. OTS's four strategic goals guide the annual budget activity.

Strategic Goal 1: A safe and sound thrift industry.

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 regularly 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.

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. As of September 2005, OTS regulates 866 savings associations with total assets of $1.4 trillion. Savings associations operate in a safe and sound manner with 94 percent achieving an overall composite CAMELS rating of 1 or 2. The industry's capital position remains strong with over 99 percent of savings associations meeting the well-capitalized standards.

Strategic Goal 2: A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.

OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases and reviewing statutes and regulations of other governmental entities that may be burdensome. OTS reduced the amount of on-site examination time, redesigned regulations to make them easier to understand and eliminated unnecessary restrictions. OTS tailors examinations to the risk profile of the individual institutions. This ensures that the examination process is responsive and enables the thrift industry to provide competitive financial services.

OTS is more efficient and has reduced regulatory burden due to its comprehensive examination approach. It issues one information request package at the start of each examination. It examines lending portfolios from both compliance and safety and soundness perspectives at the same time. It also prepares one comprehensive examination report that details all examination findings. Over time, OTS expects this comprehensive approach will further reduce savings association cost and burden while promoting efficient, risk-focused examinations.

OTS strives to manage operations to ensure that assessment rate increases do not exceed the inflation rate. Without compromising responsibilities, the assessment rate increases have not exceeded the inflation rate for the past three years. OTS replaced holding company examination fees with semi-annual assessments in 2004. The new system provides savings and loan holding companies with consistency and predictability regarding costs. It allows them to better plan for assessments by eliminating annual fluctuations that occurred under the previous system.

Strategic Goal 3: Fair access to financial services and fair treatment of thrift customers.

OTS's Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve, fulfill their CRA obligations and provide safe and sound loans, investments and financial services for low and moderate income individuals, communities and other areas of greatest need. OTS's Community Affairs staff works with savings associations, community-based organizations, government officials and others to promote partnerships and other initiatives with savings associations at the local level to address and respond to community and economic development needs. In addition, OTS promotes industry adoption of comprehensive compliance management programs and encourages associations to strategically develop the diverse opportunities presented by the communities they are chartered to serve.

Strategic Goal 4: A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.

OTS strives to maintain a workforce that is professional and well trained to regulate the thrift industry and to deal with the public in a professional, informed and responsive manner. OTS will continue to cross-train its examiners to fully accredit them in both the safety and soundness and compliance disciplines. OTS provides the public with statistical reports, securities filings of OTS registrants, chartering records and other public information. OTS assists savings association customers with inquiries and complaints concerning savings associations.

In line with the President's Management Agenda, OTS is committed to the effective, efficient and economic management of its resources. OTS analyzes new enterprise initiatives for best value.

3.2 – Budget and Performance Plan

Dollars in Thousands

OTS Support of Treasury Goals
Treasury Strategic Goal: Preserve the integrity of financial systems (F3)
Treasury Strategic Objective F3C: Increase the reliability of the U.S. Financial System
OTS Budget Activity: Supervision **OTS Strategic Goals:** A safe and sound thrift industry. Fair access to financial services and fair treatment of thrift customers. A professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.
Treasury Strategic Goal: Promote prosperous U.S. and World economies (E1)
Treasury Strategic Objective E1B: Provide a flexible legal and regulatory framework
OTS Budget Activity: Supervision **OTS Strategic Goal:** A flexible legal and regulatory framework that enables the thrift industry to provide a full competitive array of financial services.

OTS Budget by Treasury Strategic Goal

Resource Level [1/]	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated
Treasury Strategic Goal: Preserve the integrity of financial systems (F3)						
Treasury Strategic Objective F3C: Increase the reliability of the U.S. Financial System						
Budget Activity:						
Supervision (90%)	137,900	138,293	160,842	168,691	193,950	198,799
Total Operating Level for F3C	$137,900	$138,293	$160,842	$168,691	$193,950	$198,799
Human Resources						
Supervision	NA	821	797	797	869	869
Total FTE (direct and reimbursable) for F3C	NA	821	797	797	869	869
Treasury Strategic Goal: Promote prosperous U.S. and World economies (E1)						
Treasury Strategic Objective E1B: Provide a flexible legal and regulatory framework						
Budget Activity:						
Supervision (10%)	17,800	15,366	17,871	18,743	21,550	22,089
Total Operating Level for E1B	$17,800	$15,366	$17,871	$18,743	$21,550	$22,089
Human Resources						
Supervision	NA	91	89	88	96	96
Total FTE (direct and reimbursable) for E1B	NA	91	89	88	96	96
Total Operating Level for OTS	$155,700	$153,659	$178,713	$187,434	$215,500	$220,888
Total FTE for OTS	NA	912	886	885	965	965

Strategic Objective: Increase the Reliability of the U.S. Financial System - F3C

Budget Activity: **Supervision**

Performance Goal: **Conduct examinations in an efficient and effective manner**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percent of safety and soundness exams started as scheduled (%) (Ot)						
Target		Baseline	90	90	90	90
Actual		92	94	93		
Target Met?	N/A	Y	Y	Y		
Total OTS costs relative to every $100,000 in savings association assets regulated ($) (E)						
Target					Baseline	TBD
Actual						
Target Met?	N/A	N/A	N/A	N/A		

Budget Activity: **Supervision**

Performance Goal: **Ensure that OTS-regulated thrift institutions operate in a safe and sound manner or that OTS has taken appropriate supervisory or enforcement action**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)						
Target		Baseline	90	90	90	90
Actual		93	93	94		
Target Met?	N/A	Y	Y	Y		

Budget Activity: **Supervision**

Performance Goal: **Maintain a thrift industry that effectively complies with compliance laws and regulations**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)						
Target		Baseline	90	90	90	90
Actual		94	94	94		
Target Met?	N/A	Y	Y	Y		

Budget Activity: **Supervision**

Performance Goal: **Maintain a thrift industry that is adequately capitalized**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Percent of thrifts that are well capitalized (%) (Oe)						
Target		Baseline	95	95	95	95
Actual		99.6	99.4	99.5		
Target Met?	N/A	Y	Y	Y		

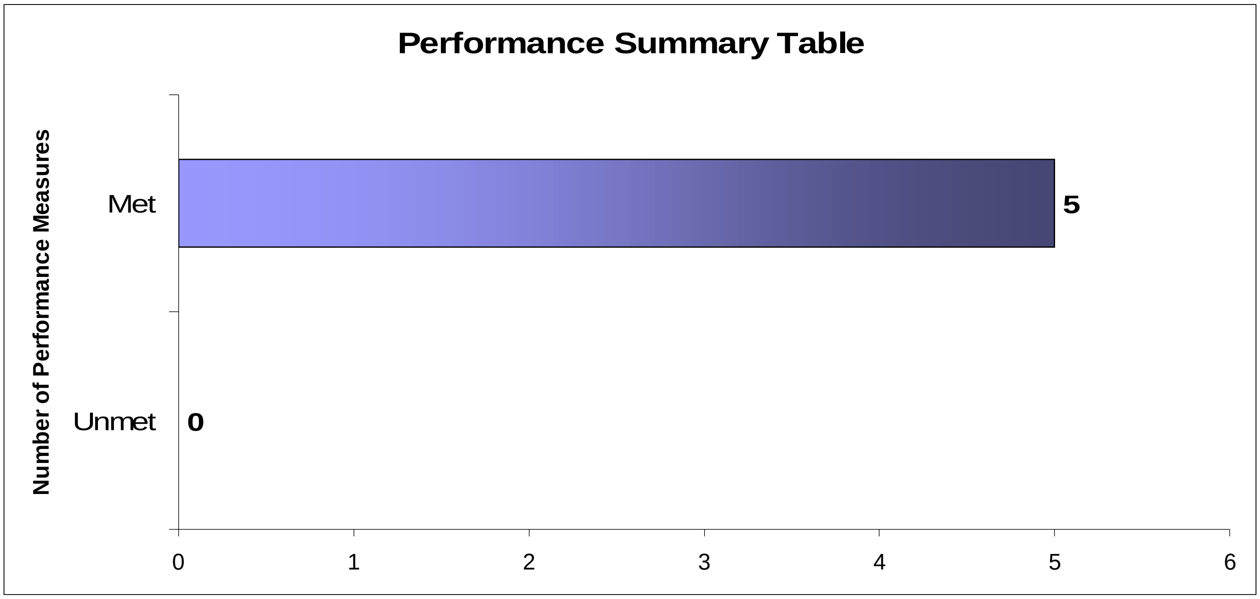
Strategic Objective: Provide a Flexible Legal and Regulatory Framework - E1B

Budget Activity: **Supervision**

Performance Goal: **Minimize financial regulatory burden on thrifts**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Difference between the inflation rate and the OTS assessment rate increase (%) (E)						
Target	0	0	0	0	0	0
Actual	0	0	0	0		
Target Met?	Y	Y	Y	Y		

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure



3B – Description of Performance

As highlighted in the charts, OTS met all five of its performance measures in 2005. Following is a brief description of each performance measure:

Percent of thrifts with composite CAMELS ratings of 1 or 2.

On December 9, 1996, the Federal Financial Institutions Examination Council (FFIEC) adopted the CAMELS rating system as the internal rating system to be used by the Federal and State regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. "CAMELS" stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination and may adjust the rating between examinations if the association's overall condition has changed. New savings associations are typically not assigned a composite CAMELS rating until the first examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.

Percent of thrifts that are well capitalized.

Capital absorbs losses, promotes public confidence and provides protection to depositors and the FDIC insurance funds. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized;

adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

Percent of safety and soundness exams started as scheduled.

OTS examines savings associations every 12-18 months for safety and soundness, compliance and consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994. When safety and soundness or compliance issues are identified during its risk-focused examinations, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association's board of directors after delivery of the Report of Examination to discuss findings and recommendations.

Percent of thrifts with compliance examination ratings of 1 or 2.

A uniform, interagency compliance rating system was first approved by the Federal Financial Institutions Examination Council (FFIEC) in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of an association's compliance with consumer protection statutes, regulations and requirements. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern.

OTS began to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.

Difference between the inflation rate and the OTS assessment rate increase.

Without compromising responsibilities and the risk-based examination approach, OTS strives to efficiently manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate. However, if OTS believes that events require more personnel or other expenditures, OTS may increase assessments to raise the required resources. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve a structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision. The assessment rate increases for savings associations have not exceeded the inflation rate for the past three years.

Total OTS Costs Relative to Every $100,000 in Savings Association Assets Regulated

Beginning in FY 2006, OTS will implement a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. Over 65 percent of all savings associations have total assets less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. In addition, the measure does not include over $7 trillion in assets of holding company enterprises regulated by OTS.

For detailed information about each performance measure, including definition, verification and validation, please go to:
http://www.treasury.gov/offices/management/budget/budget-documents/cj/performance

3C – PMA Evaluation Description

OTS evaluated the President's Management Agenda (PMA) strategies and adopted practices that were financially practical and helped OTS to achieve its mission. Many strategies were already practiced at OTS. Following are highlights:

Human Capital

Over 75 percent of the OTS budget funds staff compensation and benefits. Human capital is OTS's primary resource required to meet its strategic objectives. Sustaining and nurturing human capital resources requires a blend of competitive compensation, strategic and innovative training and a supportive work environment.

As a result of PMA, OTS drafted a Human Capital Strategic Plan and ensured that OTS's senior managers have a supplemental critical element in their Annual Performance Evaluation requiring the manager to have knowledge of OTS's Strategic Plan and its relationship to the applicable components of the senior manager's position and job responsibilities. OTS's compensation strategies and performance systems differentiate performance levels.

OTS offers a compensation and benefits package that is comparable to other financial regulators and allows OTS to retain and attract highly skilled candidates to perform specialized functions. To meet the need to fill positions requiring specialized expertise, OTS developed the Fellows Program that offers 13-24 month temporary appointments.

OTS strives to ensure that its staff is well trained and able to meet the challenges of regulating the thrift industry. Efforts to accomplish this include: an examiner accreditation program, specialized examiner training courses, use of individual development plans and a management development program.

Electronic Government

OTS strives to provide timely and efficient technological assistance and solutions to its examiners and the industry to meet regulatory responsibilities and enhance communication channels. The OTS web site includes a free service that provides subscribers with an e-mail alert when new material is posted to the site. OTS installs virtual private network software on the examiners' notebook computers to enable them to securely access OTS Systems and data over high-speed, broadband connections from OTS-regulated institutions or other locations. OTS provides a service to enable the exchange of encrypted messages and documents directly with institutions. The OTS Secure Messaging Center service meets the industry standards for secure electronic data exchange and facilitates the timely transmission of sensitive data and information. This program is successfully used to exchange sensitive data with the thrift industry. OTS systems enable collection and processing of examination workpapers in electronic format.

OTS has certified and accredited all of its 19 information technology systems and continues to update policies and procedures based on guidance from Treasury, OMB and the National Institute of Standards and Technology (NIST).

Budget and Performance Integration

OTS managers meet quarterly to integrate financial performance and program information. OTS's online Budget Variance Reporting System enables managers and employees responsible for financial performance to monitor expense, commitment and obligation data relative to approved budgets. Financial data is updated monthly and available through the OTS intranet. Quarterly performance measure results are posted on the OTS Strategic and Performance Planning intranet site. Senior managers discuss performance and financial results during the Regional Manager meetings that are held 10 times annually. All major OTS responsibilities are discussed.

Improved Financial Performance

OTS is committed to financial management excellence. OTS financial management systems provide timely, useful and auditable information that promotes the incorporation of financial and performance measurement in the planning, budgeting and reporting processes. OTS has received consecutive unqualified opinions on its financial statements since being formed in 1989. During 2003, program managers received online access to financial and budgetary information allowing them to monitor performance. During 2004, managers used this online financial and budgetary information for operational evaluation and decision-making. Quarterly performance results are provided to management.

In FY 2003, OTS began receiving administrative accounting support through a cross-servicing arrangement with the Administrative Resource Center (ARC), an entity of the Treasury Franchise Fund. For FY 2005, ARC successfully transitioned its financial management operations to Oracle Federal Financials for OTS.

3.3 – PART Evaluation Table

PART Name:	Thrift Supervision
Strategic Goal:	Preserve the integrity of financial systems (F3)
Rating:	Effective

OMB Major Findings

1. The program purpose is clear.
2. The program developed new goals that are outcome-oriented and program measurements which are clear.
3. The program is efficiently and effectively managed.

OMB Recommendations

1. Federal banking regulatory agencies, including the OTS, the OCC, the NCUA, and the FDIC, work together to align outcome goals and related measures to allow for greater comparison of program performance in the industry.
2. The OTS evaluate the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.
3. The OTS take steps to examine long-term systemic risks in the industry.

OTS Actions Taken

1. OCC and OTS worked together throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
2. Based on feedback received over the past two years, the vast majority of the industry prefers the efficiency and effectiveness of a joint examination. OTS eliminated much of the redundancy of two separate exams. OTS will fulfill its statutory examination responsibilities with less FTEs as a result of this change.
3. During the 2004 strategic planning process, systemic risks were examined and addressed in the Plan.

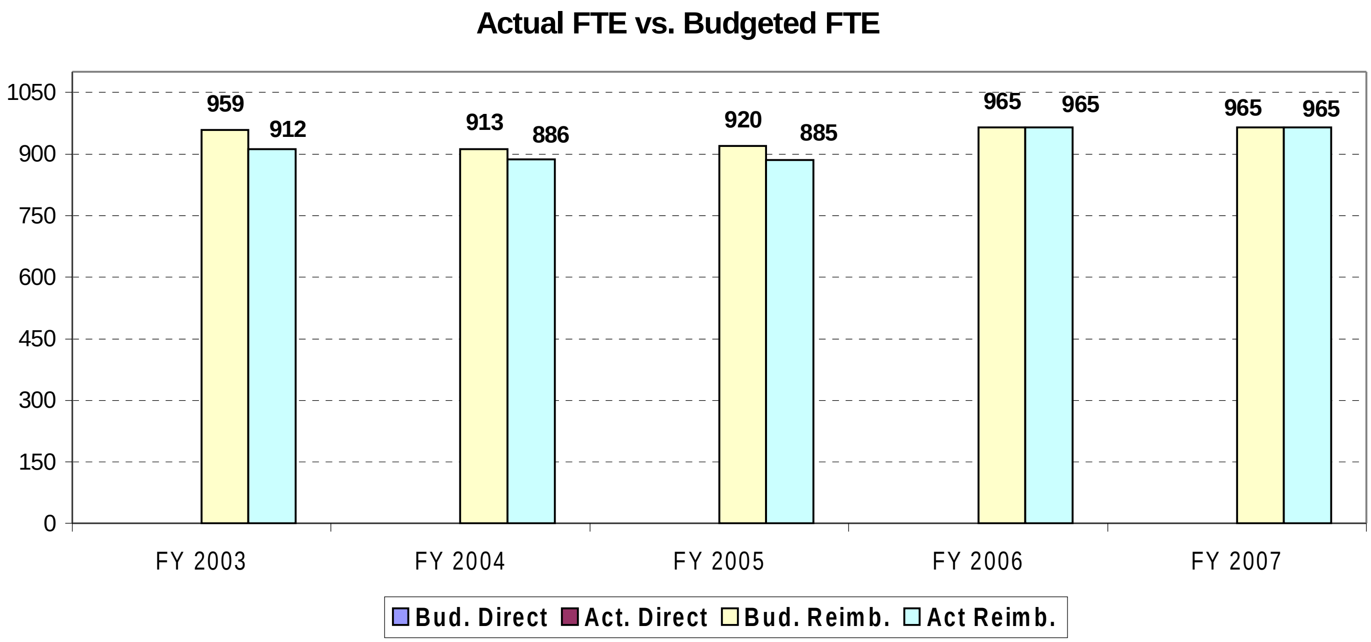
OTS Actions Planned or Underway

1. OTS will continue to work with the OCC to ensure that strategic goals are closely aligned. OTS will continue to share its strategic and performance plans with the other banking regulatory agencies and meet to discuss strategic and performance planning.
2. OTS will continue to perform a joint examination.
3. OTS will continue to examine and address systemic risks.

There were no resource implications as a result of OTS's PART evaluation.

Section 4 - Supporting Materials

4.1 – Human Resources Table



		FY 2005	FY 2006	FY 2007
Base: Year-end Actual from Prior Year		886	885	965
<u>INCREASES</u>				
Reason #1	Continued recruitment priority in the examiner ranks for sucession planning as well as to address increasing holding company needs		80	
Subtotal, Increases			80	0
<u>DECREASES</u>		-1		
Subtotal, Decreases		-1	0	0
Actual/Projected FTE		885	965	965
Net Change from prior year SOY to budget year EOY estimate		-1	80	0

4A – Human Capital Strategy Description

Human capital represents OTS's primary resource to meet its strategic objectives. Sustaining and nurturing human capital resources requires a blend of competitive compensation, strategic and innovative training and a supportive work environment.

OTS developed its Human Capital Strategic Plan in response to the President's Management Agenda. The Plan follows the Department of Treasury's Human Capital Strategic Plan for Fiscal Years 2004-2008 and incorporates strategies and practices to ensure that OTS has sufficient staff with the right skills to accomplish its mission presently and in the future. The Plan consists of four main strategic goals: Organizational Effectiveness, Recruitment and Diversity, Employee Retention and Satisfaction and Technology Skills.

OTS's Human Capital Strategic Plan (HCSP) links with two of the strategic goals outlined in OTS's Strategic Plan (2003 – 2008) and its annual Performance Budgets; namely, 1) a safe and sound thrift industry and 2) a professional and motivated workforce that provides exceptional service to its customers and supports achievement of OTS business goals.

4.2 – Summary of IT and Non-IT Resources Table

OTS does not have major IT or Non-IT investments.

4B – Information Technology and Non-Information Technology Strategy

The OTS Information Technology Investment Review Board (IRB) provides overall direction and vision for how OTS's information technology should contribute to OTS's goals and objectives and serves as the forum for senior OTS executives to make decisions regarding IT expenditures and investments.

OTS's Chief Information Officer is responsible for the policy, oversight and improvement of all information systems, information management and data communications used by OTS to carry out its mission; he serves as the Executive Director of the IRB. OTS's Director serves as the IRB Chair.

OTS has no major IT investments planned for FY 2006.

4.3 – Operating Levels Table

Dollars in Thousands

	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated
FTEs	885	965	965
Object Classification:			
11.1 Full-Time Permanent Positions	94,562	105,779	108,423
11.1 Other than Full-Time Permanent Positions	945	1,425	1,461
11.5 Other Personnel Compensation	0	0	0
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	95,507	107,204	109,884
12.0 Personnel Benefits	58,277	68,544	70,258
13.0 Benefits to Former Personnel	120	300	308
21.0 Travel	10,865	12,055	12,356
22.0 Transportation of Things	224	254	260
23.1 Rental Payments to GSA	0	0	0
23.2 Rent Payments to Others	4,352	4,359	4,468
23.3 Commun., Util., & Misc.	2,880	3,571	3,660
24.0 Printing and Reprod.	193	307	315
25.1 Advisory & Assistance Services	928	1,469	1,506
25.2 Other Services	1,553	3,088	3,165
25.3 Purchase of Goods/Serv. from Govt. Accts.	3,224	3,822	3,918
25.4 Operation & Maintenance of Facilities	4,050	3,673	3,765
25.5 Research & Development Contracts	0	0	0
25.6 Medical Care	0	0	0
25.7 Operation & Maintenance of Equipment	279	297	304
25.8 Subsistence & Support of Persons	0	0	0
26.0 Supplies and Materials	1,279	1,592	1,632
31.0 Equipment	2,334	3,706	3,799
32.0 Lands and Structures	1,194	1,259	1,290
33.0 Investments & Loans	0	0	0
41.0 Grants, Subsidies	0	0	0
42.0 Insur. Claims & Indemn.	175	0	0
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	0	0
Total..........................	**$187,434**	**$215,500**	**$220,888**
Budget Activities:			
Supervision of the thrift industry			
Total..........................	**$187,434**	**$215,500**	**$220,888**

INTERNATIONAL PROGRAMS

The Department of the Treasury’s FY 2007 budget request for International Programs is included in the Foreign Operations Appropriation.

OFFICE OF HOUSING FINANCE SUPERVISION

The Administration will again propose broad reform of the supervisory system for government-sponsored enterprises (GSEs) in the mortgage market: Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. Part of this reform includes establishing a new safety and soundness regulator for Housing GSEs with power comparable to other world-class financial regulators, and with the stature and resources necessary to carry out its responsibilities. The budget places this new regulator in the Department of the Treasury. The Administration's proposal promotes a strong, resilient financial system and increased opportunities for affordable home ownership.