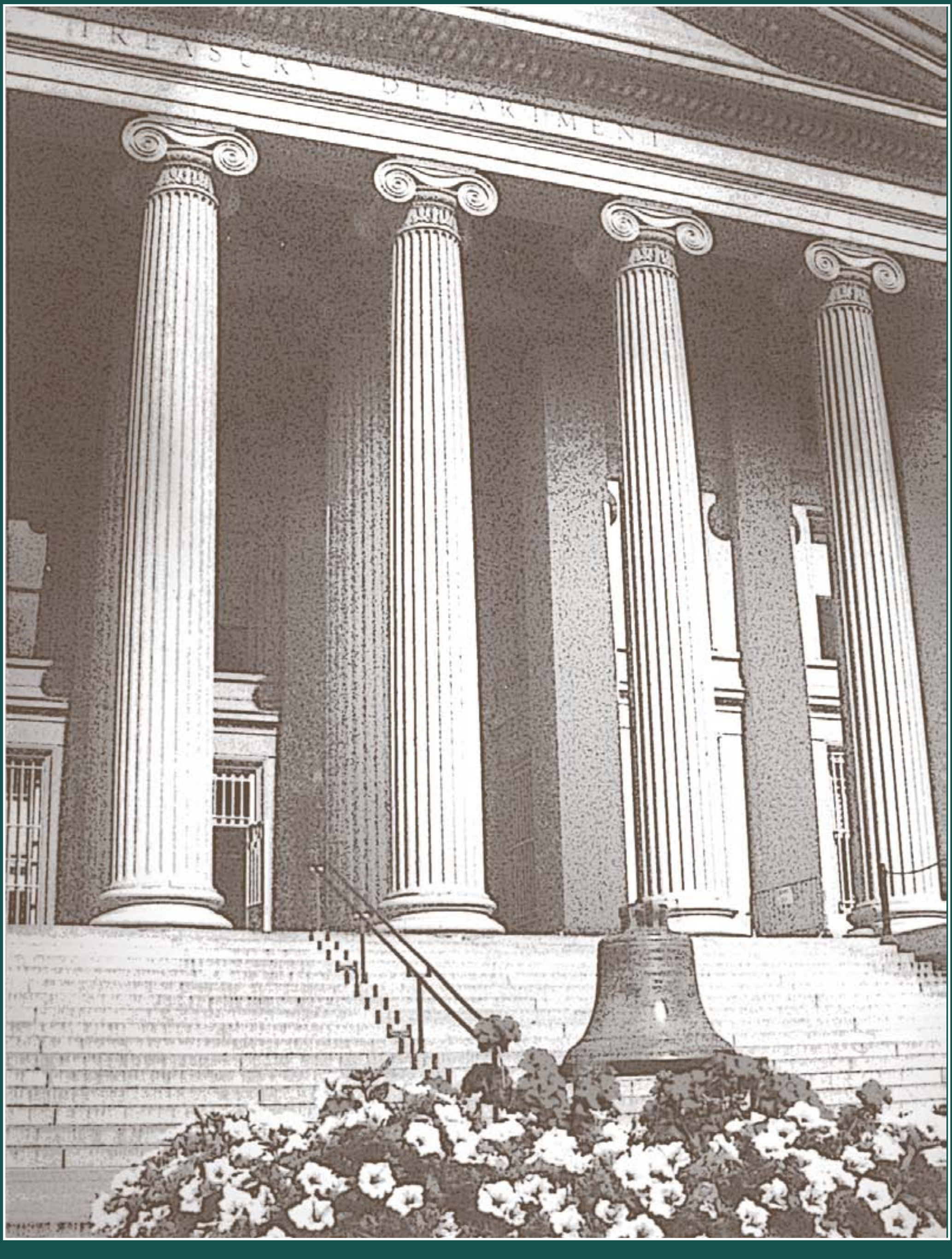
PERFORMANCE AND ACCOUNTABILITY REPORT

FY 2003



Department of the Treasury

Office of the Comptroller of the Currency
Bureau of Engraving and Printing
Financial Crimes Enforcement Network
Financial Management Service

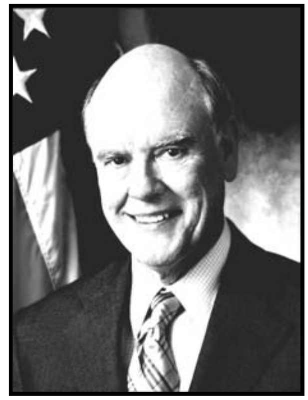
Internal Revenue Service
United States Mint
Bureau of the Public Debt
Office of Thrift Supervision
Alcohol and Tobacco Tax and Trade Bureau

Table of Contents

Table of Contents (Continued)

Message from the Secretary

November 14, 2003



I am pleased to present the Department of the Treasury's Performance and Accountability Report for Fiscal Year (FY) 2003. This report provides key information on Treasury's progress in meeting its diverse missions and managing its financial responsibilities. We are able to report solid accomplishments in both areas.

FY 2003 was a significant and historical year of transition for Treasury. The passage of the Homeland Security Act resulted in the transfer of most Treasury law enforcement bureaus, functions, and associated resources to the Departments of Homeland Security and Justice. Treasury efficiently managed the challenges associated with this divestiture and seized this opportunity to refocus Treasury's functions on our core economic and financial missions. Our new Strategic Plan, issued in September 2003, will serve as a guide for preserving our standards for excellence while modernizing and adapting Treasury's operations and core systems.

This year, Treasury made solid accomplishments relative to our responsibilities in the areas of domestic and international economies, banking oversight, tax law compliance, cash and debt management, and production of currency and coins. Our remaining law enforcement functions focused on counter-terrorism and financial crimes. Treasury played a critical role in the war on terrorism by freezing and confiscating terrorist assets, imposing economic sanctions, disrupting the flow of funds to terrorists, and working with financial institutions to identify and investigate suspicious financial activities. In addition, Treasury produced positive results toward establishing critical economic infrastructures in Afghanistan and Iraq.

Regarding the management and reporting of finances, Treasury again received an unqualified opinion on our financial statements while issuing this report on an accelerated schedule. The unqualified opinion speaks to the financial statements' accuracy and reliability. We continued to successfully close our financial books within three days of the end of each month, an initiative designed to provide program managers with timely financial information. Overall, Treasury maintains strong internal controls to minimize the risk of waste and fraud and to minimize erroneous payments. I am committed to ensuring that Treasury's efforts are intensified to reduce our improper payments. We also made progress in reducing our material management control deficiencies. Despite these successes, we acknowledge that we still have significant management control and financial systems deficiencies, and plans are in place to correct them.

This report demonstrates Treasury's strong commitment to fulfill our broad responsibilities. Treasury's mission affects the lives of all Americans, and we are accountable to the American public we proudly serve. In accordance with the Reports Consolidation Act of 2000, I have assessed the performance data presented in this report and have determined it to be reliable and complete, with the limitations noted in Part VI.

Sincerely,

John W. Snow

John W. Snow

Message from the Chief Financial Officer

November 14, 2003

Treasury played a pivotal role in the establishment of the new Department of Homeland Security in FY 2003. Treasury transferred over $10 billion in assets, $6.2 billion in budget authority, and over 34,000 employees to the Departments of Homeland Security and Justice. Key support was provided by working with the new Department, the Office of Management and Budget, and all the other legacy agencies to provide for an orderly and timely transition of people, assets, and funding. During the transition, Treasury continued to provide segments of the new agency with support in many critical areas.

In addition to meeting these challenges, Treasury is proud to deliver our FY 2003 Performance and Accountability Report forty-five days after the close of the fiscal year, repeating our FY 2002 accomplishment. Treasury again received an unqualified opinion on our financial statements. This is a tremendous achievement that was only accomplished through the dedicated efforts of our Bureaus and Headquarters staff, the Office of Inspector General, and the General Accounting Office. This report demonstrates Treasury's continued commitment to improving the quality, usefulness, and timeliness of both program performance information and financial reporting.

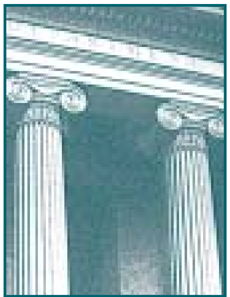
Treasury made significant progress in FY 2003 toward meeting our diverse performance goals. For example, Treasury successfully worked to remove barriers to U.S. and global economic growth and played a key role in the passage of tax relief legislation. The Department also focused on international financial institution reform and improving the international economic environment. This work continued to help improve economic conditions in developing countries. Treasury's efforts also protected the safety and soundness of the nation's financial institutions, and successfully managed the federal government's cash flows. This report includes details on all Treasury's performance measures.

Despite receiving an unqualified opinion on our financial statements, Treasury is providing qualified assurance that we are achieving the internal control and financial management systems objectives outlined in the Federal Managers' Financial Integrity Act. In addition, due to our financial management systems weaknesses, Treasury cannot assert that we are in substantial compliance with the Federal Financial Management Improvement Act. Responding to these challenges, we made substantial progress in addressing material weaknesses during FY 2003, and no new weaknesses were reported for FY 2003. Many of our remaining nine weaknesses will require significant effort and time to correct, and there are plans in place to address them.

This report also emphasizes significant high priority management challenges across Treasury, including the challenges identified by the Inspectors General and General Accounting Office. Underlying all our improvement efforts are the goals of the President's Management Agenda, which Treasury aggressively supports. We are committed to maintaining our successes and continuously improving all of our management operations.

Sincerely,

Teresa Mullett Ressel



PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

Introduction

The Department of the Treasury, established in 1789, has primary responsibility for the economic and financial prosperity and security of the United States. Additional Treasury responsibilities include advising the President on economic and financial issues, enacting the President's growth agenda, and enhancing corporate governance in financial institutions**.** The Department of Treasury is comprised of two major components: the Departmental Offices (DO) and the operating bureaus. DO, also known as Treasury headquarters, formulates policy and manages Treasury as a whole, and the nine operating bureaus and several supporting entities carry out specific operations that support Treasury's mission. Treasury performs programmatic responsibilities among its economic and financial mission focuses, and supports these through its management enabling goals.

Treasury's Performance and Accountability Report, prepared in accordance with the Reports Consolidation Act of 2000, presents the results of Treasury's performance and accountability for Fiscal Year (FY) 2003. This report has six major sections: Management's Discussion and Analysis; Annual Performance Report; Annual Financial Report; Systems, Controls and Legal Compliance; Management and Performance Challenges; and Appendices. An electronic copy of this report is available on the Treasury World Wide Web site: www.treas.gov.

Treasury recently revised its Strategic Plan to reflect its core mission responsibilities following the establishment of the Department of Homeland Security (DHS). Treasury will implement a visionary plan that puts into action meaningful policy and program change and modernization of Treasury's systems and processes. Implementation of this plan will reflect the changing domestic and international environment, leverage technology and state of the art business practices, and challenge Treasury to reach new levels of excellence. Modernization will ensure that Treasury has the workforce, technology, and business practices to meet our Nation's future needs, while making effective and efficient use of resources.

Impact of New Legislation

Enactment of Public Law (P.L.) 107-296 resulted in the divestiture of the majority of Treasury's law enforcement bureaus and functions in FY 2003. Effective March 1, 2003, Treasury transferred the United States Customs Service (USCS), the Federal Law Enforcement Training Center (FLETC), the United States Secret Service (USSS), and certain Enforcement related functions in the Departmental Offices to the newly created DHS. The law provided for the retention of certain Customs revenue functions by Treasury. However, the Secretary has delegated these functions to DHS. Effective January 24, 2003, P.L. 107-296 also directed Treasury to establish a new bureau, the Alcohol and Tobacco Tax and Trade Bureau (TTB), to administer alcohol and tobacco laws and implementing regulations previously administered by Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF). TTB also will administer the federal excise tax for firearms and ammunition. The remaining part of ATF has been transferred to the Department of Justice as the Bureau of Alcohol, Tobacco, Firearms and Explosives. In addition, Treasury established a new Executive Office of Terrorist Financing and Financial Crimes to oversee Treasury programs and policies that combat terrorist financing or target financial crimes.

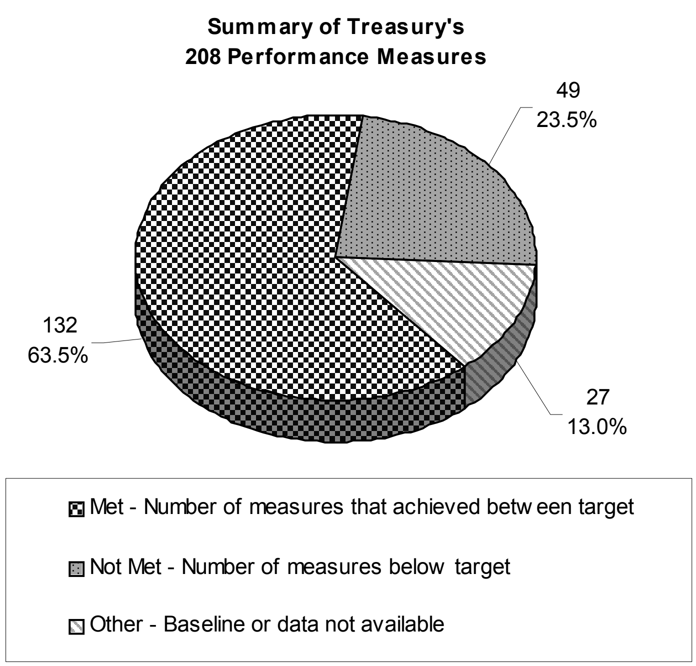
In accordance with Office of Management and Budget (OMB) guidance, the annual performance information for the transferred Treasury law enforcement bureaus is reported in the DHS and DOJ Performance Reports for FY 2003. The financial information in this report for USCS, FLETC, and USSS, however, will cover the period from October 1, 2002 through February 28, 2003, and for ATF from October 1, 2002 through January 23, 2003. DHS and DOJ will report the financial information for the respective divested Treasury bureaus for the remaining period of FY 2003. A listing of performance measures contained in the FY 2002 Performance and Accountability Report for the divested bureaus is found in the Appendices section "Full Report of Treasury's FY 2003 Measures by Focus and Strategic Goal."

In addition, the President's FY 2004 Budget proposes consolidation of the Treasury Forfeiture Fund (TFF) with the Justice Assets Forfeiture Fund under the auspices of the Department of Justice. This initiative, known as the "Unified Fund," requires enacted legislation before the terms of the Presidential initiative can be made effective. The most recent version of the proposed legislation provides for transfer of TFF property, as defined in the legislation, and Treasury's Executive Office of Asset Forfeiture personnel to the Department of Justice within a year of enactment of the legislation. The legislation has not yet been introduced in the Congress for consideration.

During FY 2003, Treasury proposed the establishment of a permanent, indefinite appropriation to reimburse financial institutions for the services they provide as depositaries and financial agents of the Federal Government. This approach supports Treasury's goal of simplifying cash and debt management. This proposal was included in the President's FY 2004 Budget and in Treasury's FY 2004 Appropriations bill (H.R. 2989).

Performance Highlights

FY 2003 marks the first year that Treasury will not report program results for the divested law enforcement bureaus and functions. Despite this historic transfer of responsibilities and transfer of resources, we made significant progress toward attaining our performance goals presented in Treasury's FY 2003 Annual Performance Plan. Treasury established 208 performance targets in FY 2003, of which 27 were either baseline targets or had no data available. Of the remaining 181 measures, Treasury achieved 132 of its targets, or 63.5 percent, and improved performance over FY 2002 for 39 measures.



Treasury continues to work toward achieving its strategic goals and improving service to the American public. The following summarizes Treasury's efforts in accomplishing its FY 2003 performance objectives by mission focus, highlighting successes, challenges, and future plans.

Economic Focus

Stimulating Economic Growth. In the area of domestic economic policies, Treasury played a key role in analyzing the macroeconomic effects of a series of policy proposals that led ultimately to the passage in May of the *Jobs and Growth Tax Relief Reconciliation Act* (JGTRRA) *of 2003*. The Act helps households by accelerating previously passed tax relief, benefits businesses by increasing expensing, and improves efficiency in the allocation of capital by reducing the double-taxation of dividends. The effect of JGTRRA was almost immediate, with both consumption and investment appearing to strengthen markedly in the third quarter.

Reform of the International Financial Institutions and Agenda for Growth. Through policy dialogue, the lending it endorses at the International Financial Institutions (IFIs) and bilateral assistance programs such as technical assistance, Treasury works to create an environment conducive to raising productivity. Continued engagement on issues related to macroeconomic stability, reduction in trade barriers, development of the rule of law, strengthened financial sectors, combating terrorist financing and money laundering, and investments in health and education was critical to achieving results. A U.S.-led incentive program was initiated at the World Bank. Performance of the program resulted in an increase in U.S. contributions to the International Development Association of $100 million. The completion of an Action Plan to improve stability in April 2003 helped establish clearer limits on funds from the International Monetary Fund and created more rigorous methods of debt analysis. In addition, a milestone agreement, called the G-7 Agenda for Growth, was completed in September 2003. It calls on the G-7 countries to adopt pro-growth policies and create supply side benchmarking systems to monitor results. Finally, important steps were taken in the U.S. (reduction in tax rates), Japan (higher money growth) and Europe (labor market and pension reform) to increase flexibility, raise productivity, and create jobs.

Reconstruction (Iraq and Afghanistan). The goal of helping to raise standards of living through establishment of a free market economy was perhaps nowhere more evident than in Treasury's work in Iraq and Afghanistan. In Iraq, Treasury saw success in several critical initiatives including facilitating payments to Iraqi workers and pensioners, introducing a stable national currency, restoring and revitalizing the banking sector, developing a strategy for dealing with international debt, assessing reconstruction costs and supporting international fundraising efforts, and establishing a Trade Bank in order to facilitate imports and exports. In Afghanistan, Treasury efforts focused on rebuilding basic infrastructures, strengthening the central government and its budget processes, and laying the foundations for strong private sector growth. Among other achievements, the government approved a new investment law, cut export taxes to zero, and developed a "one-stop shopping" process for foreign investment.

Economic Growth in Industrialized Countries. The U.S. led a global recovery with trade and industrial production picking up across the world. The Calendar Year (CY) 2003 annual growth rate is expected to reach 3.2 percent on a global basis, up from 3.0 percent in CY 2002. While economic stability improved despite the uncertainty related to terrorism, there continue to be significant barriers to growth and stability in Europe, Asia, Latin America, and Africa as well as in international trade and financial systems. Treasury will continue its domestic and international efforts to remove rigidities and barriers that limit U.S. and global economic growth.

Developing and Transitional Economies. Treasury continued its efforts to assist and monitor macroeconomic and financial conditions in developing and transitional economies. These efforts resulted in an expected growth rate in developing economies of 5.0 percent in CY 2003 compared to a 4.6 percent rate in

CY 2002. The growth rate of transitional economies is expected to reach 4.9 percent in CY 2003, up from 4.2 percent the previous year.

Pension Reform. The Administration made strengthening the health of the defined benefit pension system and improving the retirement security of its participants a priority for FY 2003. Treasury Departmental Offices provided leadership in efforts to enact a suitable replacement for the interest rate on the 30-year Treasury bond as the discount rate for computing pension liabilities. Treasury's proposal of a yield curve based on high-grade corporate bonds – now adopted as the Administration proposal – will make measured pension liabilities more reflective of the timing of future benefit payments.

Financial Focus

Tax Collection. The following summarizes Internal Revenue Service's (IRS) FY 2003 performance for its pre-filing and filing tax programs:

- ***Pre-Filing Programs.*** The cumulative FY 2003 Assistor Level of Service increased to 80 percent, up nearly 12 percent over FY 2002. Strategies and initiatives implemented in FY 2003 resulted in more callers receiving properly trained assistance more quickly, as evidenced by lower transfer rates, faster average speed of answer, and lower abandon rates. In addition, the IRS and Financial Management Service (FMS) successfully implemented the advanced payment of the child tax credit, which required the issuance of Advanced Child Tax Credit payments and associated notices to more than 23.7 million taxpayers who claimed a child tax credit on their 2002 income tax return. The IRS also coordinated with the Armed Forces Tax Council and individual armed service branches to disseminate timely information regarding the impact of the Earned Income Tax Credit (EITC) law change on military personnel and their families. Approximately 400 thousand additional enlisted military personnel became potentially eligible for claiming EITC.
- ***Filing Programs.*** Taxpayers continue to shift from paper to electronic filing of their individual tax returns. In FY 2003, E-filed returns, increased nearly 13 percent, to approximately 52 million while paper returns decreased roughly 7 percent, to approximately 78 million. Nearly 12 million taxpayers filed returns by home computer, an increase of nearly 27 percent from the prior year, including 2.78 million returns filed through Free File Alliance members. Approximately 44 million individual refunds were paid via direct deposit, 11.5 percent more than in 2002, resulting in quicker refunds to taxpayers and reduced postage and processing costs.

Issuing Payments. As an essential part of the U.S. economy, FMS issued over 920 million payments with a dollar value of approximately $1.2 trillion to more than 100 million individuals and businesses. Making payments to American citizens accurately and on time is of considerable financial importance. FMS continues to expand the use of electronic media to deliver Federal payments in order to improve service to payment recipients and reduce federal program costs.

Government's Cash Management and Financial Reporting. Managing the Federal Government's cash flow with the most up-to-date and accurate information benefits the taxpayer by enabling Treasury to maximize investment earnings and minimize borrowing costs within established policy objectives. In FY 2003, the Federal Government's cash position, budget surplus, and deficit information was reported on schedule and accurately in key Treasury publications. The Financial Report of the U.S. Government, including the Federal Government's consolidated financial statements, was issued on time. In addition, Treasury worked to identify and institutionalize processes for developing forecasts that are effective in times of stability or situations involving policy change or economic uncertainty. Improvements to the accuracy, timeliness, and usefulness of the tax receipts forecasts enable Treasury to more precisely estimate daily tax receipts and minimize borrowing costs.

Government's Debt Management. Treasury's debt management objective is to minimize the government's borrowing costs over time. Treasury's strategy for obtaining low cost financing is to minimize investor uncertainty associated with debt issuance by issuing debt in a regular pattern and in predictable quantities and by auctioning securities quickly and reliably. As the financing situation developed through FY 2003, Treasury successfully prepared the market for the additional debt issuance that we ultimately concluded would be needed. This new issuance was composed of quarterly issuance of three-year notes, monthly issuance of five-year notes, and twice-quarterly issuance of ten-year notes. In addition, Treasury has been successful in educating investors about the importance of inflation-protection. This success has been reflected in greater demand for inflation-protected securities and allowed Treasury to increase issuance of inflation-indexed securities in FY 2003. Also, in FY 2003, Treasury reduced the time between auction closing and releasing auction results to two minutes; further reducing uncertainty that investors face when participating in Treasury auctions.

Law Enforcement Focus

Reducing the Threat of Terrorism and Combating Financial Crimes. The Administration has made the war on terrorist financing one of its key priorities for FY 2003. As a result of September 11th, the President issued Executive Order 13224, "Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism." This Order directed the Secretary of Treasury, in consultation with the Departments of State, Justice, and Homeland Security, to implement the President's authority to systematically and strategically attack terrorists, terrorist organizations, and terrorist support networks.

Treasury developed a seven-part strategy to attack terrorist networks and prevent both the short and long-term effects of terrorist financing. The strategy focuses on: (1) targeted intelligence gathering, (2) freezing of terrorist-related assets, (3) Law enforcement actions, (4) diplomatic efforts and outreach, (5) improved regulatory scrutiny and International Standard Setting, (6) outreach to the private sectors, and (7) capacity building for other governments and the financial sector. We made great strides in all seven areas to combat terrorist financing.

Through our work in the Financial Action Task Force (FATF), Treasury plays a leading role in establishing strong international standards in the area of terrorist financing and money laundering, and ensuring those standards are implemented worldwide. In addition, FATF has continued its efforts to identify and take action against countries that are non-cooperative in the fight against money laundering, and launched a new initiative to work with donor countries to ensure that appropriate terrorist financing technical assistance flows to priority countries.

In the area of targeting and law enforcement actions, IRS Special Agents, along with other federal law enforcement agencies, executed search warrants on individuals charged with sending millions of dollars to Iraq for criminal purposes. In addition, the IRS and the Federal Bureau of Investigation (FBI) formed a partnership with the Saudi Arabian government and established a task force in Riyadh to investigate individuals suspected of funneling money to terrorist organizations. With the cooperation of the Saudis, the task force analyzed bank accounts and other financial data already seized by the Saudis from prior investigations of terrorist incidents focusing on the financial aspects, especially those transactions that may involve charitable organizations. This agreement between the Departments of Treasury and Justice and the Saudi government is a historic and groundbreaking development in our governments' global efforts to track terrorist activity.

Economic Sanctions. Economic sanctions have been an effective weapon in depriving terrorists of access to the U.S. financial system and to advance other U.S. national security and foreign policy objectives. The Office of Foreign Assets Control (OFAC) currently administers and enforces 26 economic sanctions programs. Active enforcement of these programs is a crucial element in preserving and advancing U.S. foreign policy and national security. In addition, OFAC worked with the Department of Defense and the regional Commands to focus on the key nodes, or operational centers, of terrorist groups, in regional areas, and cripple entire organizations.

Expanding Regulatory Framework. Since passage of the USA PATRIOT Act in 2001, Treasury, the Financial Crimes Enforcement Network (FinCEN), the Department of Justice and the financial regulators have worked together to draft and issue extensive regulations that implement the Act's provisions. Among these regulations are rules to expand the universe of financial institutions required to report potentially suspicious activities to FinCEN, expand our basic money laundering regime to include a wide range of financial services providers outside of depository institutions, and close off our borders to foreign shell banks.

Performance Scorecard

Treasury established 208 performance measures at the beginning of FY 2003, 24 of which were identified by Treasury's senior leadership as key performance indicators of the success of the Department. Treasury selected these indicators based on whether a clear nexus exists between the measure and the strategic goal it supports. The chart below provides an overview of Treasury's performance against these key indicators by programmatic mission focus – Economic (E), Financial (F), and Law Enforcement (LE). The four LE strategic goals: Reduce Violent Crime and the Threat of Terrorism; Protect our Nations Leaders and Visiting Dignitaries; Protect our Nation's Borders and Major International Terminals from Traffickers and Smugglers of Illicit Drugs; and Provide High Quality Training for Law Enforcement Personnel, assessed the performance of ATF, USCS, USSS, and FLETC. Accordingly, the performance information for these four goals will be reported in the Performance and Accountability Reports for the Departments of Homeland Security and Justice. The complete set of Treasury's performance measures are discussed in Part VI of this report. Indicated in parenthesis after each performance measure is the appropriate bureau or organization.

Strategic Goal	Key Performance Indicators	Plan	Actual (Final data **bolded**)	Page
E1. Promote Domestic Economic Growth	Number of businesses financed (CDFI)	7,340	**13,282**	273
	Rate of Domestic Economic Growth (DO)	GDP Growth	**3.3**	274
	Percentage of national banks that are well-capitalized (OCC)	95%	*99%*	274
	Percentage of OTS-regulated thrift institutions adequately capitalized or operating under an approved Capital Plan or Prompt Corrective Action Directive (OTS)	100%	**100%**	276
	Percentage of thrifts that are well capitalized (OTS)	95%	**99.5%**	276
E2. Maintain U.S. Leadership on Global Economic Issues	Economic conditions in the global economy [calendar year] (DO)	GDP Growth	*3.2*	279
F1. Manage the Federal Government's Accounts	Percentage collected electronically of total dollar amount of Federal Government receipts (FMS)	80%	**81%**	282
F2. Ensure All Federal Payments are Accurate and Timely	Percentage of paper check and EFT payments made on time (FMS)	100%	**99.9999%**	283
	Percentage of paper check and EFT payments made accurately (FMS)	100%	**99.9998%**	283

Strategic Goal	Key Performance Indicators	Plan	Actual (Final data **bolded**)	Page
	FMS will make Treasury payments and associated information electronically (FMS)	74%	**74%**	283
F3. Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards	Percentage of government-wide accounting reports issued accurately (FMS)	100%	**98%**	284
	Percentage of government-wide accounting reports issued timely (FMS)	100%	**100%**	284
F4. Collect Revenue Due to the Federal Government	FMS will increase the annual collection of delinquent debt, not including Federal tax debt, by $120 million above that collected in FY 2001 for a total of $2.8 billion (FMS)	$2.8B	**$3.0B**	285
	Toll-free Tax Law Quality (IRS)	86%	**80%**	287
	Percentage of individual returns filed electronically (IRS)	41%	**40%**	287
	Toll-free Accounts Quality (IRS)	77%	**67%**	292
	Taxes and fees collected from alcohol and tobacco industries (in billions) (TTB)	$15.1B	**$14.7B**	294
	Ratio of taxes and fees collected vs resources expended (TTB)	$211:1	**$242:1**	295
F5. Cost-Effectively Finance the Federal Government's Operations	Percent of auction results released in 6 minutes (BPD)	80%	**96.5%**	296
	Percentage of borrowing policies and requirements announced to financial market participants in a timely manner (DO)	100%	**96.3%**	297

Strategic Goal	Key Performance Indicators	Plan	Actual (Final data bolded)	Page
F6. Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency	Manufacturing costs for currency (BEP)	$31.00	**$29.14**	298
	Conversion cost to produce 1,000 coin equivalents (Mint)	$9.96	**$9.96**	300
LE1. Reduce Violent Crime and the Threat of Terrorism[1]	ATF, USCS and Office of Enforcement	NA	**NA**	302
LE2. Combat Money Laundering and Other Financial Crimes	Average time to process a civil penalty case measured in years (FinCEN)	1.5	**1.3**	303
	Percent of forfeited cash proceeds resulting from high-impact cases (TFF)	75%	**80.55%**	303
LE3. Protect our Nation's Borders and Major International Terminals from Traffickers and Smugglers of Illicit Drugs[1]	USCS	NA	**NA**	304
LE4. Protect our Nations Leaders and Visiting Dignitaries[1]	USSS	NA	**NA**	304
LE5. Provide High Quality Training for Law Enforcement Personnel[1]	FLETC	NA	**NA**	304

[1]The performance measures for these goals were supported by the divested law enforcement bureaus.

FINANCIAL HIGHLIGHTS

Financial Statement Highlights

The financial statements contained in Part III have been prepared from the accounting records of Treasury in conformity with the accounting principles generally accepted in the United States, and the form and content of entity financial statements specified by OMB Bulletin 01-09. These principles are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standards setting body of the Federal government by the American Institute of Certified Public Accountants.

While the financial statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

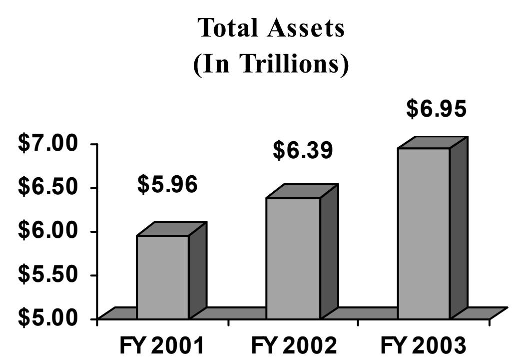
The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be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

During FY 2003 four Treasury bureaus were transferred to the Departments of Justice and Homeland Security as a result of the Homeland Security Act of 2002. Accordingly, Treasury's financial statements have been restated to enhance comparability. Note 1 to the financial statements provides details of the effects of the transfers on Treasury's financial statements.

The information below provides highlights of the more significant financial statement categories.

Assets

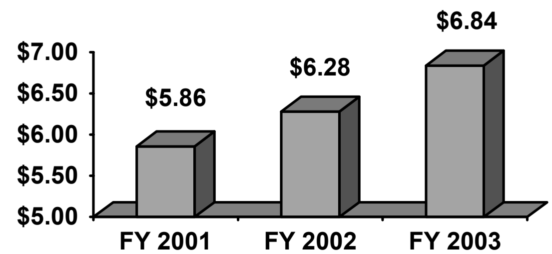
Treasury's total assets as of September 30, 2003 included $6.5 trillion due from the General Fund of the Federal government to pay the principal and interest on the public debt and tax refunds. In FY 2002, $5.9 trillion was due from the General Fund to pay the principal and interest on the public debt and tax refunds. This increase in the amount due from the General Fund is the primary reason for the increase in total assets, and was due to the increase in the Federal debt held by the public described in the "Liabilities" section.



Liabilities

At the close of FY 2003, intra-governmental liabilities totaled $2.9 trillion, including interest payable, in borrowing from various Federal agencies. These borrowings do not include debt issued by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development. Liabilities also include Federal debt held by the public, including interest, of $3.92 trillion; the majority of this debt was issued as Treasury Bills. In FY 2002, borrowing from various Federal agencies totaled $2.7 trillion, and Federal debt held by the public, including interest, totaled $3.55 trillion. Debt held by the public increased primarily because of the need to finance budget deficits.

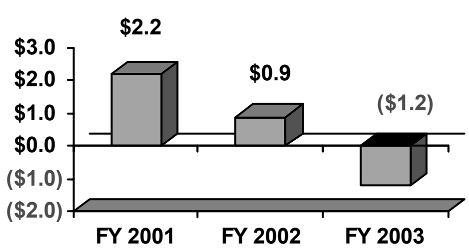
Total Liabilities (In Trillions)



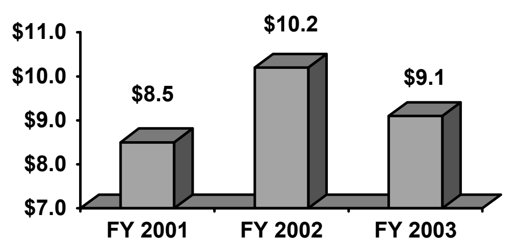
Net Cost of Treasury Operations

The net cost of continuing Treasury operations is reported for the Department's four strategic missions: financial, economic, law enforcement, and management. The majority of the net cost of Treasury operations is in the financial mission area. Treasury is the primary fiscal agent for the Federal government in managing the Nation's finances by collecting revenue, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet the demand. The Department also plays a major role in both domestic and international economic policy, and intervenes as appropriate to minimize currency fluctuations. Such intervention resulted in foreign currency gains on FY 2003 transactions, which is why the economic program reflects a "negative net cost" for FY 2003.

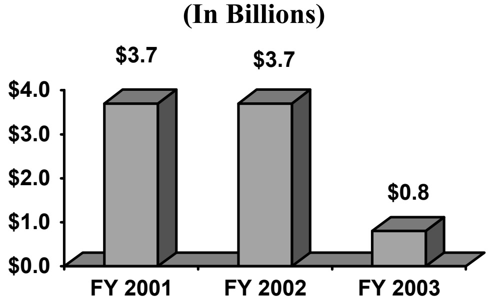
Economic Focus (In Billions)



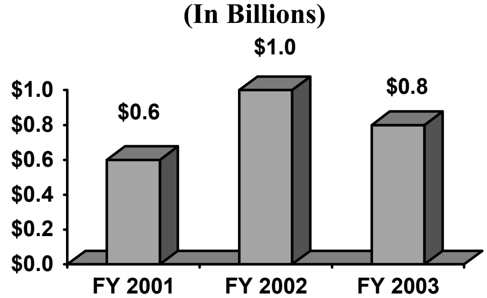
Financial Focus (In Billions)



Law Enforcement Focus (In Billions)



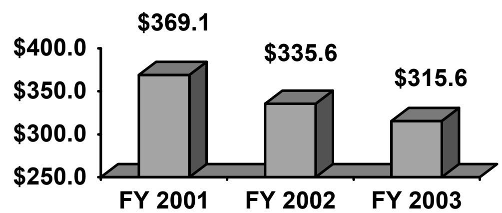
Management Focus (In Billions)



Federal Debt Interest and Other Costs

Interest and other costs include interest payments on the Federal debt and other Federal costs, such as payments made to or by the Judgment Fund, the Resolution Funding Corporation, and the District of Columbia. The vast majority of these costs are interest on the Federal debt. Interest costs have decreased significantly over the past three years, even while the debt principal has increased significantly, due to the lower interest rates that have prevailed.

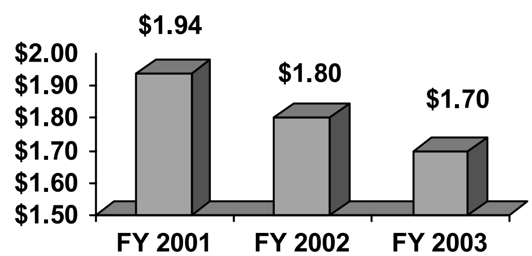
Federal Debt Interest and Other Costs (In Billions)



Custodial Revenue

Total net revenue collected by Treasury on behalf of the Federal government includes various taxes, primarily income taxes, tariff duties, user fees, fines and penalties, and other revenue. Over 90 percent of the revenues are from income and social security taxes. The decline in revenues over the past three years is due to the weaker economy, the stock market decline, and reductions in tax rates.

Net Revenue Received (In Trillions)



OTHER FINANCIAL HIGHLIGHTS

The following tables provide additional information for Treasury and its bureaus.

Treasury Bureau	Appropriations Enacted (in Millions)		Full Time Equivalent Employees (Actual)	
	FY 2003	FY 2002	FY 2003	FY 2002
Alcohol, Tobacco and Firearms (ATF) *	$175	$855	N/A	4,967
Alcohol and Tobacco Tax and Trade Bureau (TTB) *	$54	N/A	260	N/A
Office of the Comptroller of the Currency (OCC) **	**	**	2,761	2,792
U.S. Customs Service (USCS) *	$887	$3,116	N/A	20,008
Departmental Offices (DO)***	$481	$576	2,558	2,567
Bureau of Engraving and Printing (BEP) **	**	**	2,427	2,442
Federal Law Enforcement Training Center (FLETC) *	$38	$171	N/A	727
Financial Crimes Enforcement Network (FinCEN)	$51	$48	230	200
Financial Management Service (FMS)	$221	$213	1,765	1,700
Internal Revenue Service (IRS)	$9,835	$9,471	99,155	99,181
U.S. Mint (MINT)**	**	**	2,302	2,428
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	$190	$188	1,399	1,455
U.S. Secret Service (USSS) *	$339	$1,066	N/A	5,760
Office of Thrift Supervision (OTS) **	**	**	912	1,087
TOTAL	$12,271	$15,644	113,769	145,314

Source: FY 2002 amounts are from the FY 2004 President's Budget Appendix, (numbers may differ slightly due to rounding). The FY 2003 amounts reflect final enacted appropriated amounts per P.L. 108-7 plus or minus transfers and/or actual receipts received from offsetting collections.

Treasury Bureau	Total Resources (in Millions)		Total Outlays (in Millions)	
	FY 2003	FY 2002	FY 2003	FY 2002
Alcohol, Tobacco and Firearms (ATF) *	$287	$938	$245	$879
Alcohol and Tobacco Tax and Trade Bureau (TTB) *	$55	N/A	$40	N/A
Office of the Comptroller of the Currency (OCC) **	$784	$730	($43)	($36)
U.S. Customs Service (USCS) *	$1,613	$5,211	$1,609	$3,070
Departmental Offices (DO)	$80,229	$69,059	($1,245)	$1,668
Bureau of Engraving and Printing (BEP) **	$633	$598	($41)	$101
Federal Law Enforcement Training Center (FLETC) *	$119	$295	$78	$167
Financial Crimes Enforcement Network (FinCEN)	$62	$58	$49	$44
Financial Management Service (FMS)	$13,961	$9,732	$13,095	$8,096
Internal Revenue Service (IRS)	$10,583	$10,193	$9,788	$9,889
U.S. Mint (MINT) **	$872	$802	($25)	($63)
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	$318,503	$396,982	$318,455	$396,941
U.S. Secret Service (USSS) *	$549	$1,281	$488	$1,075
Office of Thrift Supervision (OTS) **	$312	$284	($23)	($10)
TOTAL	$428,562	$496,163	$342,470	$421,821

Source: Statement of Budgetary Resources

* The Homeland Security Act of 2002, Public Law 107-296 transferred the functions, personnel, assets, and liabilities of the USCS, the USSS, and the FLETC, including the related functions of the Secretary of the Treasury, to the Department of Homeland Security (DHS) on March 1, 2003.

This legislation also transferred authorities, functions, personnel and assets of the ATF, including the related functions of the Secretary of the Treasury, to the Department of Justice (DOJ) on January 24, 2003. TTB was created with Treasury to perform remaining functions of the ATF.

** These bureaus operate on self-supporting revolving funds, and do not receive appropriations.

*** DO includes DO S&E, DSCIP, TBARR, OIG, TIGTA, CDFI, Franchise Fund, and Forfeiture Fund for FTE.

PRESIDENT'S MANAGEMENT AGENDA

Overview

FY 2003 provided Treasury with significant management challenges and opportunities. The divestiture of Treasury's law enforcement bureaus presented Treasury with the opportunity to restructure and refocus its strategic goals and objectives through the five initiatives of the President's Management Agenda (PMA). Treasury developed and issued its new Strategic Plan, which will guide Treasury's efforts through FY 2008. Each of the five PMA initiatives is intricately linked to the new Strategic Plan. This new strategic vision, coupled with the efforts underway in the PMA, provides the mechanism and focus for continuous improvement throughout Treasury and its bureaus. Below is a summary of Treasury's accomplishments as well as planned activities for FY 2004.

PMA Progress Evaluation

Initiative	Status		FY 2003 Progress			
	FY 2002	FY 2003	Q1	Q2	Q3	Q4
Strategic Management of Human Capital	R	R	G	G	G	Y
Competitive Sourcing	R	R	G	G	G	Y
Improved Financial Performance	R	R	G	G	Y	Y
Expanded E-Government	R	R	Y	Y	G	Y
Budget & Performance Integration	R	R	G	Y	Y	Y

▪ **Green** for success ▪ Yellow for mixed results ▪ **Red** for unsatisfactory

Strategic Management of Human Capital (HC)

Treasury made significant progress in the management of its human capital especially in light of the divestiture of staff to the Department of Homeland Security (DHS). To assure effective coordination and consistency of HC management among Treasury bureaus, two top-level HC management officials were appointed to carry out Treasury's HC Initiative. The Chief HC Officer and the Deputy Assistant Secretary for Workforce Management lead Treasury's efforts under the HC initiative of the PMA. Significant accomplishments for FY 2003 include:

- **HC Standards for Success Incorporated into Treasury's Planning and Budgeting Process.** Treasury's HC Action Plan addresses the Office of Personnel Management (OPM) and Office of Management and Budget's (OMB) Standards for Success, and were incorporated into Treasury's strategic planning and budgeting formulation and execution processes.

- **Modernization Efforts.** During FY 2003, Treasury Headquarters and the majority of its bureaus began modernization efforts designed to streamline and de-layer operations consistent with the PMA. The use of buyout and early out authority granted by OPM was and is a significant part of this process. In addition, Treasury Headquarters developed a workforce planning model to assist the bureaus with their modernization efforts.

- **Succession Planning Model for Key Leadership Positions.** Treasury Headquarters initiated a succession planning model for key leadership positions to ultimately assist bureaus with maintaining stability and institutional expertise within the Department's executive cadre.

  For FY 2004, Treasury plans to continue implementation of its succession planning model for key leadership positions; convene a Department-wide project team to improve Treasury's HC Strategic Plan; and continue to work with Treasury bureaus to eliminate existing skill gaps in mission-critical occupations.

- **Addressing the Challenges of DHS Transfers and Top Leadership Changes.** Although challenged by the transfer of nearly 40,000 employees to the new DHS and by the loss of top headquarters leadership, including the Secretary, Deputy Secretary, and Assistant Secretary for Management and CFO, Treasury made great strides overall in its Human Capital Initiative. In particular, Treasury:

  - Initiated enterprise-wide, automated Human Resource systems covering nine bureaus and 96,000 employees; and
  - Developed an online workforce analytic tool for use by all Treasury managers.

Competitive Sourcing (CS)

Treasury's CS team is striving to become one of the government leaders for implementing this initiative. Treasury's emphasis on training and preparation enabled us to complete streamlined competitions in most of our bureaus. Treasury's leadership in the CS initiative is demonstrated through its implementation of knowledge through an online Fair Act tracking database, leadership of the redesign of OMB Circular A-76, and sponsorship of government-wide conferences. Accomplishments in FY 2003 include:

- Completion of Treasury's first-ever full A-76 Study;
- Seamless integration and implementation to the revised A-76 circular requirements; refocusing the initiative to transition away from a quota-driven initiative per OMB's July policy document;
- Increased coordination among all elements of the PMA; and
- Establishment of a plan that institutionalized competitive sourcing into the senior management decision process.

In FY 2004, Treasury will continue to develop its comprehensive sourcing plan, monitor progress, promote its management-need (rather than quota-driven) approach, and work to institutionalize competitive sourcing into the senior management decision process.

Improved Financial Performance

Treasury remains committed to improving financial performance at the Department and throughout the Federal Government.

Treasury maintained its government-wide lead in accelerated financial reporting by improving its three-day monthly close and successfully issuing its FY 2002 Performance and Accountability Report on November 15, 2002, three and one-half months ahead of the official deadline. The Department's consolidated financial statements included in Treasury's FY 2002 Performance and Accountability Report received an unqualified opinion. Further, the Treasury provided numerous presentations to other federal agencies to assist them in achieving an accelerated annual closing by November 15, 2004, as required by the Administration.

Treasury achieved its financial performance goals associated with the PMA, and continues to provide this data online in a timely manner. Treasury integrated its financial systems and provides timely and reliable financial information. Complete compliance with federal financial systems requirements, however, will not be achieved until IRS completes its financial systems modernization efforts.

Revised plans to reduce erroneous payments in the IRS' Earned Income Tax Credit program were recently developed to address congressional concerns. Treasury anticipates improved progress in FY 2004 and future years. All other Treasury bureaus have a good track record in the erroneous payments area. Treasury also made significant progress toward finalizing its guidance for implementation of the Improper Payments Improvement Act. Draft guidance is being piloted by several bureaus and will be finalized and implemented in early FY 2004 based on test results.

Treasury continues to make significant progress in reducing its material management control weaknesses. Treasury completed FY 2003 with nine material weaknesses compared to 20 in FY 2002.

While Treasury made great progress, especially through the accelerated monthly and annual closings of the books, we must ensure that financial and performance information is routinely considered during operational decision making. Treasury will continue to fully support the PMA as it builds on its successes in FY 2004.

Expanded E-government

In an effort to expand E-Government, Treasury has placed an emphasis on the use of digital technologies to improve effectiveness, efficiency, and service delivery to both citizens and other public agencies, including initiatives such as the IRS' Free Filing and Expanded Electronic Products for Businesses. Treasury is focusing on high-priority modernization initiatives by continuing to integrate information technology (IT) strategic planning, enterprise architecture, IT capital planning, and security activities in the context of the overall planning and reporting activities of Treasury. The implementation of the new Treasury FY 2003-2008 Strategic Plan will ensure that the above areas are an integral part of our planning and reporting processes.

Treasury established a governance structure to ensure that all its services and products produced are consistent with Treasury's strategic objectives. A new Technology Investment Review Board (TIRB) reviews and approves all Treasury IT investments and conducts monthly meetings to drive the Department's IT governance framework and compliance with OMB Circular A-11. Through the TIRB, Treasury will communicate and review procurement, project management and portfolio management requirements and hold bureaus accountable for performance that relates to project management objectives. It will institute a disciplined process for evaluating portfolio and project performance and controlling IT investments for major projects. It will ultimately improve the scores on the Department's OMB Exhibit 300s and institutionalize the long-term portfolio management activities of the Capital Planning and Investment Control Process (CPIC).

Through the CPIC, the Department will monitor projects to ensure they are within 10 percent of cost, schedule and performance objectives. For example, the IRS is in the midst of an aggressive remediation program for major systems investments to ensure all aspects of performance budget formulation. This has resulted in greatly improved Exhibit 300 submissions that will link major investments to a Strategic Plan, an Enterprise Architecture and performance measurements.

During FY 2003, Treasury demonstrated consistent progress in the remediation of IT security weaknesses and conducted a Security Program review of all Treasury components. As part of Treasury's new IT Security Policy, all bureaus must submit implementation plans over the next year. In an effort to successfully meet OMB IT security performance measures, Treasury plans to perform Certification and Accreditation of greater than 80 percent of major systems by Quarter 3 of FY 2004.

Treasury continues to participate in all four categories of E-Gov projects. In addition, Treasury recently executed Interagency Agreements with the General Services Administration for the E-Authentication and Integrated Acquisition Environment and with Environmental Protection Agency for the e-Rulemaking initiative.

Treasury will continue to pursue opportunities with expanded e-government. The following highlights some of our efforts:

- Develop a draft target architecture;
- Complete the FY 2006 Information Resources Management Strategic Plan that identifies the link between the PMA, Treasury's business goals, and the basis for revisions to the Modernization blueprint;
- Ensure proper reporting of all systems to determine which systems are/are not within 10 percent variation of cost and schedule;
- Demonstrate consistent progress in the remediation of IT security weaknesses through a variety of methods, working directly with the bureaus to ensure that they understand the requirements of Federal Information Security Management Act (FISMA) and security in general; and
- Identify e-government applications, using the Enterprise Architecture project as a management enabling tool.

Budget and Performance Integration

Treasury developed a new Treasury Strategic Plan for FY 2004 through 2008, which reflects the recent reorganization post the creation of the Department of Homeland Security. The Plan focuses on our core economic and financial mission and will seek to influence global financial and economic issues and promote global economic growth and stability. It also preserves standards of excellence while adapting Treasury's mission, goals, and operations to address the challenges of a new century, and incorporates a wide range of activities including advising the President on economic and financial issues, enacting the President's growth agenda, and enhancing corporate governance in financial institutions. The new plan improves alignment of bureau strategic plans with the Treasury Strategic Plan by incorporating bureau general goals that directly support Treasury strategic objectives. The bureau strategic plans will articulate the goals, initiatives, and performance measures that will be used to link to the Treasury plan.

Treasury also issued guidance and implemented changes to enhance management's ability to use financial and performance information to make decisions. Treasury revised its performance reporting requirement from annual to quarterly to facilitate review and assessment of bureaus' key performance data. In addition, many bureaus and organizations identified ways to refine their internal processes to collect, analyze, and report their performance information and developed new and/or enhanced their existing performance goals and measures to better assess long- and short-term results. These efforts will ultimately provide Treasury senior management with prompt financial and performance information necessary to make decisions.

Treasury further improved the alignment of bureau resources with Treasury's new strategic goals and objectives by conducting several training sessions. During these sessions, bureaus and organizations contributed to the development of Treasury's objectives, identified programs and resources that link to each Treasury strategic goal and objective, and established new outcome- and efficiency-oriented goals and measures. We established a Strategic Management Process that links the Departmental, bureau and organization strategic and annual performance plans. This system will gauge the level of success in accomplishing Treasury's goals and objectives. The first use of this alignment will be presented in Treasury's FY 2005 budget submission, which links bureau programs, resources, and performance to Treasury's strategic goals and objectives. The FY 2005 budget justifications also demonstrate the need for resources based on performance improvement.

Treasury will continue to pursue opportunities to integrate financial and performance data. The following highlights some of our efforts:

- Treasury restructured some of its budget activities to better reflect the full cost of achieving results and established a performance budget that lines its bureaus programs and resources to its new strategic goals and objectives.

- The Offices of Performance Budgeting and Deputy Chief Financial Officer will continue to integrate the financial management and performance measurement data. Treasury met with contractors to identify opportunities and assess the requirements needed to link Treasury's financial management system with its performance measurement system. The new system will collect timely and accurate information, perform meaningful data analysis, and disseminate the results.

PROGRAM ASSESSMENT RATING TOOL (PART)

Evaluation of Treasury Programs

The goal of the PART is to evaluate program deficiencies, determine the causes for strong or weak performance, and take action to remedy deficiencies and achieve better results. OMB conducts the PART evaluations and recommends actions for program improvement. The following table identifies Treasury programs that were PARTed in FY 2003 and includes a summary of the findings and follow-up actions implemented in accordance with OMB recommendations.

PARTed Program *Recommendations*	***FY 2003 Actions***
Alcohol and Tobacco Tax and Trade Bureau (TTB)	
Consumer Product Safety Activities (Adequate Rating)	
Establish clear guidelines and procedures to insure that goals are very specific. Establish written guidelines and supporting documentation for all aspects of the program.	TTB developed performance measures for both external reporting and internal management. TTB will refine these measures by hiring a consultant to conduct an independent analysis and implement changes prior to its follow-up PART review.
Refine performance measures to more accurately reflect the goals and achievements of the program.	The consultant will focus efforts on the PMA initiatives, which include the performance measures under the consumer product safety activities. The vendor acquisition strategy is in early stages.
Internal Revenue Service (IRS)	
Earned Income Tax Credit (EITC) (Ineffective) Set performance targets, including outcome targets, to demonstrate EITC compliance initiative results. Implement a certification program to reduce qualifying child errors. Implement a program to resolve high-risk cases prior to issuing refunds to reduce filing status and income errors.	Approximately 20 million taxpayers claimed over $36 billion in EITC on Tax Year 2002 returns. The most recent compliance study reported that between 27 percent and 32 percent of the claims were improperly paid. Based on significant compliance problems associated with EITC, the administration of the credit has been listed as a high-risk area for the federal government. The President and Congress have expressed concerns regarding the large amount of erroneous payments made by federal agencies. Programs with complex criteria, large volumes of transactions, and expedited payments are more susceptible to erroneous payments. The IRS' EITC program must deal with the following issues. • Eligibility criteria is complex. • Over 15 percent of all federal individual income tax returns include a claim for EITC. • Over 60 percent of all the returns claiming EITC are filed electronically.

PARTed Program *Recommendations*	***FY 2003 Actions***
	Compliance Activities Congress provided an EITC appropriation of $145 million for FY 2003. The appropriation represents an administrative cost of about 0.5 percent of the total annual EITC benefits distributed by the IRS. Of this appropriation amount, the IRS spent over $100 million for EITC compliance activities. These compliance activities directly protected EITC revenue. In FY 2002* the dollars protected was far greater than the cost of compliance. • IRS prevented over $435 million in erroneous EITC claims through math error authority. Math error authority allows the IRS to make summary assessments of taxes on a return with a mathematical or clerical error, such as figuring the credit incorrectly, failing to provide the correct social security number for a qualifying child, and omitting nontaxable income. • IRS audits of EITC returns protected $850 million. • IRS' Criminal Investigation Division identified over 16,000 fraudulent EITC claims on electronically filed returns. • During the past three fiscal years, 196 subject criminal investigations were initiated on questionable refund schemes related to fraudulent EITC claims. The investigations identified a minimum of 20,095 questionable returns. During this period, 129 investigations were recommended for criminal prosecution and 137 people were convicted of income tax fraud for various fraudulent EITC schemes. In addition to this revenue protected, erroneous or fraudulent EITC claims disallowed in one year, likely prevented the same filers from making similar claims in subsequent years. **Program Enhancements** Although the IRS made significant improvements in EITC outreach and compliance activities, the IRS is committed to further improving its administration of this important benefits program. The Commissioner announced a five-point initiative for the EITC program to improve service, fairness, and compliance with the EITC law. The first two initiatives focus on the current audit process. An average EITC examination takes 225 days to resolve. The taxpayer will receive between two and six different notices. Actions are underway to improve the audit process. • Develop EITC research strategies to better understand taxpayer behavior, identify unique taxpayer segment treatments, and identify reasons for noncompliance; • Continue to expand and refine tools used in EITC audits; • Review and improve all correspondence used in EITC audits; and *FY 2002 is the most recent period with complete compliance and revenue data. FY 2003 compliance information is expected to be comparable to FY 2002.

<table>
<tr><th>PARTed Program
Recommendations</th><th>FY 2003 Actions</th></tr>
<tr><td></td><td>• Revise the audit process to focus on EITC issue reducing days to resolve.

The next initiative involves improved outreach to the EITC community. The IRS is working to improve communications with EITC claimants and preparers.

• Participate in assessing the overall EITC marketing and awareness campaigns;
• Assess and refine EITC products based on customer feedback;
• Provide improved EITC information and customer access using IRS internal and external internet sites; and
• Ensure that the EITC Outreach Program educates the diverse EITC taxpayer population and tax practitioners about EITC issues and provides sufficient EITC products and services to assist Limited English Proficient taxpayers.

The final two initiatives refocus compliance efforts on taxpayers who claimed the credit, but were ineligible because their income was too high.

• Pilot a qualifying child residency certification program;
• Conduct a study of the Federal Case Registry of Child Support Orders data;
• Analyze Tax Year 2002 audit results to refine existing Dependent Database rules; and
• Establish a specific EITC threshold in the Document Matching Program.

In addition to addressing the Commissioner's five-point initiatives, the IRS will continue to pursue compliance through improved math error processing, enhanced Criminal Investigation tools, and refined compliance strategies based on the results of the National Research Program.</td></tr>
<tr><td>Collection (Results not demonstrated)

Develop collection outcome goals to measure program effectiveness.

Implement collection contractor support to resolve more collection cases.

Increase collection staffing by 537 FTE.

Reengineer collection work processes/introduce risk-based targeting to improve effectiveness.

Modernize collection technology to improve effectiveness.</td><td>GAO cited weaknesses in IRS's systems for tracking unpaid tax assessments and budgetary resources.

IRS instituted a number of financial management reforms and improvements, which contributed to obtaining and retaining a clean opinion in our most recent audits. These include issuing Lockbox processing guidelines to improve the safeguarding of taxpayer receipts and data at lockbox facilities, and designing an automated Trust Fund Recovery Penalty system that can properly cross-reference payments and eliminate the opportunity for errors. Numerous other reforms can be found in the GAO FY 2001 IRS financial audit.

Collection outputs dropped in recent years due to resources, legislative changes, and productivity issues. While IRS cannot yet measure whether it is achieving its goals (payment compliance), it is likely, based on collection output data that collection is less successful than during the 1990s. However, collection does yield a substantial revenue return.</td></tr>
</table>

PARTed Program *Recommendations*	***FY 2003 Actions***
	IRS is addressing this challenge by modernizing technology and collection processes, developing and analyzing payment and compliance data for both strategic and operational purposes, establishing baseline measures for payment compliance to facilitate better decision making and gauge program effectiveness, and developing support tools that allow us to improve our resource allocation processes. IRS will implement a number of process improvement initiatives, including: • Re-engineering the Collection Strategy for Installment Agreement, Non-filer, and Taxpayer Delinquent Account (TDA) teams; • Automated Collection System process improvements; • Installment Agreement initiative to reduce the default rate; • Non-filer initiative to use predictive models to identify the most productive Taxpayer Delinquency Investigations; and • Implement Collection TDA Re-engineering to better identify cases with a high or low propensity to pay or to be unproductive, thus allowing for a better use of scarce resources. The IRS Small Business/Self Employed (SB/SE) will pursue the use of Private Collection Agencies (PCAs) to support IRS collection efforts by having the PCAs locate and contact taxpayers with outstanding tax liabilities. PCAs would request payment of the liability, but lack authority to initiate any enforcement action against a taxpayer. PCAs would operate within the same environment as the IRS, ensuring the protection of taxpayer rights. The use of PCAs would enhance collection by allowing IRS to focus our limited resources on cases that are more complex. **Collection productivity declined since the 1998 passage of the Restructuring and Reform Act, which imposed new procedural and taxpayer rights requirements on IRS. However, IRS is implementing performance improvement initiatives and technology modernization resulting from reengineering studies, which should improve productivity.** IRS' strategy to reverse collection program declines is to improve the productivity of IRS's existing collection staff. The reengineering efforts rely heavily on technology modernization. By updating its case selection processes and applying our resources effectively, the IRS will ensure that the personnel best equipped to handle the issues work taxpayers' cases in the most efficient manner. The IRS will increase productivity by optimizing resource usage by identifying and integrating new procedures and technologies that will: • Refine collection compliance case assignment processes; • Enhance offer-in-compromise case processing; and • Increase automation of existing work processes to improve case productivity and reduce cycle time. SB/SE will implement the Integrated Insolvency System (IIS), a more sophisticated interface with the Bankruptcy Court System ensuring timely filing of claims and reducing paper documents.

PARTed Program *Recommendations*	***FY 2003 Actions***
US Mint (Mint)	
Circulating Coinage (Effective)	
Reduce the maintenance down time of coin manufacturing machinery.	Mint Manufacturing initiated a program to improve overall equipment effectiveness and set aggressive goals for this metric. A significant portion of this metric will be achieved via reduction in machine downtime. In support of this effort, the Mint implemented Supervisory Control and Data Acquisition in the Circulating Manufacturing areas in order to identify, quantify and analyze and reduce downtime.
Establish a performance target to reduce the time required to process raw materials into finished goods.	The performance measure "Cycle Time" is one of the Mint's key performance measures. The Mint Manufacturing Office initiated a program to improve its Material Cycle Time (the total time from when raw material is delivered until it is shipped out as finished goods). Significant improvements include the cycle time reduction from 455 days at the beginning of FY 2002 to 73 days at the end of FY 2003 and this measure is now tracked monthly as a key part of the Mint's strategic objectives. The five-year goal is to reduce the Cycle Time to 49 days.
Improve customer service satisfaction scores.	The Mint completed its study on Mint and Federal Reserve Bank supply chain. The Mint is reviewing the recommendations from the Federal Reserve Bank and Mint supply chain study and will establish a plan to implement approved recommendations.
Reduce manufacturing costs.	The Mint is implementing a Lean Manufacturing concept. The main thrust of this plan is to aggressively reduce manufacturing over the next five years in both Circulating plants calling for reduction in the Conversion Cost per Coin Equivalent from the FY 2002 level of $9.33 to $8.25 by the end of FY 2007.
Community Development Financial Institutions Fund (CDFI)	
Bank Enterprise Award (Results not demonstrated)	
Collect credible performance data on the impact of the program on community development activities.	CDFI addressed the OMB recommendation by: • Awarding a performance-based contract for the development of a web-based data collection system for CDFIs and Community Development Entities; • Researching and designing a web-based data collection system; • Collecting and cleaning transaction-level and loan level data; and • Analyzing data and use performance information to make program and process decisions. These milestones are being organized and tracked by the Financial Strategies and Research Unit. CDFI expects this recommendation to be completed by March 2004.

PARTed Program *Recommendations*	***FY 2003 Actions***
Departmental Offices	
Office of Technical Assistance (OTA) (Results not demonstrated)	
Improve strategic planning by developing quantifiable annual and long-term performance and targets in 2003.	OTA developed a new management system for establishing goals and objectives, and for tracking status and progress of OTA and its component projects. OTA plans to share its Project Management Tracking System with OMB in October 2003. Upon OMB approval of the new system, OTA will pilot the new system in OTA's Budget Division, Project Azerbaijan. Completion of the second PART for this program is anticipated in spring 2004.
Office of Foreign Assets Control (OFAC) (Results not demonstrated)	
The assessment indicates the overall purpose of the program is clear, but unit cost measures are lacking.	OFAC will establish a plan to outline the unit cost measures for the overall purpose of the program by March 31, 2004.
Develop long-term goals with specific targets.	OFAC's long-term goal "Preserve the Integrity of Financial Systems" is incorporated in the new Treasury Strategic Plan. During the first quarter of FY 2004, OFAC will initiate the process of establishing target dates to meet subsequent annual milestones. Indicators are planned using FY 2004 as a baseline to measure unit costs for effectiveness of OFAC sanctions and the overall program.
Institute annual performance goals to determine the effectiveness of OFAC sanctions.	OFAC will initiate the process of developing annual performance goals to determine the effectiveness of OFAC sanctions.
Developing long-term performance goals with specific timeframes and measures.	OFAC's long term goal "Preserve the Integrity of Financial Systems," is incorporated in the overall Treasury Strategic Plan, which was just completed. This goal includes two Strategic Objectives: "Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate their Support Networks" and "Execute the Nation's Financial Sanctions Policies" which incorporate a description of the relevant measures. OFAC will initiate the process of developing timeframes for the goal incorporated in Treasury's Strategic Plan.
International Development Association (IDA) (Adequate)	
Establish a system to measure, monitor, and evaluate overall results and related goals as identified in the IDA-13 "replenishment agreement."	The Office of International Affairs initiated a performance measurement system for IDA that will establish baselines for interim country development and measure outcome indicators in education, health, and private sector development. Long-term results measurement indicators were established to be used starting with IDA-14. IDA increased its diagnostics to improve fund effectiveness. During the spring of 2003,

PARTed Program *Recommendations*	***FY 2003 Actions***
	overall targets were met for the completion of Country Financial Accountability Assessments, Public Expenditure Reviews, and Poverty Assessments underpinned all Country Assistance Strategies prepared since July 2002. Overall targets for Investment Climate Assessments and Country Procurement Assessment Reviews were surpassed. Completion of the second PART for this program is anticipated in Spring 2004. Planned milestones will measure increases in the rate of primary education completion, measles immunization and reduction in the time and cost required for business start-ups.
Office of the Comptroller of the Currency (OCC)	
Bank Supervision (Effective) Work together with other federal banking regulatory agencies, including the OCC, the OTS, the National Credit Union Association, the Federal Reserve, and the Federal Deposit Insurance Corporation, to align outcome goals and related measures to allow for greater comparison of program performance in the industry.	The OCC and OTS closely aligned its strategic goals and performance measures. All of the banking regulatory agencies (OCC, OTS, NCUA, FDIC, Federal Reserve, and the Office of Federal Housing Enterprise Oversight) continue to share their strategic plans, performance plans, and measures, which may bring greater commonality between the agencies.
Office of Thrift Supervision (OTS)	
Thrift Supervision (Effective) Work together with other federal banking regulatory agencies, including the OCC, the OTS, the NCUA, the Federal Reserve, and the FDIC, to align outcome goals and related measures to allow for greater comparison of program performance in the industry.	Based on OMB's recommendations, 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 continue to share their strategic and performance plans with each other and meet quarterly to discuss strategic and performance planning.
The OTS evaluates the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.	Based on the feedback received over the past year, 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 their statutory examination responsibilities with less employees than prior to this reorganization.
Take steps to examine long-term systemic risks in the industry.	During the 2003 strategic planning process, systemic risks were examined and addressed in the plan.

MISSION AND ORGANIZATIONAL STRUCTURE

Mission

The mission of the Department of the Treasury is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world. This statement reflects Treasury's enduring role as the steward of the U.S. economic and financial systems, and as an important partner to influence the international economic and financial infrastructures.

Treasury develops policies and manages programs that promote economic growth and prosperity, and serves as the steward of the U.S. economic and financial systems. As the principal fiscal agent for the Federal Government, Treasury's responsibilities include collecting taxes and non-tax delinquent debt, manufacturing coin and currency, executing U.S. sanctions policies, and countering money laundering and other financial crimes.

Vision

To the extent that our objective can be linked to the world economy, Treasury will seek to influence global financial and economic issues whenever possible to promote global economic growth and stability.

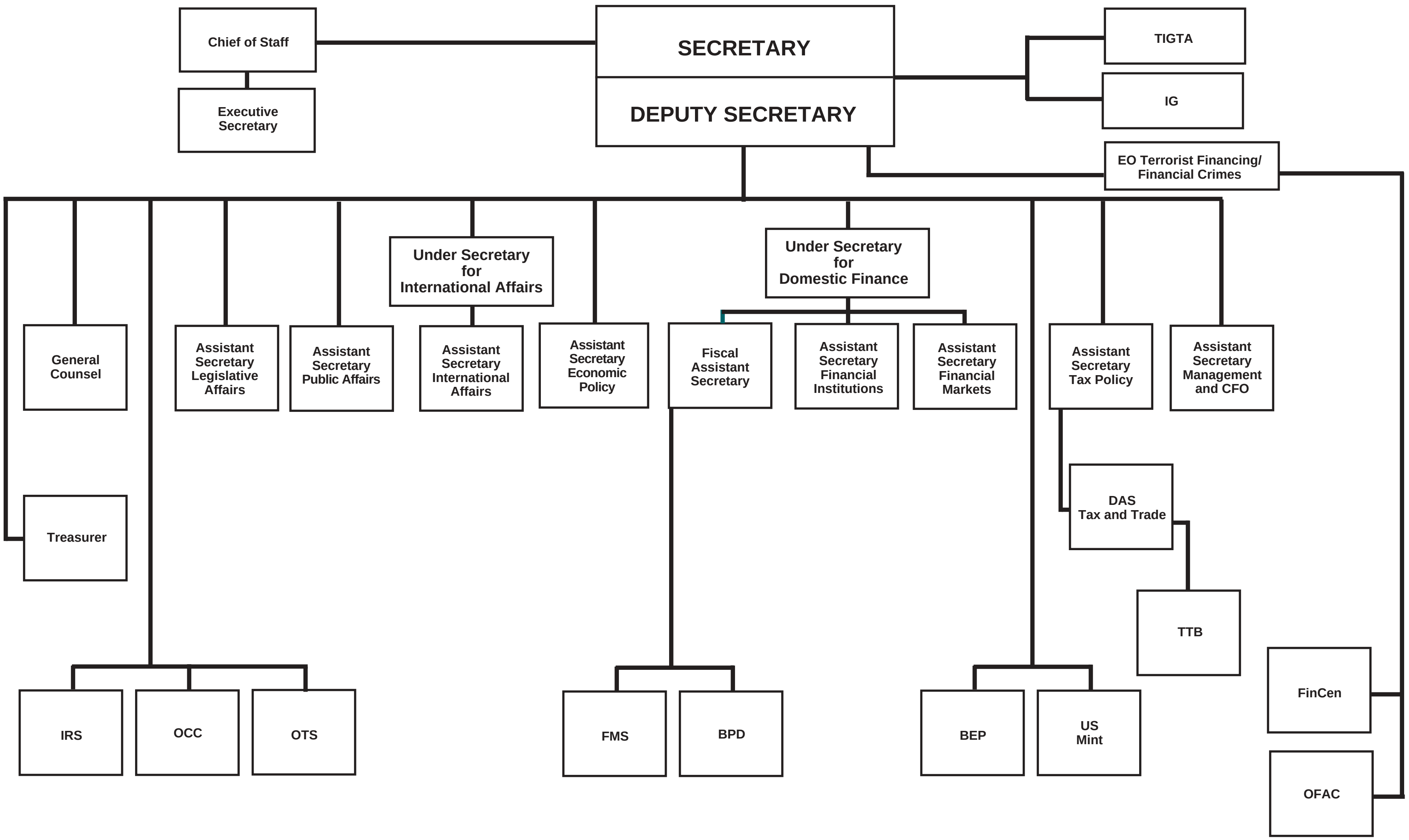
Who We Are

Treasury's mission and responsibilities are broad in scope and touch the lives of all Americans. Our roles in promoting a stable economy, managing the Federal Government's finances, and fighting crime are crucial in supporting a strong and robust economy.

Treasury is entrusted with a broad range of duties and functions and serves as the primary federal agency responsible for the economic and financial security of our nation. Treasury works with other federal agencies, international governments, and financial institutions on global economic and financial issues. In addition to its core monetary responsibilities to collect federal taxes, manage the federal debt, and produce coin and currency, Treasury oversees critical functions in tax and trade laws, economic policy development, international treaty negotiation, and government sanctions. Treasury's key functions include:

- Economic and fiscal policy;
- International economic policy;
- Government payments, accounting, cash, and debt management;
- Supervision of national banks and thrifts;
- Production of coin and currency;
- Assessment and collection of revenue;
- Enforcement of tax and tariff laws; and
- Anti-counterfeiting operations.

TREASURY ORGANIZATION



Treasury Organization

The **Departmental Offices (DO),** also known as Headquarters, is Treasury's corporate component primarily responsible for the formulation of policy and oversight of the agency. DO is composed of the Secretary, Deputy Secretary, Under Secretary for International Affairs, Under Secretary for Domestic Finance, and several Assistant Secretaries who report to the Secretary. Most bureaus report to the Secretary through the Deputy Secretary. The following bureaus have a reporting relationship as stated:

Fiscal Assistant Secretary
- Financial Management Service
- The Bureau of the Public Debt

Executive Office of Terrorist Financing and Financial Crimes
- Financial Crimes Enforcement Network
- Office of Foreign Assets Control
- Executive Office of Asset Forfeiture

Deputy Assistant Secretary (Tax and Trade)
- Alcohol and Tobacco Tax and Trade Bureau

Treasury also has several entities within DO that are responsible for performing specialized functions to carry out its mission:

- **Community Development Financial Institutions Fund (CDFI)** expands the capacity of financial institutions to provide access to credit, capital, and financial services in underserved populations and communities.

- **Office of D.C. Pensions** implements Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712), as amended, by making timely and accurate Federal Benefit Payments associated with the District of Columbia Retirement Programs for police officers and firefighters, teachers, and judges.

- **Executive Office of Terrorist Financing and Financial Crime (EOTF/FC)** develops and implements Federal Government strategies to combat terrorist financing domestically and internationally, develops and implements the National Money Laundering Strategy as well as other policies and programs to fight financial crimes. EOTF/FC implements strategies to administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals through the **Office of Foreign Assets Control** and administers the Treasury Forfeiture Fund through the **Executive Office of Asset Forfeiture,** which supports consistent and strategic use of asset forfeiture by law enforcement to disrupt and dismantle criminal enterprises.

- **Treasury Franchise Fund** provides Treasury components and other federal agencies with administrative support services on a competitive and fully cost-reimbursable basis.

- **Office of Inspector General (OIG)** conducts independent audits, investigations, and reviews of all Treasury programs and operations, other than those of the IRS, to promote economy, efficiency and effectiveness.

- **Treasury Inspector General for Tax Administration (TIGTA)** conducts audits and investigations of the IRS to ensure efficiency, effectiveness, and integrity of IRS programs and activities.

DO overseas nine bureaus whose programs and responsibilities support Treasury's mission.

DEPARTMENT OF TREASURY BUREAUS

Alcohol and Tobacco Tax and Trade Bureau (TTB) enforces and administers laws on the production, use, and distribution of alcohol and tobacco products and also collects excise taxes for firearms and ammunition.

Bureau of Engraving and Printing (BEP) designs and manufactures U.S. currency, many stamps, securities, and other official certificates and awards.

Bureau of the Public Debt (BPD) borrows the money needed to operate the Federal Government and account for the resulting debt.

Financial Crimes Enforcement Network (FinCEN) collects, analyzes and shares information needed to combat the financial aspects of criminal activity worldwide.

Financial Management Service (FMS) provides central payment services to Federal Program Agencies, operates the Federal Government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt.

Internal Revenue Service (IRS) determines, assesses, and collects individual and business tax revenue for the U.S.

United States Mint (Mint) designs and manufactures domestic, numismatic, and bullion coins, as well as commemorative medals, and other numismatic items.

Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks to ensure a safe, sound and competitive national banking system.

Office of Thrift Supervision (OTS) charters, examines, and regulates federal thrifts to maintain their safety and soundness. OTS also regulates state-chartered savings associations belonging to the Savings Association Insurance Fund and savings association affiliates and holding companies.

Treasury Mission and Strategic Goals – FY 2000 through FY 2003

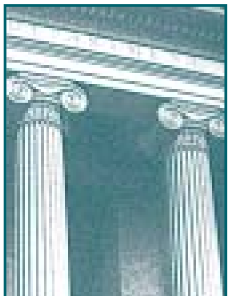
The following table presents the Treasury's three mission areas and management enabling goal, as presented in the Treasury Strategic Plan, FY 2000-2005.

Economic (E) Promote Prosperous and Stable American and World Economies	**Financial (F)** Manage the Government's Finances	**Law Enforcement (LE)** Safeguard Our Financial Systems
• Promote Domestic Economic Growth (E1) • Maintain U.S. Leadership on Global Economic Issues (E2)	• Manage the Federal Government's Accounts (F1) • Ensure All Federal Payments are Accurate and Timely (F2) • Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards (F3) • Collect Revenue Due to the Federal Government (F4) • Cost-Effectively Finance the Federal Government's Operations (F5) • Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency (F6)	• Reduce Violent Crime and the Threat of Terrorism (LE1) • Combat Money Laundering and Other Financial Crimes (LE2) • Protect our Nation's Borders and Major International Terminals from Traffickers and Smugglers of Illicit Drugs (LE3) • Protect our Nations Leaders and Visiting Dignitaries (LE4) • Provide High Quality Training for Law Enforcement Personnel (LE5)
Management Enabling Goal (M): Continue to Build a Strong Institution		
• Support the Achievement of Business Results (M1) • Improve Customer Satisfaction (M2) • Improve Employee Satisfaction (M3)		

New Treasury Strategic Goals and Strategic Objectives – FY 2004 through FY 2008

The following table presents Treasury's revised mission focuses and strategic goals and objectives, which are reflected in our new strategic plan. Beginning in FY 2004, Treasury will measure its success in achieving these new goals and objectives.

Strategic Goals		Strategic Objectives
Economic (E)	**Promote prosperous U.S. and World economies (E1)**	• Increase economic growth and create jobs (E1A) • Provide a flexible legal and regulatory framework (E1B) • Improve and simplify the tax code (E1C)
	Promote stable U.S. and World economies (E2)	• Increase citizen's economic security (E2A) • Improve the stability of the international financial system (E2B)
Financial (F)	**Preserve the Integrity of Financial Systems (F3)**	• Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other financial criminals (F3A) • Execute the nation's financial sanctions policies (F3B) • Increase the reliability of the U.S. financial system (F3C)
	Manage the Government's Finances Effectively (F4)	• Collect federal tax revenue when due through a fair and uniform application of the law (F4A) • Manage federal debt effectively and efficiently (F4B) • Make collections and payments on-time and accurately, optimizing use of electronic mechanisms (F4C) • Optimize cash management and effectively administer the Federal Government's financial systems (F4D)
Management (M)	**Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury (M5)**	• Protect the integrity of the Department of the Treasury (M5A) • Manage Treasury resources effectively to accomplish the mission and provide quality customer service (M5B)



PART II

ANNUAL PERFORMANCE REPORT

ANNUAL PERFORMANCE REPORT

This section provides detailed information related to Treasury's mission focus areas and management enabling goal. Each focus area is supported by strategic goals and measures that demonstrate Treasury's progress toward achieving its mission. The following summarizes our three mission focuses and management enabling goal:

- ***Economic Mission: Promote Prosperous and Stable American and World Economies***

The Secretary of the Treasury, as principal economic advisor to the President, formulates and recommends domestic and international economic, financial and tax policies. Treasury policy offices work to achieve strategic domestic and international economic goals by analyzing, evaluating, and reporting to the Secretary on a wide range of developments that have consequences for the U.S. and global economies and through their leadership in developing and implementing Administration policy.

- ***Financial Mission: Manage the Government's Finances***

As the primary fiscal agent for the Federal Government, Treasury manages the nation's finances through collecting money due to the U.S., making its payments, managing its borrowings, performing central accounting functions, and producing coins and currency sufficient to meet demand. The bulk of Treasury's resources are devoted to collecting taxes. Treasury collects approximately 95 percent of total federal receipts.

- ***Law Enforcement Mission: Safeguard Our Financial Systems***

Treasury plays a critical role in federal law enforcement efforts, helping foster a safer nation by combating terrorism, suppressing counterfeiting, fighting money laundering, and preventing financial crimes.

- ***Management Enabling Goal: Continue to Build a Strong Institution***

To effectively meet Treasury's programmatic goals, we need strong and efficient management processes and administrative support. In addition, a focus on customer and employee satisfaction is key to implement a "balanced" approach to our operations.

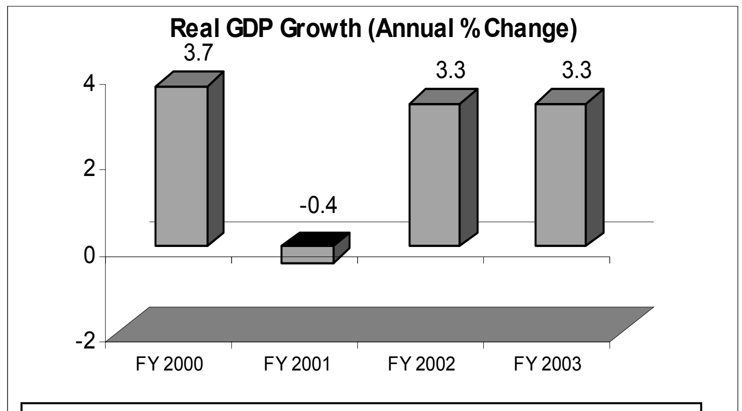
STRATEGIC GOAL E1: Promote Domestic Economic Growth

Strategic Goal Overview

Economic growth, as measured by real Gross Domestic Product (GDP), is the broadest performance measure of domestic economic growth. It is one of the primary determinants of living standards of the nation as a whole and imperative for the material advancement of our society.

Strategies and Results

Strategies for promoting the nation's economic growth include the development and implementation of policies aimed at sustaining the near-term and encouraging the long-term health of the economy.



Source: Based on real GDP data from the Bureau of Economic Analysis

Despite uncertainties associated with the War on Iraq, which appeared to slow economic activity to less than 1.5 percent at an annual rate in the first and second fiscal quarters, real GDP growth amounted to a healthy 3.3 percent during FY 2003. The successful culmination of the War, combined with the passage of the President's Jobs and Growth Package revitalized growth in the two subsequent quarters, in which real GDP growth averaged 5.2 percent at an annual rate.

The following highlights Treasury's efforts in stabilizing and promoting domestic economic growth:

Near-Term Health of the Economy

- ***Regulating of National Banks.*** The Office of the Comptroller of the Currency (OCC) conducts bank examinations to promote a strong national banking system that helps to sustain the U.S. economy. During FY 2003, national banks continued to operate in a safe and sound manner as evidenced by 94 percent of all national banks having a CAMELS rating of either 1 or 2. The CAMELS rating reflects evaluation of an institution's Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to market risk. Additionally, 99 percent of all national banks were well-capitalized.

  Compliance with consumer laws and regulations remained strong with 96 percent of all national banks having a consumer compliance rating of either 1 or 2. OCC offered all community banks that were within one year of their first large bank Community Reinvestment Act (CRA) examination a consultation on community development opportunities. OCC conducted approximately 200 bank consultations during FY 2003. OCC also conducted approximately 3,400 safety and soundness, compliance, CRA, and asset management examinations.

- ***Regulating of Thrifts.*** The Office of Thrift Supervision (OTS) supervises 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. During 2003, the thrift industry achieved a series of records for earnings, profitability, and capital, and continued to operate in a safe and sound manner with 92 percent of thrifts achieving overall composite CAMELS ratings of 1 or 2. Over 99 percent of the industry was well capitalized, and no thrift was less than adequately capitalized. As of June 2003, there were 947 thrifts with total assets of $1.06 trillion.

  OTS also supervises approximately 950 savings and loan holding companies in approximately 515 corporate structures. Over half of all thrifts and 90 percent of total thrift assets are owned by holding companies. The holding company structures control approximately $6 trillion in consolidated assets and vary widely in their operations and structure. More than 100 structures are engaged in significant lines of business other than banking such as insurance, financial services, retailing and manufacturing.

  The thrift industry's compliance with consumer laws and regulations remained strong during 2003 with 93 percent of all thrifts having a consumer compliance rating of either 1 or 2. Through education, training, technical assistance, and the reduction of regulatory barriers, OTS helps thrifts identify new market opportunities while supporting their efforts to meet credit and financial service needs in the underserved segment of communities. During 2003, OTS embarked on significant industry outreach efforts and provided 70 technical assistance or training events to industry executives regarding community reinvestment responsibilities and opportunities.

- ***Monitoring and analyzing economic activity on a real-time basis.*** Treasury refined its real-time econometric model designed for a more rapid reading of the pulse of economic activity. We also strengthened efforts to monitor and forecast federal tax receipts. The model now allows policymakers a view of current quarter GDP growth based on available data at least two months before a significant portion of spending data used to calculate GDP are released. The model has been successful in predicting the accelerations and decelerations of GDP growth over the last year.

- ***Contributing to growth enhancing policies.*** Although the recession of FY 2001 had been one of the two mildest of the post-World War II era -- in large measure because of timely passage of the Administration's tax proposals in 2001 and additional stimulus in early 2002, growth of employment remained weak and in February 2003 began to turn down again. In early January 2003, the Administration proposed a comprehensive Jobs and Growth Plan, which was passed by Congress in May as the *Jobs and Growth Tax Relief Reconciliation Act of 2003* (JGTRRA). Treasury was instrumental in assessing the macroeconomic impact of the provisions of the Jobs and Growth Plan, and developing analyses and presentations used by the Secretary and other Administration officials to make the case for JGTRRA passage. Early evidence suggests that the program helped to boost real GDP by 7.2 percent in the third quarter and that by September employment rose by 57,000.

- ***Responding to Terrorist Attacks – Terrorism Insurance.*** The impact of the terrorist attacks of September 11th still lingers, requiring special measures to help reduce the risk associated with economic activity. Inability to obtain adequate insurance in face of the new threat of terrorism attacks brought many building plans to a halt. Treasury led the Administration's efforts in crafting the *Terrorism Risk Insurance Act* and is carrying out a comprehensive multi-wave survey to assess the effectiveness of the program. The results of this survey will provide the basis for a report to Congress on the program due in June of 2005.

Long-Term Health of the Economy

Treasury will extend its efforts on pensions funding, terrorism insurance, social security reform, and long-term health spending until suitable legislation is passed to assure a solution to the problems addressed.

- ***Health Care.*** Rising health care costs impacts households, businesses, and government. Treasury actively examines policies that could moderate the growth of health care costs over the long-term. This involves identifying factors contributing to the practice and consumption of low-value health care and analyzing policies that would reduce the consumption of low value care.

- ***Promoting economic and job growth***. The Community Development Financial Institutions (CDFI) Fund exceeded its target for businesses financed by awardees by 80 percent. More than 13,000 businesses were financed throughout the nation. Additionally, the Fund's awardees were able to leverage over $600 million more private investments dollars than the performance target. In total, CDFI Fund Program awardees leveraged $1.6 billion in private dollars to assist them in their mission to serve underserved communities. CDFI's awardees were also able to support the creation of over 34,000 affordable housing units, which is within 2.9 percent of the target.

  CDFI improved its award process by reducing the time it takes for its awards to reach underserved communities. CDFI implemented new policies that require 25 percent of the matching funds in-hand at the time of application. The new policy ensures a shorter time between award and disbursement, from approximately 30 months to 12 months. This improved process will result in quicker financing of business and ultimately more jobs, affordable housing, and businesses are financed in communities significantly sooner.

- ***Pension Reform.*** Strengthening the health of the defined benefit pension system and improving the retirement security of its participants remains a priority of the Administration. Treasury is leading efforts to enact a suitable replacement for the interest rate on the 30-year Treasury bond as the discount rate for computing pension liabilities. Treasury's proposal of a yield curve based on high-grade corporate bonds – now adopted as the Administration proposal – will make measured pension liabilities more reflective of the timing of future benefit payments. In addition, Treasury has also developed comprehensive pension funding reform proposals.

- ***Social Security and Medicare.*** Treasury remained active in its efforts to modernize and restore fiscal soundness to the Social Security system and to communicate effectively the current state of Social Security and Medicare funding. Treasury's work resulted in the presentation for the first time in the 2003 Social Security and Medicare Trustees' Reports of Social Security unfunded liabilities over the infinite horizon and liabilities separately for future birth cohorts and current and past birth cohorts, among other improvements. In addition, Treasury developed a proposal for a substantial revision to the US Financial Report that would contain new information on the budget-trust fund relationship and on the long-term sustainability of the Social Security and Medicare programs.

- ***Contributing to Growth Enhancing Policies.*** Treasury analyzes economic policy issues with the purpose of informing the Secretary and other economic policy makers. These policies are designed to enhance growth by increasing efficiency in the economy, reducing barriers to job creation and real GDP growth, and enhancing the flexibility of labor markets. One example is the Administration's Six-Point Plan for the Economy, which includes a proposal to streamline regulations and reporting requirements in order to boost efficiency and promote job creation, as well as a proposal to reduce health care costs which act as a barrier to hiring. Other recent and continuing issues include audit and accounting reform, stock option accounting, regulation and investment in the telecommunications sector, and the electricity transmission sector. These analyses are used by the Secretary and other policymakers in determining Treasury's position in various interagency policymaking processes.

Partners

Treasury coordinates these policy activities with OMB, the Council of Economic Advisers, the Social Security Administration, the Center for Medicare and Medicaid Services, and other federal agencies.

CDFI coordinates and collaborates with various entities to ensure that federal resources are provided to citizens without gaps and in a fair and consistent manner. CDFI key partners include OMB, the Small Business Administration, Department of Commerce, Department of Agriculture, Department of the Interior, Department of Housing and Urban Development, Federal Reserve, National Credit Union Administration (NCUA), OCC, OTS, and IRS.

OCC works closely with the other federal financial regulators including the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), OTS, and NCUA to coordinate supervisory policies, regulations and regulatory reporting requirements. OCC also works with other state, federal, and international regulators and supervisors on matters of mutual interest. During FY 2003, these joint efforts included: revisions to risk-based capital standards; initiatives to strengthen corporate governance; expanded guidance on technology-related risks; initiatives to reduce unnecessary regulatory burden and enhance efficiency; joint review of over 8,200 loan facilities with commitments totaling $1.6 trillion; updated supervisory guidance; and forms development.

OTS works closely with the other federal banking agencies including the Federal Reserve, OCC, FDIC, and NCUA to achieve consistency in policy and regulation and to address common issues. To enhance its supervisory effectiveness, OTS participates on the Federal Financial Institutions Examination Council (FFIEC) to identify emerging issues in the financial institutions industry and to coordinate supervisory activities with other regulators and through the Conference of State Bank Supervisors (CSBS). OTS currently chairs the FFIEC's Task Force on Compliance.

OTS attends Basel Committee meetings to ensure that issues affecting the thrift industry are properly considered in the domestic regulatory processes. The Basel Committee on Banking Supervision provides a forum for international cooperation on matters relating to supervision. The committee is updating and revising the Basel Capital Accord to make the capital standards required of internationally active financial institutions more comprehensive and risk sensitive.

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. First, the Basel Committee and the U.S. bank and thrift regulators are attempting to improve upon our current system by making capital standards more risk sensitive. OTS is evaluating potential issues to ensure that the new framework results in safe and sound capital allocation and fair competition among all financial institutions. Second, OTS has engaged in active dialogue with the European financial supervisors. The European Union (EU) is seeking to ensure that financial conglomerates domiciled outside the EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the consolidated supervisor of U.S. based thrift holding companies, including a number of financial conglomerates active in the EU. OTS is seeking equivalency status under the European Union Financial Conglomerates Directive.

Customers

CDFI supports organizations that are essential components in helping the nation deliver financing capital for stimulating economic growth in underserved communities, starting or expanding a business, and promoting homeownership among low income and minority borrowers. Access to financial services is critical to helping bring more Americans into the economic mainstream.

OCC's supervising, chartering, and regulating activities have a direct impact on the American public by promoting safe and sound banking practices among national banks. Strong financial institutions are essential to a strong domestic economy. Additionally, OCC continues to address abusive, unfair or deceptive practices of regulated entities, thereby promoting fair access to financial services for all Americans and fair treatment of bank customers.

OTS' supervisory and regulating activities directly impact the American public by promoting safe and sound banking practices among the savings associations it regulates. A strong and healthy thrift industry helps to support a strong domestic economy. OTS addresses unfair or deceptive practices of regulated associations and promotes fair access to financial services for all Americans and fair treatment of thrift customers. OTS works with financial institutions on ways they can assist underserved markets in their communities.

Goal Assessment and Next Steps

CDFI continues to improve program design to focus on the nation's most underserved communities with the greatest need. CDFI has established two categories of underserved communities to prioritize its investments – Economic Development and Housing Hot Zones. These zones have either a combination of high poverty, low median family incomes and high unemployment or high homeowner or rental cost for low-income families. CDFI will work to identify other strategies to prioritize its investments in communities.

CDFI is developing a sophisticated data collection system for CDFIs and Community Development Entities (CDEs) that allows for the collection of transaction-level data. Transaction-level data will provide the specific location and characteristics of each loan in a CDFI/CDE's portfolio and will allow the CDFI Fund to measure impacts at the census tract level.

The CDFI Fund plans to use this data to compare CDFI/CDEs' lending behavior and community development impact to that of traditional financial institutions and to demonstrate that CDFI/CDEs are lending in areas where traditional banks have less of a presence. CDFI expects to begin collecting transaction-level data in Fiscal Year 2004.

OCC met all its performance goals related to supervising, chartering and regulating national banks, except the target for rehabilitating problem banks. Sluggish economic conditions influenced the pace of rehabilitations efforts during FY 2003. OCC will continue to work aggressively with these institutions to bring about sound resolution of the issues impacting their CAMELS ratings.

OCC will continue to promote and enforce, as necessary, safe and sound banking practices by institutions in the national banking system. Credit quality, allowance for loan and lease losses, off-balance sheet activities, and interest rate risk management will continue to require close supervisory attention. Banks' growing reliance on technology and third party vendors will leave them increasingly vulnerable to operational, reputation, and security breaches. Corporate governance and reputation risks will continue to be significant issues for banks to manage and will heighten the need for accounting transparency, and strong internal controls, conflict of interest policies, and audit programs.

OTS met its performance goals to ensure a safe and sound thrift industry, a flexible regulatory framework, fair access to financial services, and fair treatment to thrift customers. A few measures related to exam scheduling fell below their targets primarily due to greater emphasis on higher risk institutions and off-site monitoring.

In addition to enforcing a safe and sound thrift industry by closely monitoring areas such as corporate governance, predatory lending, capital, risk management, credit quality, and core earnings, OTS is working on international regulatory initiatives. Specifically, OTS is seeking equivalency status under the European Union Financial Conglomerates Directive and participating in Basel Committee meetings on bank supervision.

OTS will continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of thrift institutions. OTS will also continue to enhance its overall efficiency and effectiveness by combining the safety and soundness and compliance examinations and streamlining examination procedures for small, noncomplex, well rated institutions.

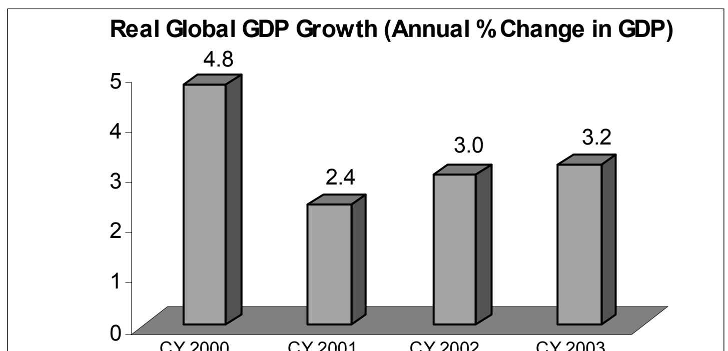
STRATEGIC GOAL E2: Maintain U.S. Leadership on Global Economic Issues

Strategic Goal Overview

Treasury plays a key role in restoring and maintaining U.S. leadership to strengthen the global economy. Five key objectives underlie the Administration's international economic policy:

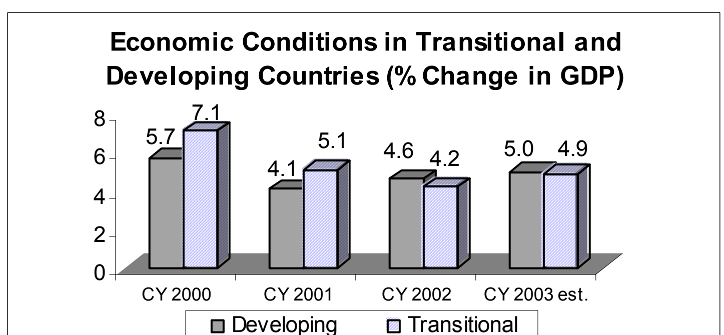
1. Raising growth in the industrialized countries through sound macroeconomic structural policies;
2. Improving growth and stability in emerging market countries, including through reform of the International Monetary Fund (IMF);
3. Improving the effectiveness of assistance to the poorest countries, including through reform of the multilateral development banks (MDBs) and development of the private sector;
4. Promoting free trade; and
5. Combating terrorist financing.

Strategies and Results



Source: World Economic Report, International Monetary Fund

Economic Growth in Industrialized Countries. A global recovery began in late 2001, led by the U.S., with trade and industrial production picking up across the globe. There is now evidence of stronger growth in the world's second largest economy, Japan, as well as in Canada, the United Kingdom, and in several emerging market countries. Projections for 2003 estimate the annual growth rate will reach 3.2 percent on a global basis, as measured in real GDP, compared to 3.0 percent in 2002 and 2.4 percent in 2001. Economic stability improved in 2003, despite uncertainties caused by terrorist attacks and the ongoing war against terror. Even with this progress, though, significant barriers to economic growth and stability remain across the globe – in Europe, Asia, Latin America, and Africa – as well as in the international trade and financial systems. These have important implications for growth in the U.S. The Bush Administration strategy urges the removal of rigidities and barriers wherever they exist, and encourages pro-growth, pro-stability policies that benefit the U.S. and the whole world.



Source: World Economic Outlook Report, International Monetary Fund

Developing and Transitional Economies. Current estimates for developing economies, indicate a composite annual growth of 5.0 percent in CY 2003, compared to a 4.6 percent growth rate in CY 2002. Similarly, growth rates overall for transition economies should reach 4.9 percent in CY 2003, compared to 4.2 percent growth rate in CY 2002.

In 2003, one additional country, the Democratic Republic of the Congo, demonstrated commitment to economic reform and poverty reduction, qualifying for substantial debt reduction under the enhanced Heavily Indebted Poor Countries Initiative (HIPC), and raising the number of countries who receive HIPC relief to 27. Two countries, Benin and Mali, were able to graduate. Under the Tropical Forest Conservation Act, Panama signed an agreement with the United States that will generate $10 million for forest protection and conservation programs over the next fourteen years.

Other Areas. Treasury's Office of Technical Assistance deepened its engagement in the disciplines of tax, debt issuance and management, budget planning and implementation, and bank reform and financial crimes enforcement in Africa, Latin America and Asia, in addition to Eastern Europe and the Former Soviet Union. The Office also played a major role in the assignment of financial advisors to Iraq as part of the post-war reconstruction effort. Assessment missions were deployed to the Palestinian Authority with a view toward an ongoing role in financial reform and crucial short term banking advisors were deployed to Argentina and the Dominican Republic in an effort to address major banking crises.

In a voluntary transaction arranged under IMF auspices, in return for U.S. dollars, the U.S. sold $1,010,007,592.25 equivalent of Special Drawing Rights (SDRs) to Argentina on January 17, 2003, so that Argentina would have SDRs for use in settling obligations to the IMF.

The following highlights Treasury's efforts toward achieving its five key international economic objectives:

1. Raising growth in the industrialized countries through sound macroeconomic and structural policies. To support higher economic growth, Treasury held regular consultations with Japan and our European partners, including the G-7. These agreements help promote core goals of global growth and stability worldwide, benefiting people around the world. The following highlights a few of the most important outcomes of these discussions:

Economic Conditions of Major U.S. Trading Partners (rate of growth in GDP)

Country	CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003 Estimate
Canada	5.3%	1.9%	3.3%	1.9%
European Union	3.5%	1.5%	0.9%	0.5%
United Kingdom	3.1%	2.1%	1.9%	1.7%
Mexico	6.6%	-0.2%	0.7%	1.5%
Japan	2.8%	0.4%	0.2%	2.0%
China	8.0%	7.5%	8.0%	7.5%

- A milestone agreement, called the G-7 Agenda for Growth, was reached in September 2003. It calls on the G-7 to adopt pro-growth policies and create a supply side benchmarking system to monitor results.
- Important policy steps were taken in the U.S. (reductions is tax rates), in Japan (higher money growth) and in Europe (labor market and pension reform) to increase flexibility, raise productivity, and to create jobs.
- An agreement among the G-7 countries that there should be "increased flexibility in exchange rates" was forged in September 2003 to allow for broad adjustments in the international financial system.

2. Improving growth and stability in emerging market countries, including through reform of the IMF. Treasury's emerging market agenda focused on two goals: raising economic growth and increasing economic stability. This agenda aimed to influence the frequency and severity of crises, restore the flow of investment to emerging market countries, increase the number of countries with investment grade ratings, and improve the predictability of the sovereign debt restructuring process. Market conditions improved significantly last year, investment flows were up, spreads were down, and trading in emerging market securities rose. Moreover, contagion has been reduced substantially since the late 1990s. Notable achievements included:

- Completing an Action Plan to improve stability in April 2003 that established clearer limits on access to funds from the IMF and created more rigorous methods of analysis of debt issues in emerging market countries. This helped to reinforce changes in market assumptions that the IMF would act as lender of last resort.
- Strengthening private international capital markets by working with countries like Mexico and Brazil to introduce new collective action clauses in sovereign bond contracts that increase the predictability of debt restructurings.
- Establishing a new "Group for Growth" between the United States and Brazil.
- Incorporating stability enhancing conditions into financial assistance packages relating to the war in Iraq for Turkey, Jordan, Egypt, and Israel.

Other key initiatives include:

- ***International Monetary Fund.*** Treasury's focus at the IMF emphasized data transparency. Helping to provide market participants with dependable information, surveillance and lending operations were also targeted.
- ***Emerging Market Analysis***. In crisis prevention work, Treasury developed an innovative tool known as the "Blue Chip" index of crisis vulnerability, which provides an analytical framework for tracking and identifying market developments over time, in order to more accurately predict when crises might occur.
- ***Reform of the Paris Club.*** This initiative is aimed at helping to reduce serial rescheduling, and will facilitate countries' exit from the need for official debt restructurings. The U.S. proposed and negotiated innovative Paris Club debt rescheduling agreements for Pakistan and Jordan.
- ***New Strategic Framework with Russia.*** Treasury developed and led the U.S.-Russia Banking Dialogue to promote private sector input on bank reform in Russia. Results are measured in terms of the number of exchanges between Russian and U.S. banks; increased openness to western banks (licenses granted), and improved lending skills/quality of credits provided by Russian banks to the private sector.

3. Improving the effectiveness of assistance to the poorest countries, including through reform of the multilateral development banks (MDBs) and development of the private sector. This policy initiative aims mainly to promote productivity growth and rising standards of living. Increased productivity implies more effective utilization of capital, labor and technology. Through policy dialogue, the lending it endorses at the International Financial Institutions (IFIs) and bilateral assistance programs such as technical assistance, Treasury works to create an environment conducive to raising productivity in countries around the world. Continued engagement on issues related to macroeconomic stability, reduction in trade barriers, development of the rule of law, strengthened financial sectors, and investments in health and education was critical to achieving results.

The following highlights the more notable achievements in FY 2003:

- ***Efforts with the World Bank.*** The World Bank established a U.S.-led measurable-results incentive program. Performance was good enough to merit a step up in U.S. contributions to International Development Association (IDA) of $100 million. The World Bank also initiated a $225 million program in 2003 to train local African banks and provide loans to small businesses in Africa, enabling them to become an engine of job creation in this poor part of the world. In addition, following President Bush's call for more grants, the World Bank approved more in grants to the poorest countries than ever before and will extend yet more in the next two years.

- ***Reconstruction Work in Iraq and Afghanistan.*** The goal of helping to raise standards of living through establishment of a free market economy was perhaps nowhere more evident than in Treasury's work in Iraq and Afghanistan. In Iraq, Treasury saw success in several critical initiatives:

  - facilitating payments to Iraqi workers and pensioners;
  - introducing a stable national currency;
  - restoring and revitalizing the banking sector;
  - developing a strategy for dealing with international debt;
  - assessing reconstruction costs and supporting international fundraising efforts; and
  - establishing a Trade Bank in order to facilitate imports and exports from Iraq until local banks are sufficiently developed to provide these services.

  In Afghanistan, Treasury efforts focused on rebuilding basic infrastructure, strengthening the central government and its budget processes, and laying the foundations for strong private sector growth. Among other achievements, the government approved a new investment law, cut export taxes to zero, and developed a "one-stop shopping" process for foreign investment. They also invited foreign banks to establish operations under an innovative regulatory and supervisory structure. The Treasury agenda of measurable results has played a large part in helping to ensure progress on development initiatives and has set a high bar for results in donor activities.

- ***Advancing the Productivity Agenda: Bilateral Dialogues***. In addition to the Brazil Group for Growth and Mexico's Partnership for Prosperity, Treasury advanced its productivity agenda through bilateral dialogues such as the *Central Asia Regional Integration Initiative* which jumpstarted stalled efforts to improve growth and stability. Treasury efforts led to an agreed plan of confidence building steps and measured progress through increased trade, lower tariffs and lower average regional transport costs. Treasury also organized a number of multilateral gatherings with Central American and Middle Eastern Finance Ministers, among others, that allowed additional opportunities to advance objectives. In the transition economies, Treasury works closely with the IFIs as well as bilateral dialogues to promote fiscal, monetary and economic integration and lay a foundation for sustained growth, reduced poverty and economic diversification. Treasury continues to press for additional reform including reduction in government waste, improved tax systems and lower regulatory burdens.

- ***Millennium Challenge Account (MCA).*** Treasury developed measurable indicators for eligibility that identified those who rule justly, invest in their people, and encourage economic freedom. These objective indicators help ensure that development assistance will become more effective and that the MCA will be one of the most transparent assistance programs ever developed.

- ***Supporting Small and Medium Enterprise (SME) Growth and Financing.*** Treasury continues to strongly support micro- and small business finance programs in transition countries through the European Bank for Reconstruction and Development (EBRD). In addition to $2.5 million in financial support for the Russian Small Business Fund, U.S. funds have helped expand access to credit for small business in 11 countries and Kosovo. In the Balkans, efforts are underway to identify and remove impediments to small business finance.

- ***Remittances***. Treasury's work in this area helped focus global attention on the importance of informal funds transfers and developed incentives to encourage consumers to switch to the formal financial sector. Four key initiatives have been developed: The Global Remittances Project; the Asia Pacific Economic Cooperation (APEC) Alternate Remittance Systems; the Philippines Initiative and the Summit of Americas initiative.

4. Promoting Free Trade. Treasury played a critical role in supporting trade liberalization, and increasing free trade in financial services. During FY 2003, Treasury devoted its efforts to incorporate liberalization provisions into international trade agreements. By ensuring that investment chapters promote the free transfer of capital, Treasury policy promotes the growth of cross-border investment.

Treasury's work in the area of Enforcing Global Agreements to Discipline Official Export Subsidies has helped ensure that domestic exporters can compete fairly for foreign commercial contracts and encourages restrained the use of export promotion subsidies. The following highlights our key successes:

- Negotiated disciplines at the Organization for Economic Cooperation and Development (OECD) for official export credits, reducing distortions and helping to open markets valued at $70 billion annually.
- Effective reduction of subsidies saves the U.S. taxpayer an estimated $500 million annually. Cumulative budget savings since the mid-1980s total almost $8 billion.
- Tied aid levels reached a new all time low of $2.5 billion in 2002, about 25 percent of pre-OECD tied aid agreement levels. Tied aid rules save U.S. taxpayers an estimated $300 million annually ($3 billion since 1991).

5. Combating Terrorist Financing. In addition to protecting the integrity of financial markets, Treasury is combating the financing of terrorism and money laundering to reduce economic harm and promote economic growth and development. Treasury has engaged in a global campaign and built up an extensive international coalition to combat terrorist financing, with the result that more than 170 countries have issued freezing orders. Over $136 million in over 1,400 accounts have been frozen worldwide and a further $64 million in terrorist assets have been seized. Treasury identified and subjected 320 terrorist-related entities and individuals to freezing actions under U.S. law. These efforts have cut off funding and have deterred would-be terrorist financiers. In the most widespread show of support of any terrorist designation, in October 2002, 50 nations combined jointly to designate Jemaah Islamiya (JI), an al-Qaida related terrorist network in Southeast Asia, as a terrorist group.

Through our work in the Financial Action Task Force (FATF), Treasury plays a leading role in establishing strong international standards in the area of terrorist financing and money laundering, and ensuring those standards are implemented worldwide. This is being achieved both through FATF's initiative to identify and take action against jurisdictions that are non-cooperative in the fight against money laundering, and through its cooperation with donor countries to ensure that appropriate technical assistance flows to priority jurisdictions in the fight against terrorist financing. Equally as important, at Treasury's urging, the IMF and World Bank are addressing systemic weaknesses and capacity problems in the fight against terrorist financing. Treasury negotiated an international action plan whereby the IMF and World Bank adopted a common methodology for assessing compliance with international standards. The IMF, the World Bank, FATF, and FATF-style regional bodies conducted in-depth assessments of more than 50 countries last year against their compliance with international standards for anti-money laundering and terrorist financing. Regional and multilateral I—including the G-7, G-20, and APEC—issued Action Plans to advance the international effort.

Partners

To achieve these U.S. international strategic goals, Treasury worked closely with the Department of State, the U.S. Agency for International Development, the National Security Council, the U.S. Trade Representative, the Council of Economic Advisers, the Federal Reserve System, other federal agencies, and the international financial institutions including the IMF, the World Bank and the regional development banks. Treasury also worked with the finance ministers of other countries, both bilaterally and in multilateral groups such as the G-7 (Canada, France, Germany, Italy, Japan, United Kingdom, and the United States), the G-8 (the G-7 plus Russia), the G-20 (the G-8 plus Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, Turkey, and the European Union), OECD and FATF, the Asian Pacific Economic Cooperation forum, and the Paris Club (the ad hoc group of official creditors which meets in Paris to act on debt reduction and relief).

Customers

There are a number of wide-ranging entities and institutions that benefit from the work that Treasury does in international economics. Beneficiaries of Treasury's emerging markets policies are first and foremost emerging markets; those who implement constructive reforms are less likely to face potential crisis. Shareholders in the IFIs, including the U.S. taxpayer, also benefit because they are called on less frequently to provide financial assistance. Finally, U.S. investors benefit from clearer articulation of official sector policy because it allows them to better assess the risk investing in different emerging markets.

The primary beneficiaries of Treasury policies in developing countries are those countries and their people. The money that they borrow will be used more effectively than in past years to support economic growth and improve standards of living. The U.S. also benefits from additional fiduciary controls and better returns on its investments. In Treasury's work in the area of trade, U.S. exporters, taxpayers and the international economy all benefit from more transparent international rules. In the case of tied aid, it is estimated that exports of U.S. capital goods are almost $1 billion higher per year as a direct result of Treasury negotiated and implemented international rules. Reduction in subsidies improves the allocation of international resources and increases economic efficiency. Trade agreements open markets for U.S. exports of goods and services, as well as investment and help create jobs in the United States and investment opportunities for our firms. Finally, the Federal Government, general public, the financial sector, and other governments benefit from a unified and effective coalition to combat the financing of terrorism. In particular, efforts here prevent persons and organizations from using frozen funds to commit acts of terror.

Goal Assessment and Next Steps

In FY 2004, Treasury will take a number of concrete steps to review its performance measures and establish more outcome-oriented measures that link performance to costs. Among the most significant:

Results Measurement. In the first half of 2004, Treasury will evaluate whether the World Bank has met specific targets in IDA borrowing countries relating to outcome-oriented measures in education, health and private sector development. This will require staff to take into account challenging statistical quality and attribution issues; a $200 million incentive contribution is tied to reaching the identified targets. Treasury has also suggested that the World Bank explore a performance audit of this commitment and will work to ensure that multilateral assistance achieves measurable and monitorable results through the establishment of results frameworks at the project, country, and institutional levels, including the following specific objectives:

- Complete external audit for incentives contribution for IDA 13;
- Implementation of broader results measurement in IDA 14 (tied to incentive contribution);

- Implementation of International Fund for Agriculture and Development (IFAD)-6 results measurement framework;
- Business Process Review of Border Environmental Cooperation Commission and North American Development Bank (NADBank) with joint Board meetings;
- Performance Based Allocation (PBA) system in Global Environment Fund and IFAD;
- Results measurement component of all grants and loans; and
- Significantly improve the quality of loan reviews for results, including upstream review.

Brazil Group for Growth. The best measure of success will be the level of economic growth in participant countries. Because economic growth is subject to many other factors, a more narrow measure would be the extent to which policies addressed in the dialogues are adopted by the respective countries.

Partnership for Prosperity. As part of the U.S.-Mexico Partnership for Prosperity, both countries agreed on an action plan to lower the cost of remittances by Mexicans living in the U.S.

Tied and Untied Aid. Treasury will seek multilateral disciplines on untied aid trade practices. The lack of disciplines not only permits continued distortions, but also threatens to undermine the continued success of the tied aid rules. The implementation date for a revised agreement providing greater transparency is January 1, 2004.

Crisis Prevention/ Blue Chip Index. We are currently evaluating the present framework and back-testing the model for predictive ability in order to better anticipate potential crises. The evaluation will include an assessment of other models being used throughout the public and private sectors and back-testing will allow us to measure the predictive capacity, and make changes to increase strengths and mitigate weaknesses.

Trade Bank of Iraq. Treasury will continue work with international Export Credit Agencies to adapt the model framework agreement in order to seek a level playing field for all exporters to Iraq.

Paris Club. Implementation of the new Evian approach will begin in FY 2004; Treasury will measure over time whether countries truly have exited the Paris Club treadmill.

Emerging Markets. The following key measures will be emphasized in FY 2004 in order to reduce potential vulnerabilities or in order to better understand and measure the magnitude of potential risks:

- Ensure that Collective Action Clauses (CACs) become a market standard;
- Develop a database on best practices on achieving and locking in fiscal consolidation, using cross-country empirical evidence and case studies; and
- Develop in-depth database on currency mismatch and financial dollarization and design a policy strategy to overcome the vulnerabilities they create.

Combating the Financing of Terrorism (CFT) and Anti-Money Laundering (AML). Work here will include the following key actions:

- Promoting the strengthening of freezing regimes, implementation of CFT and AML standards, including those on cash cross-border flows, remittances, and charities;
- Pushing for global asset freezing on all U.S. and U.N. designations;
- Encouraging countries on FATF's list of AML non-compliant jurisdictions to strengthen their AML regimes; and
- Track (and report upon) international CFT efforts.

Remittances. Work in FY 2004 will aim to strengthen provision of remittance services by the formal financial sector, including the following:

- Promoting and facilitating increased competition, thereby lowering costs and enhancing access;
- Pushing for a reduction in country-specific impediments; and
- Encouraging the strengthening of domestic (and international) financial infrastructures to enhance the efficiency of remittance transmission.

Grants. Work in FY 2004 will focus on the following improvements in current grants levels or policies:

- Securing new grants in the Asian Development Fund, and the Fund for Special Operations;
- Increasing grants in IDA;
- Implementing replenishment agreements for increased grants in IFAD;
- Implementing NADBank grants; and
- Consideration by G-7 and IMF of transforming Poverty Reduction and Growth Facility from loans to grants.

Interagency Country Risk Assessment System/Budget Scoring Reform. Work here will aim to develop proposals with OMB to improve the methodology for budget subsidy calculations.

2004 G-8 Summit. The U.S. will be taking over the chairmanship of the G-8 Summit in 2004, which will afford Treasury the opportunity to set the international agenda and to keep pressure on the IMF to enact reforms consistent with the U.S. priorities outlined previously in this document.

STRATEGIC GOAL F1: Manage the Federal Government's Accounts

Strategic Goal Overview

The American public has the right to expect that our government's financial management is cost-effective, efficient, and secure; employs modern technologies; and provides quality customer-centered service.

Strategies and Results

Treasury continues to make significant improvements in providing central payment services to Federal Program Agencies (FPA), operating the federal collections and deposit systems, providing government-wide accounting and reporting services, and managing the collection of delinquent debt.

Government's Daily Cash Position. As a result of improvements to the accuracy, timeliness and usefulness of the tax receipt forecasts, Treasury is now positioned to more precisely estimate daily tax receipts and minimize borrowing costs. Treasury staff worked to identify and institutionalize processes for developing forecasts that are effective in times of stability or situations involving policy change or economic uncertainty. Managing the Government's cash flow with the most up-to-date and accurate information benefits the taxpayer by enabling Treasury to maximize investment earnings and minimize borrowing costs within established policy objectives.

In addition, we continue to strengthen our contingency and continuity plans for the Office of Cash and Debt Management and the cash forecasting system. We have put in place a Delegation of Authority to the Federal Reserve Bank of New York (FRBNY) and are finishing work to establish remote access through a Virtual Private Network (VPN). Tests of the contingency plan to ensure continuity of operations have begun.

Also during FY 2003, we introduced a new investment option for the Treasury Tax and Loan (TT&L) depositaries to maximize the investment of excess operating cash. Plans are being developed to broaden participation in the program, which was offered as a pilot program in FY 2002. We have identified and begun implementing improvements to the program infrastructure.

During FY 2003, Treasury proposed the establishment of a permanent, indefinite appropriation to reimburse financial institutions for the services they provide as depositaries and financial agents of the Federal government. This approach supports the critical Treasury goal of simplifying cash and debt management. FMS has used compensating balances to reimburse financial institutions for services that support programs such as the Electronic Federal Tax Payment System (EFTPS), the Lockbox Network, plastic cards, and CA$HLINK. This proposal is included in the President's Fiscal Year 2004 Budget and in Treasury's FY 2004 Appropriations Bill (H.R. 2989). On July 14, 2003, Treasury issued $44.7 billion in Depositary Compensation Securities (DCS) to reimburse banks for their services. The DCS is being used as a stop-gap measure until approval of the legislation to establish a permanent and indefinite appropriation.

Government's Financial Infrastructure. FMS works closely with federal agencies to strengthen the government's financial infrastructure and improve program management across government. It also works with Federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance and training to assist FPAs to improve their government-wide accounting and reporting responsibilities. During FY 2003, FMS worked with the Department of Defense on a process that would allow all agencies to verify their use of correct fund symbols before they provide monthly reports on receipts and disbursements to Treasury. When the process is fully implemented, it will be highly automated and updated daily. Agencies will use the Internet and the information will be in XML format, independent of a particular platform or software application and easily used by all agencies. In FY 2003, FMS continued to migrate Government On-Line Accounting Link System applications to newer technology, such as moving the Statement of Transactions form from a dial-in supported environment to a Web-based, internet environment. All federal agencies use these applications to report government-wide accounting and budget execution information to Treasury and FMS. In September 2003, FMS began implementation of CA$HLINK II, a new internet-based cash concentration and cash management reporting system. It is the principal system used to manage the collection of government funds and report these balances to federal agencies. CA$HLINK II will be rolled out to agencies in the October through December 2003 timeframe.

Electronic Collection of Federal Government Receipts. In FY 2003, FMS electronically collected 81 percent (approximately $1.75 trillion) of the total amount of the federal receipts. During FY 2003, Treasury continued to move to an all-electronic process for collecting government receipts through such mechanisms as: (1) EFTPS, a tax payment system that offers businesses and individuals the convenience of making federal tax payments electronically 24 hours a day, 7 days a week; (2) Pay.gov, a secure government-wide collections portal that has the potential to convert 80 million transactions totaling $125 billion a year from paper processes to electronic payments and on-line forms processing; and (3) Paper Check Conversion, which converts paper checks into electronic debits to the check writer's bank account.

Funds Management and Investment. Treasury worked toward the accurate reporting of nearly $2.9 trillion invested by federal agencies and Funds in the Federal Investment Program. The investment activity in these Funds comprises approximately 42 percent of the total public debt outstanding. Treasury enhanced the online functionality of the investment accounting system as a continuation of our effort to enable and encourage federal investment customers to conduct business and obtain current investment holdings information online. Treasury also assisted OMB in the development of clear reporting rules for intra-governmental investment activity and made a major push to help our customers better understand and comply with these rules. In addition, we assisted OMB through our efforts to complete quarterly reconciliation of the data reported in Treasury's Intra-governmental Fiduciary Confirmation System.

Partners

FMS works closely with FPAs to expand the use of electronic collection mechanisms and assist remitters in making electronic payments to the Federal Government. The Federal Reserve Banks support our financial management responsibilities by providing fiscal agent services to Treasury. Treasury works closely with the FRBNY to manage the Federal Government's cash. More than 10,000 financial institutions, acting as Treasury's financial agents, assist FMS in collecting federal revenues. Private collection agencies help FMS collect delinquent debt.

Customers

FMS gathers and publishes government-wide financial information that is used in establishing fiscal and debt management policies and also used by the public and private sectors to monitor the Federal Government's financial status.

Goal Assessment and Next Steps

FMS will provide agencies more detailed financial information to help them reconcile their intra-governmental transactions with their federal agency trading partners. During FY 2004, FMS will require agencies to submit information on a quarterly basis related to intra-governmental transactions. FMS will process and synthesize this information and send information back to the agencies on various classes of intra-governmental transactions. This information will enhance agencies' ability to reconcile their data on a quarterly basis and should reduce the amount of effort at year-end.

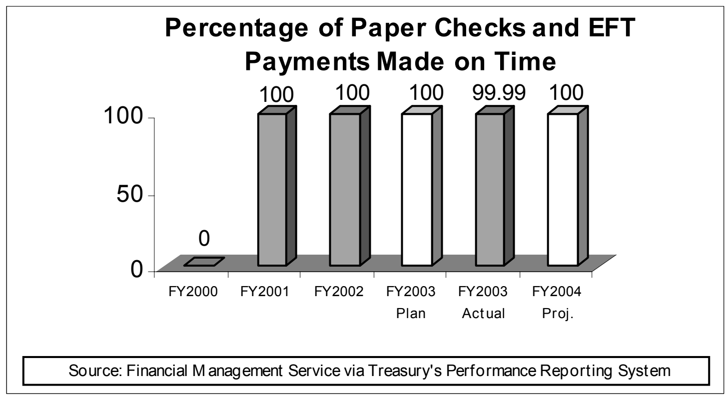
Additionally, Treasury will continue to enhance the functionality of its web-based investment system and encourage Federal agencies to avail themselves of the data we can offer them online. This review will conclude with the execution of a Memorandum of Understanding with each program agency and an overall report with recommendations for improvements, if needed, in the administration of funds.

STRATEGIC GOAL F2: Ensure All Federal Payments are Accurate and Timely

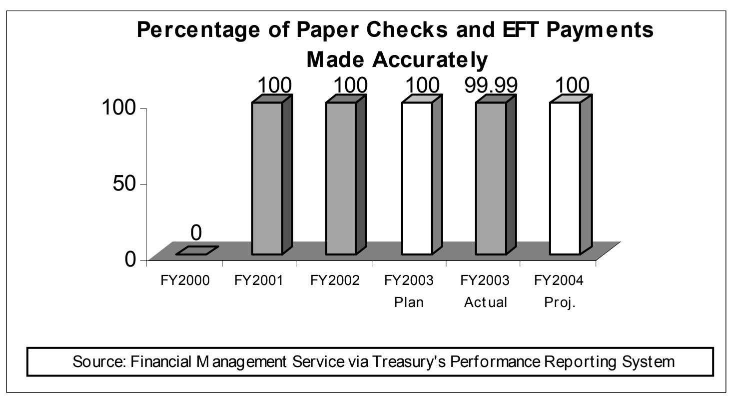
Strategic Goal Overview

With federal payments totaling more than $1.6 trillion annually, the reliable and accurate processing of federal payments is an essential part of supporting the U.S. economy. Making payments accurately and on time is of considerable financial importance to American citizens, whether they are recipients of Social Security or Veterans' benefits, income tax refunds, vendor payments, annuities, or salaries.

Strategies and Results



FMS works with Federal Program Agencies (FPAs) to ensure federal payments are made timely and accurately, and to encourage the use of electronic payments. Delivering federal payments through electronic media improves service to payment recipients and reduces government program costs. For example, the Stored Value Card (SVC) program reduces the float loss associated with circulating more than $2 billion in coin and currency at military bases, ships at sea, and other closed government locations around the world. FMS is the largest issuer of SVCs in North America.



FMS continues efforts to modernize its payment systems, incorporating new technologies and the Internet. The Secure Payment System (SPS) replaced the Electronic Certification System. SPS is the cornerstone of the payments process in which agencies certify the accuracy, validity and legality of their payments. SPS is more efficient, more user friendly and web accessible while providing greater integrity and security to the payments process.

In FY 2003, FMS issued approximately 920 million payments via paper check and electronically transferred funds to more than 100 million individuals and businesses. These disbursed payments are based on submissions from FPAs. Payments were on time and accurate 99.99 percent of the time.

FMS continues to expand the use of electronic media to deliver federal payments, improved service to payment recipients, and reduced government costs. These efforts ultimately decrease the number of paper checks issued; minimize costs associated with postage, lost, stolen, and misplaced checks; and reduce inefficiencies associated with the non-electronic delivery of benefits. In FY 2003, FMS issued over

3.2 million fewer checks and over 11 million more electronic payments compared to FY 2002. Currently, three out of four benefit payments and virtually all federal salary payments are made electronically. In FY 2003, tax refund payments and miscellaneous payments made by Electronic Funds Transfer (EFT) also increased by 42 percent and 66 percent, respectively, over FY 2002.

During FY 2003, FMS disbursed $5 billion in temporary fiscal relief payments to states under the Jobs and Growth Tax Relief Reconciliation Act signed into law by President Bush on May 28, 2003. FMS also issued approximately 23.7 million child tax credit checks totaling $14 billion as part of the Administration's tax cut and fiscal stimulus program.

Partners

FPAs, recipients of federal payments, Federal Reserve Banks, and financial institutions are key partners in the payment function.

Customers

FMS' customers include American citizens, consumer and community-based organizations, government vendors, states and FPAs. FMS' expanded use of electronic media to deliver federal payments leads to improved customer service as well as a reduction in federal program costs.

Goal Assessment and Next Steps

FMS will continue to provide federal payments accurately and timely, move toward an all-electronic Treasury for payments, and determine the optimal payment processing environment for the future. FMS will expand the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. Although FMS remains diligent in its efforts to increase the use of EFT, challenges remain which preclude the achievement of 100 percent EFT. FMS is conducting research to better understand these barriers and incentives needed to encourage check recipients to convert their payments to electronic form. Additionally, FMS will work with federal benefit paying agencies to test new approaches to increasing EFT participation and conduct marketing and public education programs.

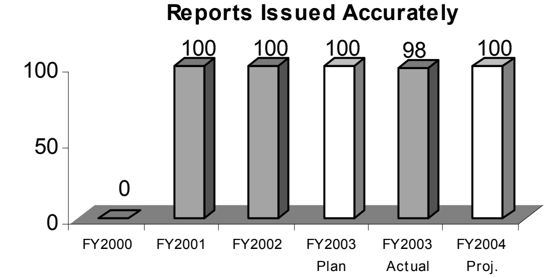
STRATEGIC GOAL F3: Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards

Strategic Goal Overview

This goal highlights Treasury's efforts to become a world-class financial manager for the Federal Government. Treasury publishes government-wide financial information that is used by the public and private sector to monitor the Federal Government's financial status and for the Federal Reserve Board to establish monetary policy. Treasury strives to produce accurate financial statements and other reports that contain the information needed to manage programs effectively and to fulfill its responsibility to be accountable to the American public.

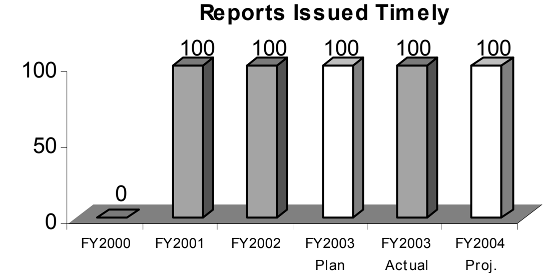
Strategies and Results

Accurate and Timely Financial Information. The Financial Report (FR) is compiled from the financial information of the 23 Chief Financial Officers (CFO) Act Agencies, twelve other major agencies, and over 130 other independent agencies, commissions, boards, etc. These entities must report their financial information on time in order for the FR to be produced within the statutory timeframe. In addition, audit findings from agencies that are material to the FR are 'passed through' to become audit findings at the FR level. Treasury works in conjunction with OMB, GAO, and the agencies to resolve these audit findings.



Source: Financial Management Service via Treasury's Performance Reporting System

In FY 2003, the Federal Government's cash position, budget surplus, and deficit information were reported on schedule and accurately 98 percent of the time in the following publications: *Daily Treasury Statement, Monthly Treasury Statement, Treasury Bulletin, and Combined Statement of Receipts, Outlays, and Balances of the U.S. Government*. For the sixth consecutive year, the *Financial Report of the U.S. Government,* which includes the Federal Government's consolidated financial statements, was issued on time; although it continued to receive a disclaimer of opinion.



Source: Financial Management Service via Treasury's Performance Reporting System

Integrity of Financial Systems. Five audit findings prevented the attainment of a reliable U.S. financial statement for FY 2003. Three of the audit findings were specific to certain agencies and one finding, the incomplete elimination of intra-governmental activity, was a government-wide finding. One finding, for the preparation of the consolidated financial statements, was specific to Treasury as the preparer of the U.S. financial statements.

Program Evaluations. In response to customer requests, two Treasury reports that provided information crucial for the preparation of agencies' financial statements were each accelerated by four workdays during FY 2003. Treasury adjusted its procedures, accelerated information requests from the agencies, and worked with the agencies to deliver this key information that was particularly needed in order for the agencies to meet their accelerated reporting requirements.

Treasury developed a system in-house to be used as a tool for solving the intra-governmental activity audit finding. This system allows an agency to see how another agency has reflected activity between the two in its accounting records. This is needed before reconciliation between the two agencies can occur. Previously, agencies had to separately request information from other agencies in order to reconcile their intra-governmental activity.

Treasury adjusted its central accounting and reporting publications to reflect the federal reorganization that established the DHS. Treasury worked with OMB and the agencies to create approximately 500 new reporting accounts and processed more than 300 transfers between accounts in the newly created and legacy agencies. In addition, Treasury monitored the old accounts to ensure that they were properly closed out.

Treasury is on schedule with the development of the new system which will be used to compile the government-wide financial statements directly from the agencies' financial statements. Preliminary instructions for the new process were distributed to the agencies and their feedback is being used to improve the new system's customer interface.

Partners

FMS works with FPAs and financial institutions that are responsible for submitting accurate financial data. An interagency Government-wide Accounting Advisory Group with representatives from major program agencies, OMB, GAO and the Federal Reserve provide continuous input and guidance to FMS in restructuring the basic framework of the central accounting and reporting processes. The Standard General Ledger Board, consisting of representatives from the CFO agencies, provides oversight and approval of all U.S. Standard General Ledger activities.

Customers

Treasury meets on a continuous basis with OMB and GAO to set policy and direction for changing and improving the FR. In that forum, FMS sets priorities and decides on the direction of its efforts for the next accounting year. In addition, FMS works through agency task groups to obtain feedback on any new changes and policies being planned. FMS also provides the CFO Council with any issues that may need to be addressed by that group and informs them of new or emerging issues.

Goal Assessment and Next Steps

The clarity and simplicity of the new financial statement preparation process will shorten both the time needed to prepare the FY 2004 U.S. financial statements as well as the time required for the agencies to submit the needed information. This accelerated timeframe will allow the financial statements to be considered in the budget process and decision-makers will be able to use the financial information in the report to improve the management and programs of the Federal Government. The process was also designed to demonstrate a direct linkage to the agencies audited financial statements and allow the auditor to leverage the largely successful results of the agencies' audits with the audit of the FR. The new process should resolve the current audit finding on the report's preparation.

The new intra-governmental system that Treasury developed as a service to its customers will allow agencies to reconcile their activity throughout the year. This will reduce the amount of effort at year-end, which will be useful in meeting the newly accelerated reporting dates. Treasury provides these reports to the agencies every quarter, allowing needed adjustments to be made before year-end. These improvements will play a fundamental part in the resolution of the current government-wide audit finding for the incomplete elimination of intra-governmental activity in the FR of the U.S. Government.

STRATEGIC GOAL F4: Collect Revenue Due to the Federal Government

Strategic Goal Overview

Treasury is responsible for the collection of approximately 95 percent of total federal receipts such as individual and corporate income and other taxes, fees, debts, and other money owed to the U.S. Government. Our goal of timely collection of all monies due to the Federal Government is consistent with good customer service and business efficiency. This is important to each citizen for two reasons: (1) those who do not pay their fair share of taxes shift their tax burden to the citizens who do pay their fair share; and (2) the revenue collected is used to fund America's homeland security, national defense, highway programs, medical research, and many other programs that touch the lives of every American.

Strategies and Results

IRS Tax Collections – Post-Filing (Compliance Programs)

Collecting taxes due the government has always been a challenge for IRS, but in recent years the challenge has grown. To counter this trend, the IRS initiated a comprehensive effort in the form of a National Research Program (NRP) to measure reporting, filing and payment compliance for different types of taxes and various sets of taxpayers. Data and compliance measures resulting from NRP will help the IRS detect noncompliance and develop appropriate pre-filing, filing and post-filing strategies. The analysis of non-compliance data will also help reduce taxpayer burden and support the IRS strategic planning and budget process.

- ***Filing Compliance.*** Based on preliminary results from the data collected under the NRP, the timely filing rate for Tax Year 2001 was 88.9 percent compared to 90.7 percent for Tax Year 2000. The number of non-filers and late filers also increased from 11.2 million in Tax Year 2000 to 13.6 Million for Tax Year 2001.

  Improved case selection is one of the primary enhancements developed to improve productivity of the filing compliance program. An analysis of selection codes used to generate work assignments was conducted and resulted in case assignments focused on the most egregious nonfilers and most productive cases. Significant time and effort was also expended on balancing delinquent return investigations with higher-priority delinquent account work.

  The IRS also plans to expand and centralize automated enforcement tools such as the Substitute for Return program and provide outreach and education initiatives to avert nonfiling. Additional reengineering initiatives planned for FY 2004, coupled with process improvements, will reduce the amount of direct time spent resolving taxpayer delinquencies.

- ***Payment Compliance***. Based on preliminary results from the data collected under the NRP, Gross Underpayment Tax Gap, the difference between the total tax liability reported on timely-filed returns and the total amount of timely payments associated with those timely filed returns, has decreased from $41.2 billion for Tax Year 2000 to $31.7 billion for Tax Year 2001. However, the Underpayment Tax Gap is still very high.

The IRS has two primary objectives: increasing overall compliance and increasing the fairness of compliance. The IRS realized a number of successes in the Collection areas. At the end of FY 2003, the Service's Automated Collection System (ACS) closed 1.1 million Taxpayer Delinquent Accounts, a 22 percent increase over FY 2002, 10 percent higher than the target. ACS also closed 197,000 Taxpayer Delinquency Investigations. IRS expects to record a 28 percent increase in ACS dollars collected over the 2002 amount. Work completed by Revenue Officers in field offices also increased in FY 2003, exceeding both the current plan and, more importantly, prior year performance.

The IRS intends to better target noncompliance and continue to improve the productivity of its existing compliance and collection staff. It is also using technology to help improve payment compliance by offering options to individuals, corporate clients, and practitioners for making online payments. Individuals can pay delinquent taxes, taxes owed at the time of filing for extension, and installment payments on approved agreements. Corporate clients can pay employment taxes online. As of June 2003, 60 percent of all Federal Tax Deposit payments were received electronically. Revenue Officers hired in late FY 2003, to be trained in FY 2004, will enhance IRS enforcement capabilities and case coverage.

- ***Reporting Compliance***. The IRS uses a variety of techniques such as document matching, correspondence and in-person audits to verify that taxpayers accurately report their tax liability on their returns. During FY 2003, IRS focused its reporting compliance activities on combating abusive tax avoidance transactions by increasing media attention on it; providing a hotline as a clearing house for information; examining more returns involving abusive corporate tax shelters; examining and targeting the promoters of abusive tax avoidance strategies; and reaching settlement with taxpayers on substantial tax shelter cases.

  Other initiatives include Fast Track Settlement Program for reducing the burden to both the taxpayer and government and, as a result, reducing the length of the audit/appeals process by as much as two years; redirection of enforcement resources to address the declining audit coverage rates for mid-size corporations in an effort to ensure an appropriate compliance presence in all taxpayer segments; and publishing guidance on new issues through the Industry Resolution Program.

  Implementation of new initiatives, coupled with program improvements in targeted compliance areas, has increased efficiency in the use of examination resources, and reduced the length of the examination cycle for both taxpayers and IRS. An increased emphasis on appropriate application of enforcement tools (e.g., summons enforcement, penalty administration) and reengineered methodologies for identifying returns most deserving of enforcement action contributed to the increased compliance presence in both the individual and corporate community.

  It is currently estimated that there are 1,000 to 3,000 promoters marketing domestic tax schemes which are not compliant with the Internal Revenue Code. Domestic as well as internet based and offshore promoters of and investors in abusive tax schemes will be identified and data gathered will be used in lead development and the examination workload selection processes.

Other Tax Collections. The Alcohol and Tobacco Tax and Trade Bureau (TTB) is responsible for collecting alcohol, tobacco, and firearms and ammunition excise taxes. Roughly 97 percent is collected from the alcohol and tobacco industries (roughly 4,000 entities). Alcohol represents about 46 percent of the annual tax receipts and the revenue collections from tobacco represents about 51 percent. It is important to note that about 400 taxpayers (8 percent) account for roughly 95 percent of the annual excise tax collections. As the third largest tax collection agency in the U.S. Government, TTB's goal is to improve service to the taxpayer and reduce the burden in complying with federal laws.

For FY 2003, TTB collected $14.7 billion, a decrease of $400 million from the $15.1 billion collected in FY 2002. Collections for FY 2003 were originally projected at $15.1 billion, the same as in FY 2002. Collections from wine, beer and distilled spirits have declined slightly from FY 2002 to FY 2003. The decline in collections for tobacco products is attributed to: (1) in FY 2002 a one-time floor stocks tax was assessed based on a cigarette tax increase; and (2) lower cigarette consumption and production. In terms of net government collections, this decrease is partially offset by an increase in excise taxes collected on imported cigarettes collected and reported by the U.S. Bureau of Customs and Border Protection (CBP).

TTB aims to reduce the burden to the taxpayer by continuing to create alternative methods for reporting and filing through electronic government. Also key to collecting all the revenue rightfully due is a field approach, that encourages voluntary compliance by taxpayers. Having a balanced field approach that uses analysis to target non-compliant industry members and an identifiable presence throughout the industry ensures that industry members will voluntarily comply.

Enforce compliance with federal laws related to the production and distribution of alcohol products. TTB enforces compliance with federal laws related to the production and distribution of alcohol products through education, inspection, investigation and laboratory testing. Illicit trade in tobacco and alcohol has the potential to be highly lucrative and it is crucial that terrorists and organized crime are kept out of these industries. To ensure that only eligible persons enter into the business, personal and financial background investigations are conducted, and inspections of premises to be used for the operations are conducted.

TTB also protects the public by ensuring that products are labeled in accordance with federal laws and regulations. In FY 2003, TTB launched a web-based and entirely paperless system that gives alcohol industry members and third party filers the option to file these applications via the TTB web site. The introduction of this technology has significantly reduced the paperwork burden on industry, and made the process more efficient by improving the procedures and workflow through better business process reengineering.

TTB anticipates approximately 190 responses to unsafe products and product deficiencies discovered. This measure deals with alcohol products that are found to be either unfit for human consumption or the contents of the alcohol product do not match the information on the label. TTB will continue take a proactive approach to identify products and specific ingredients that may be unsafe.

Other key strategies supporting the Collect the Revenue goal include the application of Federal Excise Tax sampling and risk assessment strategies to measure and analyze compliance with tax law, and the identification of any gaps in tax payment. The goal is to audit 400 large taxpayers on a 3-4 year cycle. Successful analysis will allow for a more effective and efficient use of the limited field resources available

FMS Delinquent Debt Collection. FMS provides debt collection operation services to Federal Program Agencies. In FY 2003, agencies referred 91 percent of their eligible delinquent debt to FMS. This included significant increases in agencies' referral of tax debt, non-tax debt, child support debt, state tax debt and federal non-tax debt. Other areas of program growth included administrative offset of social security benefit payments and offset of tax refunds to collect delinquent state tax debt.

Collections exceeded performance goals as a result of continued improvement in FMS' Debt Management Program. For FY 2003, the target for collecting delinquent debt was $2.8 billion. FMS achieved collections of more than $3.0 billion, which includes approximately $207 million in offsets of child tax credit checks. In January 2003, FMS implemented a new system, called "Debt Check," that will enable credit agencies to identify delinquent debtors who apply for federal loans and loan guarantees.

Partners

IRS strategies are accomplished through partnerships with state governments, the Department of Justice Tax Division, practitioners, and other industry and local groups who are in regular contact with taxpayers.

TTB partners with U.S. Bureau of Immigration and Customs Enforcement (ICE), CBP, Federation of Tax Administrators (FTA) and National Association of State Attorneys General (NAAG) in the regulation of the alcohol and tobacco industries and collection of excise taxes on alcohol and tobacco products. TTB's working relationship with external partners is critical in ensuring coordination of Internal Revenue Code tobacco enforcement activities, verification of the authenticity or classification of alcohol beverage products and improving efforts on the Federal and state levels to collect excise taxes that are rightfully due.

TTB partners with Food and Drug Administration (FDA), Office of the U.S. Trade Representative (USTR), Federal Trade Commission (FTC) and Joint Committee of the States as well as state and local agencies in the regulation of the alcohol and tobacco industries, regulatory compliance and economic efforts. TTB's working relationship with external partners is critical in ensuring product samples are routinely tested for compliance with laws and regulations, assisting with worldwide expansion of market access for U.S. goods and services, participating in cross-jurisdictional authority in the area of beverage alcohol advertising and providing information regarding certificates of label approval.

FMS works with several federal agencies regarding cross-servicing provisions related to the Debt Collection Improvement Act. In addition, FMS works with private collection agencies in the collection of delinquent debt.

Customers

IRS' prime customer is the American taxpayer and it is driven in all efforts to increase collection of federal revenue. IRS focuses its service to customers based on taxpayer feedback obtained through surveys tailored to its major processes. Results of these surveys are used to enhance workstreams in the key improvement areas identified. Using recent customer feedback, IRS plans to continue to offer additional self-service options for taxpayers and reengineer major compliance processes to improve efficiency and reduce burden. IRS also plans to continue its efforts to revise additional forms and notices sent to, or used by, taxpayers to improve clarity and customer response.

TTB will focus on customer service by reducing taxpayer and industry burden, simplifying citizen access to TTB information, and making government tax and regulatory services transparent. Strategic investments will encompass projects designed to allow taxpayers to report and pay excise taxes electronically.

TTB focuses on preventing consumer deception; ensuring that regulated alcohol and tobacco products comply with federal commodity, safety, and distribution requirements; and providing high quality customer service. In addition, TTB provides technical expertise, training, information, and research results to industry members; government agencies and others are essential components to successfully protecting the public.

FMS will focus on establishing and maintaining alliances with customer agencies and stakeholders that promote effective debt collection policies and procedures. FMS will also focus on establishing and maintaining ongoing dialogues with the above partners and stakeholders concerning significant policy issues and status of the program.

Goal Assessment and Next Steps

IRS has initiated a multi-year large scale hiring and training program aimed at addressing current performance gaps in the key tax administration programs of examination and collection. As new employees in the key tax administration programs are trained they should begin to impact filing, reporting, and payment compliance in FY 2004. Their impact on these activities will increase as they gain experience over the next thirty-six months.

IRS plans to re-engineer compliance support in the areas of case processing, lien processing, and insolvency. Predictive models will be used to identify the most productive investigations involving filled tax returns and unpaid tax liabilities. The Automated Lien System will be modernized and centralized, making better use of staff and providing fair and equal application of lien processes. A long term goal is to electronically record lien filing with recording offices. Insolvency cases will be better handled using the Integrated Insolvency System which provides for a systemic analysis of account data that will result in accurate and timely filing of claims with the Bankruptcy court while reducing the number of paper documents. Improvements in efficiency and effectiveness will be achieved from greater standardization, centralization, and automation of processes. An Installment Agreement initiative intended to reduce the default rate of installment agreements, and a lead development initiative intended to develop examination leads on promoters of abusive tax schemes, are two additional steps to be taken.

IRS plans to continue its focus on modernizing its systems and plans to increase enforcement while continuing service at the current customer service levels. The long-term plan for modernizing the IRS is based on four essential and interdependent components: Reinvestment of base resources to higher priority programs; appropriate staffing; short-term IT investments aimed at improving service and productivity; and long term investments aimed at not only improving service and productivity but also providing the data and security infrastructure for all future systems.

FMS will continue to expand the offset program, incorporating additional payments and debts, as well as promote the utilization of all available Cross-Servicing tools, especially administrative wage garnishment, to maximize the collection of delinquent debt owed to the Government. FMS will also continue to assist agencies in their efforts to bar delinquent debtors from obtaining federal loans and loan guarantees by rolling out a new system, Debt Check. This system will strengthen the due diligence and credit screening process used by agencies by allowing them to check the Government's delinquent debtor database to determine if individuals seeking loans or loan guarantees owe money to the Government and increase the early referral of eligible, legally enforceable debts for the offset and cross-servicing systems.

Debt collection is a critical factor in improving financial performance, which is part of the President's Management Agenda initiatives. The debt collection program has an impact on agency fiscal operations, the economical stewardship of taxpayers' dollars and the integrity of important federal programs, such as student loans and benefit payment programs. FMS will be working with agencies, OMB, GAO and agency Inspectors General to place an increased emphasis on ensuring that accounts receivable balances that agencies report to Treasury on a quarterly basis tie directly to their financial statements.

TTB will maintain an open line of communication with the taxpayer, which is essential in achieving TTB's goal of collecting all the revenue due while limiting the taxpayer burden. TTB will continue to educate the taxpayer on laws and regulations and keeping the industry informed on pending issues, facilitates the ability for industry to voluntarily comply with taxes, and ensures that valuable ideas of these stakeholders are considered with regards to limiting the burden placed on them.

TTB has developed a system that allows industry to electronically file certificates of label approval (COLAs) Online. This system was put into production and opened to industry members in late May 2003. The COLAs Online system includes a registry that provides the public and other Federal and state agencies with an easy to use single access point for information relating to approved COLAs. Planned enhancements to this system will allow industry to electronically submit for approval beverage alcohol formulas and formulas for flavors that contain alcohol. Approval of these formulas are a prerequisite to obtaining label approval and this enhancement will eliminate the need for industry to submit a copy of the approved formula as part of the COLA application process. COLAs Online will also be interfaced with IRIS to access permit data. TTB also plans to interface the COLAs Online system with the Laboratory Information Management System (LIMS), which will provide electronic access to common data in both systems, eliminate errors induced by manual data entry, and improve internal efficiency.

STRATEGIC GOAL F5: Cost-Effectively Finance the Federal Government's Operations

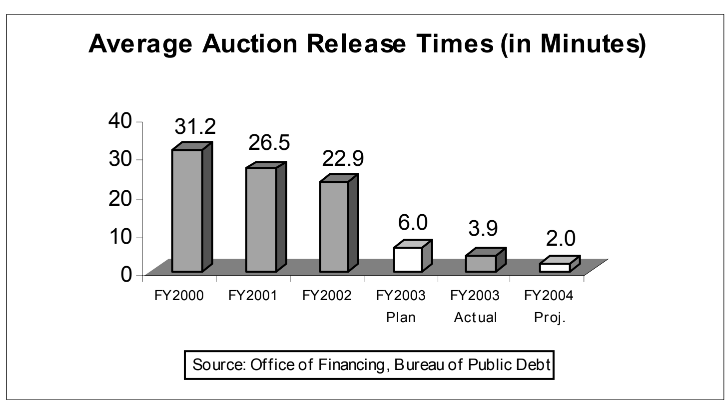
Strategic Goal Overview

Treasury's goal is to provide government financing at the lowest cost over time. We believe issuing debt regularly and in predictable quantities fulfills this goal. The risks to regular and predictable issuance include unexpected changes in our borrowing requirements, changes in the demand for our securities, and anything that inhibits timely sales of our securities. To reduce these risks, we closely monitor economic conditions, fiscal policy and market activity, and when necessary, respond with changes in debt issuance that is based on thorough analysis and transparent discussions with market participants. We also seek to lower our borrowing costs by ensuring timely, reliable sales of our securities through continuous improvement in the auction process.

Strategies and Results

Borrowing Strategies. Treasury minimizes its borrowing costs over time by issuing debt on a rigid schedule in sizes that are largely predictable. This approach assures buyers of Treasury securities that changes in value of their assets will not be caused by unexpected changes in supply. Treasury also minimizes its borrowing costs over time by encouraging wide participation in Treasury auctions. Treasury is constrained in meeting our objective of low cost borrowing over time by the uncertainty of our future borrowing needs and the cost that meeting those needs will impose on the American taxpayer. This uncertainty creates risks that a given debt issuance pattern will not generate the lowest cost over time. The challenge is to provide market participants with sufficient information so that the changes Treasury requires in debt issuance patterns do not deviate substantially from expectations. To meet this challenge, Treasury communicates regularly with market participants so that they are aware of the risks to current debt issuance patterns and how Treasury would respond if those risks were realized.

Treasury continues to develop indirect measures of low borrowing costs over time such as indicators of regularity, predictability, and market expectations as well as direct measures of the cost of borrowing. Performance based on existing key measures – the timely announcement, execution and reporting of auctions – was largely successful in FY 2003. The delay in the passage of a debt ceiling increase in the spring of 2003 led to increased uncertainty around debt issuance and caused large reductions in the sizes of regular bill auctions which, in turn, forced Treasury to rely more heavily on the use of unscheduled, more costly cash management bills.



Treasury Marketable Debt Securities Auctions. Over the past year, improvements to auction processes ensured that Treasury's financing operations remained competitive and cost-effective. In FY 2003, Treasury announced auction results within six minutes of the auction close 96.5 percent of the time. This exceeded the goal of announcing auction results within six minutes of the close of the auction 80 percent of the time.

Wholesale Securities Services. The Bureau of the Public Debt (BPD) conducted approximately 200 auctions in FY 2003, and issued approximately $4 trillion of securities to finance government operations. To maintain an efficient market for Treasury securities and to minimize uncertainty in these markets, it is crucial that securities auctions are completed and results announced as quickly as possible. We reduced the average auction release time from approximately seven minutes in FY 2002 to approximately four minutes in FY 2003. Starting in FY 2004, the goal will be to announce auction results within two minutes + 30 seconds of the close of the auction 95 percent of the time. The reduction in the time to release the auction results should reduce Treasury's borrowing costs by reducing the market risk our bidders take when placing bids in Treasury auctions.

Retail Securities Services. BPD launched TreasuryDirect in October 2002 with the introduction of the first electronic savings bond, Series I. The system was expanded in May 2003 to include electronic Series EE bonds. These paperless savings bonds improve the cost effectiveness of our retail securities program since paper bonds are more costly to issue. When fully implemented, TreasuryDirect will enable our retail investors to purchase the full range of Treasury securities and manage their holdings through a single online account.

Partners

The Federal Reserve provides fiscal agent services to Treasury. They work closely with Treasury and fully support its auction and buyback operations. The Federal Reserve Banks are critical partners in developing and managing our automated systems. This partnership is key to ensuring the effectiveness of our financing operations.

Customers

Treasury strives to lower borrowing costs over time to minimize the burden of the public debt on taxpayers. To lower borrowing costs, we seek to minimize the uncertainty investors in Treasury securities face due to our actions. Uncertainty in the auction process is reduced by conducting regularly scheduled auctions on a predictable basis, releasing auction results in a timely and consistent manner, and ensuring broad and deep participation in auctions.

Goal Assessment and Next Steps

Treasury will continue to create efficiencies in the auction process and will remain highly focused on increasing competitive bidding in Treasury auctions. Attaining these goals and meeting them consistently will lower market risk for our large investors and result in lower borrowing costs for the taxpayer. In addition to releasing the auction results faster we will encourage more direct auction participation within the investor community. Our goal is to increase the number of bidders who participate in Treasury auctions by 15 percent by FY 2010. We intend to achieve this through an increased effort on educating potential investors of their ability to buy Treasury marketable securities at Treasury auctions, being attentive and responsive to bidders' needs, providing easier and more accessible bidding systems, and by simplifying the auction process.

In the near term we will add additional forms of registration and streamline existing TreasuryDirect system functionality. Next we will add a payroll feature that will allow investors to authorize their employers to regularly direct a portion of their earnings to their TreasuryDirect accounts to purchase securities. Later we will expand the system to offer Marketable Treasury securities and permit investors who hold securities in our legacy direct-access system to move their holdings to a TreasuryDirect account. Our long-term goal is to hold 50 percent of Treasury's retail debt in our new TreasuryDirect System by FY 2011.

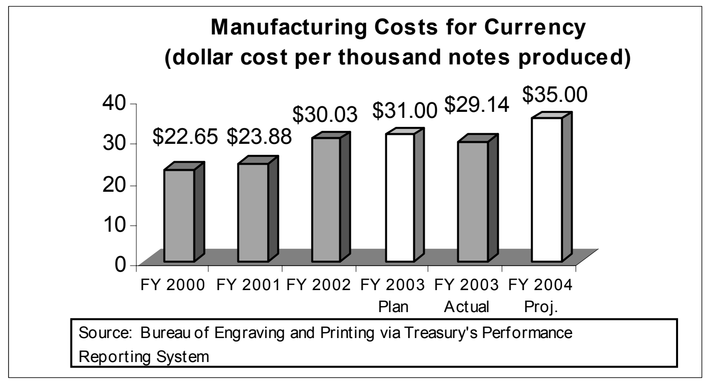
STRATEGIC GOAL F6: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency

Strategic Goal Overview

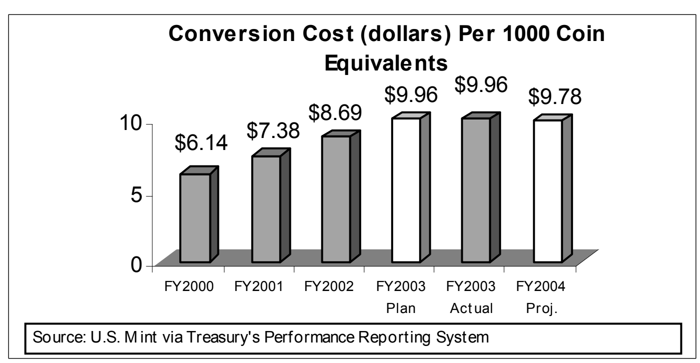
Treasury production of coin and currency are managed similar to a private sector business model. U.S. circulating coins and currency are produced as ordered by the Federal Reserve System, which places them into circulation as needed. Efficient operations result in secure products that provide the best value to the Federal Reserve and ultimately to the American public. The production and delivery of high quality coin and currency facilitates the efficient use of coin and currency in daily business transactions and ensures continued public confidence in the nation's coin and currency.

Strategies and Results

Currency. The Bureau of Engraving and Printing (BEP) strives to be a world-class securities printer providing a consistently high quality security product on which the public can rely, which contributes to public confidence and preserves the integrity of U.S. currency. BEP measures its overall efficiency and effectiveness using program performance standards. Actual performances against standards depend on the BEP's ability to meet annual spoilage, efficiency and capacity utilization goals. In FY 2003, BEP exceeded its performance goals through the most efficient and effective use of production equipment, personnel, and inventory resources. BEP continued to fine-tune its manufacturing processes to maintain its ISO 9001 quality certification which resulted in reduced spoilage, improved ink utilization and more efficient and cost effective manufacturing operations.



BEP continually looks to improve its production processes, equipment and facilities in order to achieve greater efficiencies in currency manufacturing. During 2003, BEP focused on the production of the next generation $20 note for release into circulation in October 2003. In addition, BEP engaged in the development of a new design for the next generation of the $50 currency note to be introduced into circulation near the end of 2004. Production of the new series currency design required a multi-million dollar capital investment in printing technology and support processes. This technology enables BEP to support the initiatives of the Advanced Counterfeit Deterrence Program in support of Treasury's goal.



Coin. The major factor that affects the operations of the Mint at any given time period is the state of the economy. Economic conditions in FY 2003 caused low demand for circulating coinage and also suppressed the demand for numismatic coin products. Low demand for products translates to lower circulating coinage deliveries to the Federal Reserve and lower numismatic revenues. Like many businesses in a slow economy, the challenge for the Mint was to maintain efficient operations and hold costs to appropriate levels. The conversion cost per 1,000 coin equivalents matched our target of $9.96, though it represented an increase from FY 2002. The increase was anticipated as low production resulted from lower demand than seen in FY 2002. Low production levels mean that more fixed costs are attributed to each unit produced. The Mint met the target by reviewing budgetary execution and comparing spending levels with estimations of demand forecasts on a monthly basis.

To improve toward world-class performance, the Mint worked to streamline processes, reduce cycle-time and work safer, all of which helps the Mint to operate more economically and more efficiently. By concentrating on safety through training and process improvements, the Lost Time Accident Rate improved to 1.48 from 2.24 in FY 2002. Cycle-time represents how long it takes to collect revenues from the sale of products after the input materials are procured, with a lower number more desirable. The Mint's Cycle-time decreased to 73 days from 112 days at the end of FY 2002, with the improvement resulting from reductions of inventories.

Partners

BEP partners with the Federal Reserve and U.S. Secret Service in the development of counterfeit deterrent currency. A joint committee of representatives from the BEP, Federal Reserve, Secret Service and Treasury work to predict future counterfeit trends and risks and develop strategies to counter these risks. In a collaborative effort to forestall counterfeiting, BEP established the Securities Technology Institute with Johns Hopkins University to develop, test and evaluate possible counterfeit deterrent features for U.S. currency and other security documents. In support of a 24 nation effort to deter the use of personal computers and inkjet printers in counterfeiting, the newly released next generation $20 note contains a feature developed for this purpose. Additionally, BEP gains valuable feedback on proposed design changes by partnering with private sector companies and organizations whose day-to-day commercial activity is dependent upon processing cash transactions through currency accepting machinery. This includes working closely with the private sector and public mass transit agencies by engaging them early in the development of currency redesigns and allowing them the opportunity to minimize conversion costs by retrofitting their currency-accepting machines before the issuance of new notes.

The Mint worked with many partners in FY 2003. The Federal Reserve Board (FRB) is an important partner in helping the Mint ensure adequate coinage is available for the public to conduct commerce. The Mint and FRB have worked together on improving coin demand forecasting, analyzing the coinage "supply chain", and increasing the use of technology to provide the right amount of coins to the public at the lowest cost. The Mint is also working with state governments of every state to implement the final design for their commemorative quarter, often participating in a celebratory "launch" with state officials once the quarter is released into circulation. The 50 State Quarters Program will reach the midway point as the Arkansas quarter is released into circulation in FY 2004. The Mint and the United States Postal Service jointly develop and market products featuring 50 State Quarters and Greetings From America stamps.

Customers

The Federal Government has an interest in preventing the circulation of counterfeit currency domestically and internationally. Next generation notes, with enhanced deterrent features, are designed to prevent counterfeiting by digital and other reprographic technologies. By continually improving the security of its currency, the public's confidence and trust in U.S. currency are maintained. A secure currency program helps to promote a stable U.S. and world economy by increasing citizen's "economic security."

The United States Mint customers vary from members of the public who buy numismatic coin products to the FRB – the primary distributor of circulating coinage. Coin collectors and gift-seekers can order coins over the phone, by mail, or directly on the Mint intranet site. The Mint tracks an index of customer service monthly in an effort to ensure that numismatic customers are getting the products they want at the right time. Nearly all members of the public in the United States use the coins produced by the Mint. By producing high quality products, people can not only count on their use in vending machines, newspaper boxes, and pay-phones; they can take pride in the national symbols represented on each coin.

Goal Assessment and Next Steps

BEP met or exceeded all of its performance targets for FY 2003. The production roll-out of the next generation $20 note exceeded expectations and is a positive precursor for production of the next generation $50 note scheduled for FY 2004. In FY 2004, design development for the next generation $100 note will intensify and consume considerable resources. These redesigns are necessary to thwart the technological advances available to counterfeiters and maintain the integrity of the Nation's money supply.

The Mint will be issuing new designs for coinage in FY 2004. New nickel designs will celebrate the 200th anniversary of the Lewis and Clark expedition on the coin's reverse. Fittingly, the obverse of this nickel coin will show President Jefferson who chartered this expedition. The redesign will only affect nickels produced in 2003 to 2005; with the traditional Jefferson obverse and Monticello reverse returning in 2006. The commemorative quarters for calendar year 2004 will honor Michigan, Florida, Texas, Iowa, and Wisconsin. The Mint will continue to streamline and improve our processes to increase safety and efficiency. To this end, the Mint will focus on improvements at the production facilities, including taking advantage of technological advancements, reconfiguring the plant layouts, reducing inventory levels, and continuing to work with our materials suppliers and the Federal Reserve to ensure that coins are delivered to the public at the lowest cost. The Mint also plans to implement activity based costing and management models to streamline reporting and analysis, and to align resources with the achievement of our performance goals.

STRATEGIC GOAL LE1: Reduce Violent Crime and the Threat of Terrorism[2]

Strategic Goal Overview

Nearly every country in the world has expressed support in the war on terrorist financing – 173 nations have implemented orders to freeze terrorist assets, more than 100 countries have introduced new legislation to fight terrorist financing, and 84 countries have established Financial Intelligence Units (FIUs) to share information. To protect our nation against terrorism, Treasury works domestically and abroad to disrupt and deter the flow of funds and resources to international terrorist groups and terrorist-related individuals. In addition, Treasury works to ensure the integrity of our sanctions programs against state sponsors of terrorism.

Strategies and Results

The most visible weapon on the financial front of the war has been the public designation of terrorists and their support network coupled with the freezing of their assets. Publicly designating terrorists, terrorist supporters and facilitators, and blocking their abilities to receive and move funds through the world's financial system have been, and continue to be, a crucial component in the fight against terrorism.

Counterterrorism. Treasury's participation with other federal law enforcement agencies and our international partners resulted in nearly $200 million of seized or frozen terrorist-related assets and the designation of 320 individuals and organizations as terrorists or as part of a terrorist support network.

Treasury's Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC) formulates and coordinates Treasury's counter-terrorist financing and anti-money laundering efforts. EOTF/FC is responsible for policy guidance and oversight of FinCEN, the Office of Foreign Assets Control (OFAC), and policy guidance for the IRS Criminal Investigative (IRS-CI) Division.

In the non-law enforcement area, Treasury's Office of International Affairs tracks global progress to combat the financing of terrorism. It works with other countries to strengthen the international coalition against terrorist financing and coordinates anti-terrorist financing actions in international such as the G-7 and the IMF.

Treasury develops and implements government strategies to combat terrorist financing domestically and internationally and represents the U.S. at focused international bodies dedicated to fighting terrorist financing and financial crimes, and develops U.S. government policies relating to financial crimes.

In FY 2003, the EOTF/FC developed a seven-part strategy to attack terrorist networks and prevent both the short and long-term effects of terrorist financing. The strategy focuses on: (1) targeted intelligence gathering, (2) freezing of terrorist-related assets, (3) Law enforcement actions, (4) diplomatic efforts and outreach, (5) improved regulatory scrutiny and International Standard Setting, (6) outreach to the private sectors, and (7) capacity building for other governments and the financial sector. EOTF/FC also met with officials from all over the world to work with them on the implementation of counterterrorism fund initiatives. Important progress was made with officials from various Middle East countries in support of our common goal of

---

[2] Treasury law enforcement bureaus whose efforts helped reduce violent crime, in particular gun-related crimes, were divested to the Departments of Homeland Security and Justice.

fighting terrorist financing. We participated in delegations to these countries and led review groups in which we shared our knowledge of ways to fight terrorist financing. In addition, we are working with our international partners to develop Financial Action Task Force (FATF)-style regional bodies in those regions where they do not yet exist.

As our international efforts succeed in closing off the formal financial sector to terrorist financiers, Treasury is giving increased focus to the informal financial channels used by terrorists to move their funds. Treasury is working with our international partners, both bilaterally and in various multilateral to ensure that appropriate enforcement, regulatory, and economic steps are taken to address the abuse of charities, alternative remittance system, and cash couriers by terrorist financiers.

In addition, the unique financial investigative skills of IRS-CI special agents have traditionally proved effective in the investigation of domestic extremist elements that espouse anti-government, anti-taxation philosophies of file fictitious financial instruments. CI financial investigative skills are equally useful in investigating international terrorist groups and groups that engage in fundraising efforts in support of them.

In FY 2003, the IRS initiated a new counterterrorism project at the CI Lead Development Center in Garden City, New York. The project is designed to analyze numerous databases and provide terrorist financing information to CI field offices, IRS operating divisions, the Federal Bureau of Investigation, Department of Homeland Security agencies and other law enforcement agencies, as appropriate.

Economic Sanctions. OFAC administers and enforces economic sanctions programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers. The sanctions can either be comprehensive or selective, using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals. Economic sanctions are intended to deprive the target of the use of its assets and deny the target access to the U.S. financial system and the benefits of trade, transactions and services involving U.S. markets, businesses and individuals. OFAC currently administers and enforces 26 economic sanctions programs pursuant to Presidential and Congressional mandates.

Partners

After the events of September 11th, the National Security Council established a Policy Coordinating Committee on Terrorist Financing. The purpose of the Committee is to: (1) recommend strategic policy direction to the National Security Council on issues relating to terrorist financing; (2) vet and approve proposed action against targeted terrorists and terrorist financiers; and (3) coordinate the United States' efforts on issues relating to terrorist financing. Treasury's General Counsel, has served as the Committee's Chairman since October 2001.

EOTF/FC partners with FinCEN and the Departments of State and Justice and other federal agencies, as well as the International Affairs Task Force on Terrorist Financing (TFTF).

IRS also actively supports the national efforts to combat terrorism through its participation in the FBI's Joint Terrorism Task Forces (JTTF) and the U.S. Attorneys Offices' Anti-Terrorism Task Forces (ATTFs).

OFAC collaborates' efforts with the Department of Defense to develop information and strategies against terrorist financing.

Customers

The American people, as well as citizens throughout the world, will benefit from our efforts to fight terrorists.

Goal Assessment and Next Steps

While progress has been made, there are still areas that need improvement. Gulf states, Non-Government Organizations (NGOs), radical clerics and wealthy sympathizers remain the source of most terrorist financing. Most Gulf state governments have taken action and implemented systemic changes that are promising and constructive. More initiative, follow-through on systemic change, and personal accountability are required.

We must continue to focus our resources on HAMAS and similar terrorist organizations. What is required is unrelenting, consistent, well-informed diplomatic outreach using well developed facts – actionable intelligence – to bring a principled discipline to countries that now stand on the sideline refusing to act. We must continue to work bilaterally and multilaterally to build financial safeguards throughout the globe to do all we can to ensure terrorists cannot play the financial system.

In the long run, we as a community of nations must address the despair and economic misery that permits terrorists to preach hate and killing and terror as a solution.

Combating terrorist financing benefits not only all Americans, but citizens throughout the world. The war on terrorist financing, like the war on terror as a whole, is a long fight. While there is still much work to be done, the progress made since September 11th will hopefully help to prevent the next terrorist attack. Treasury will work to cut off the flow of terrorist financing.

Lastly, OFAC is looking to expand its efforts and the impact of the implementation of the President's authorities under E.O. 13224 by adopting a more systematic approach to evaluating the activities of major terrorist organizations in various regions. This approach will focus on identifying "key nodes" that sustain the abilities of terrorist organizations to remain operational, the U.S. government and its allies who are working to capture, kill and arrest terrorist cell members, leaders and operational planners.

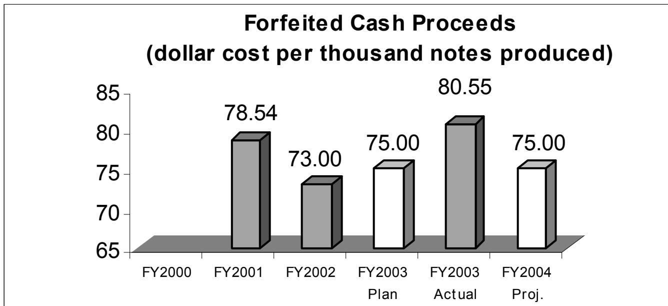
STRATEGIC GOAL LE2: Combat Money Laundering and Other Financial Crimes

Strategic Goal Overview

Money laundering introduces the proceeds of crime into the legitimate stream of commerce and finance by masking their illicit origin, and is a global phenomenon of enormous reach. Laundered proceeds provide the funding that terrorists, drug dealers, arms dealers, fraud sectors, and others need to operate and expand their criminal enterprises. Unchecked, money laundering has the ability to destabilize democratic systems and undermine economic financial markets around the world.

Strategies and Results

Combating Money Laundering. The EOTF/FC develops and implements the National Money Laundering Strategy (NMLS) as well as other policies and programs to fight financial crimes. In addition, EOTF/FC participates in the development and implementation of government policies and regulations in support of the Bank Secrecy Act (BSA) and the USA PATRIOT Act. FinCEN and IRS-CI is also key organizations involved in the NMLS. This Strategy is designed to coordinate the efforts of the Federal Government in order to deter efforts by criminals and divert illicit funds into legitimate enterprises. Money laundering often involves the movement of significant amounts of untaxed funds through world financial systems. The IRS' continued support for the NMLS has important national economic consequences, not only for the success of this initiative but for tax compliance as well.



Source: Treasury Forfeiture Fund via Treasury's Performance Reporting System

The IRS-CI established Suspicious Activity Report review teams in field office locations to enhance its focus on legal source tax crimes. The work of these teams has proven to be productive for detecting both illegal and legal source investigations. Money laundering case initiations include high profile money laundering investigations within IRS-CI's Compliance guidelines – focusing in particular on those cases that will support tax compliance.

Expansion of Regulatory Framework. Financial Crimes Enforcement Network (FinCEN) continues to develop and implement regulations aimed at deterring money laundering and terrorist financing. Under the authority of the PATRIOT Act, FinCEN issued regulations instituting customer identification procedures for industries already covered by anti-money laundering programs. Efforts were begun in FY 2003 to expand coverage of the anti-money laundering record keeping and reporting requirements to investment advisers, commodity trading advisors, and dealers in precious metals, stones, or jewels. FinCEN also began to explore options for extending anti-money laundering program requirements to the real estate, travel agency and vehicle sales industries. To expand the regulatory framework, FinCEN issued 51 regulations and Federal Notices during the year, up from 30 in FY 2002. Inquiries to FinCEN concerning regulatory issues and changes increased about 83 percent over the previous year.

Internationally, FinCEN continues to support efforts of other countries, through training and technical assistance, to establish or expand anti-money laundering and terrorist financing regulatory programs. In FY 2003, these efforts contributed to the formation of 15 new Financial Intelligence Units (FIUs) overseas making it more difficult for criminals to find safe havens where they can launder their illicit proceeds.

Modernization of Financial Intelligence Collection and Sharing. FinCEN enhances the process of collecting BSA data by implementing the electronic filing of Currency Transaction Reports and Suspicious Activity Reports through the PATRIOT Act Communications System (PACS). In order to allow the most effective use of the BSA data, in FY 2003, FinCEN began planning efforts to put in place a secure, web-based BSA data retrieval system. The goal of the system will be to provide users with easier access to the data and more sophisticated analytic tools. FinCEN is developing a new system to manage the BSA database. "BSA Direct" will involve a significant upgrade to the platform on which the database is maintained, and will provide users with web-based, secure access that allows for faster and easier searching. FinCEN will continue to work to assist financial institutions in developing proactive software to better identify potential terrorist financing activities.

Identification of Trends and Patterns. In FY 2003, federal, state, and local enforcement agencies accessed Bank Secrecy Act data through FinCEN's Gateway and Platform programs in support of nearly 11,500 cases, an increase of about 17 percent over FY 2002. Although the number of investigative case reports prepared by FinCEN in FY 2003 decreased slightly to about 4,400, the numbers of subjects identified per case slightly increased. FinCEN alerted law enforcement agencies in over 3,500 instances (over double the number in FY 2002) when two or more agencies had an interest in the same subject. FinCEN also made nearly 250 proactive case referrals to law enforcement based upon an analysis of information in FinCEN's databases.

FinCEN produced 79 strategic analytical products, a mix of internal and external reports, in FY 2003, an increase of more than 14 percent over FY 2002. These reports covered a wide variety of topics, including money laundering and terrorist financing methodologies, trends and patterns, and geographic assessments. FinCEN's strategic analysis group shared its findings on information value transfer systems with federal, state, local, and international law enforcement entities in over 30 presentations and numerous analytical products.

In FY 2003, FinCEN initiated its Law Enforcement Financial Institution Information Sharing (LEFIIS) system to implement Section 314 of the PATRIOT Act. FinCEN forwarded 142 requests from law enforcement to approximately 26,000 financial institutions through the LEFIIS system, generating over 6,400 positive responses. FinCEN is planning to replace the current e-mail communication process with a web-based system to reduce the burden on financial institutions.

Anti-Counterfeiting Measures. On October 9, 2003, Treasury began circulation of the new $20 note. This new design retains important security features that were first introduced in the late 1990s, but significantly enhanced in this redesign which are easy for consumers and merchants alike to check:

- *The watermark* – the faint image similar to the large portrait, which is part of the paper itself and is visible from both sides when held up to the light.
- *The security thread* – also visible from both sides when held up to the light, this vertical strip of plastic is embedded in the paper. "USA TWENTY" and a small flag are visible along the thread.
- *The color-shifting ink* – the numeral "20" 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.

Disrupting and Dismantling Criminal Enterprises. The mission of the Treasury Forfeiture Fund (TFF) is to affirmatively influence the strategic use of asset forfeiture by participating federal law enforcement bureaus to disrupt and dismantle criminal enterprises. In support of this mission, TFF supports the NMLS as well as other policies and law enforcement programs to fight crime of a broad range. TFF management works to focus the asset forfeiture program on strategic cases and investigations that result in high-impact asset seizures (those equal to or greater than $100,000). Management believes this approach affects the greatest damage to criminal organizations while accomplishing the ultimate objective, to disrupt and dismantle criminal enterprises.

In FY 2003, we exceeded our performance target of 75 percent of forfeiture cash coming from high-impact seizures and closed the year with a performance of 80.6 percent. This achievement indicates that our participating bureaus were able to resume more routine domestic law enforcement activities resulting in greater numbers of seizures and forfeitures this year despite fairly taxing reorganization activities at the component level for several bureaus. The TFF continues to benefit from cooperative efforts between the state and local law enforcement community and the Federal law enforcement community as evidenced by a healthy level of equitable sharing during FY 2003 with state and local law enforcement agencies, totaling again this year in the tens of millions of dollars.

Partners

Other agencies involved in combating money laundering and financial crimes include the Department of Homeland Security's Bureau of Immigration and Customs Enforcement; the Department of Justice's FBI, the Drug Enforcement Administration, and the U.S. Attorneys' Offices; the U.S. Postal Inspection Service; the Federal Reserve Board; the Department of State; and the federal financial regulators, including the OCC, the Securities and Exchange Commission, and the Commodity Futures Trading Commission.

FinCEN is teaming up with the Wharton School of the University of Pennsylvania and the Business Executives for National Security to develop technology that will allow financial institutions to report suspicious transactions more easily and quickly.

The original member law enforcement bureaus of TFF were the USCS, USSS, ATF, FinCEN, and the IRS-CI. These Treasury bureaus were joined by the U.S. Coast Guard of the Department of Transportation, a member of the Fund as the result of a long-standing close law enforcement relationship with Customs.

TFF became a multi-Departmental Fund in FY 2003, representing the interests of law enforcement components of the Departments of Treasury, Homeland Security and Justice. With enactment of the Homeland Security Act of 2002, Treasury's USCS and USSS were reorganized into new components of the Department of Homeland Security; Treasury's ATF was reorganized into two new components, one remaining at Treasury and the other assigned to the Department of Justice; and the Bureau of Immigration and Naturalization (INS), formerly of the Department of Justice, was reorganized into the former legacy U.S. Customs Service at the Department of Homeland Security joining the Treasury Forfeiture Fund colleagues. The U.S. Coast Guard was reorganized from the Department of Transportation to the Department of Homeland Security to continue their close working relationship with legacy Customs.

Customers

FinCEN supports law enforcement at the federal, state, local, and international levels by providing intelligence and analytical support. To do so, it uses financial information reported by banks and other financial institutions. Information reported on currency transactions and suspicious activities provides valuable information for investigators to support ongoing cases or to develop new leads.

FinCEN's intelligence analysts, using state-of-the-art technology, search BSA data and financial information from a variety of other government and commercial data sources to link together various elements of crime.

The ability to link to a variety of databases creates one of the nation's largest repositories of information available to law enforcement.

FinCEN's Gateway system enables federal, state, and local law enforcement agencies to have direct, on-line access to FinCEN's financial data. One of the most useful features of this system is a mechanism that alerts FinCEN when two agencies have an interest in the same subject. By notifying the agencies of their common interest, FinCEN gives law enforcement information they can use to coordinate their investigations.

TFF's customers or stakeholders are the multi-Departmental law enforcement bureaus that participate in the Treasury Forfeiture Fund. Our constituents include: other federal law enforcement bureaus, state and local law enforcement agencies, the Justice forfeiture program, the judiciary, the U.S. Attorneys, and foreign law enforcement participating in multi-lateral treaties pertaining to U.S. forfeiture laws.

Goal Assessment and Next Steps

Since passage of the USA PATRIOT Act in 2001, Treasury, FinCEN, Justice and the financial regulators have worked together to draft and issue extensive regulations that implement the Act's provisions. Some of the regulations that have been passed include: (1) permitting and facilitating the sharing of critical information between law enforcement and the financial community, as well as among financial institutions themselves; (2) closing off our financial borders to foreign shell banks, requiring additional due diligence for correspondent accounts maintained for foreign financial institutions, and requiring foreign banks with correspondent accounts in the U.S. to supply the name of a U.S. agent for service of process as well as the identities of their owners; (3) requiring U.S. financial institutions to establish customer identification and verification procedures for all new account holders; (4) expanding the universe of financial institutions reporting potentially suspicious activities to FinCEN; and (5) expanding our basic anti-money laundering regime to include a wide range of financial services providers, such as the securities and futures industry and money services businesses.

Treasury is working to complete several regulatory packages. First on the list is the issuance of a final regulation that will delineate the scope of the obligation of U.S. financial institutions to conduct due diligence and enhanced due diligence on correspondent accounts maintained for foreign financial institutions and private banking accounts for high net worth individuals. Final regulations requiring other categories of financial institutions, such as those in the insurance and hedge fund industries, to establish anti-money laundering programs will also be completed in the near future.

Initial surveys addressed FinCEN's investigative case reports and regulatory guidance. Over the next few years, FinCEN expects to expand the number of products and services that will be covered by customer surveys.

Measuring the impact of FinCEN's efforts on the outcome of law enforcement investigations has not been feasible. Barriers include the lack of any system to track the status of federal, state, and local investigations and the difficulty of distinguishing the impact of FinCEN's contribution from that of many other contributors on the outcome of an investigation. As a proxy, FinCEN is using its customers' assessments of the value of its products and services. FinCEN currently has efficiency measures for two of its three performance goals, and plans to add one for the third goal in FY 2005.

STRATEGIC GOAL M1: Support the Achievement of Business Results

Strategic Goal Overview

Treasury seeks to ensure that taxpayers are getting the most efficient and effective use of their tax dollars. Emphasis is and will continue to be placed on infrastructure issues within Treasury to ensure all mission requirements are met at the least cost to the taxpayer. This goal focuses on efforts to strengthen our human resources, financia1 and asset management, information technology, and procurement programs.

Strategies and Results

Treasury is continuing to aggressively pursue implementation of the President's Management Agenda in accordance with newly issued Office of Personnel Management (OPM) and OMB guidance.

Improve the Capacity to Recruit, Develop, and Retain High-Caliber Employees. Treasury continues to innovatively address critical emerging issues in human resources to improve Treasury's position as a competitive employer and better achieve organizational goals. Among its accomplishments, Treasury used the flexibility granted by the OPM for early outs and buyouts as Treasury Headquarters and the majority of bureaus continued to restructure and modernize the workforce. Treasury identified and analyzed barriers to effective recruitment in the federal sector, prepared a report for OPM with recommended solutions, and has been working with OPM on the development of suggested regulatory changes in several specific areas, such as public notice vacancy requirements and career transition programs. Concurrently, Treasury is also working with bureaus to help them take advantage of new Human Resources (HR) flexibilities, both through gaining approval of special authorities (e.g., noncompetitive temporary promotions for certain IRS positions during peak tax season) and by providing training to all bureaus on new statutory flexibilities, such as category rating and direct hire authorities. Substantial progress continues as Treasury develops and deploys HR Connect, which currently serves nine Treasury bureaus and components of the Departments of Justice and Homeland Security (over 96,000 employees are served by HR Connect). Employee and manager self-service features of HR Connect to streamline personnel transaction processes (such as hiring) and reduce paper flow by empowering managers and employees to initiate personnel actions from their desktops. HR Connect is now fully web-based.

Foster an Environment of Equal Opportunity. Treasury has taken a number of actions to attract, retain and develop a high quality, diverse workforce. However, the divestiture of the law enforcement bureaus to the Department of Homeland Security has impacted our representation rates, particularly with regard to Hispanic employment. Nevertheless, the Department has taken a number of actions to improve diversity throughout Treasury. Treasury negotiated a memorandum of understanding (MOU), signed in FY 2004 with the Association of Hispanic Colleges and Universities to assist in the hiring of Hispanic students into our key occupations. Treasury continues to support our MOU with the National Association of Hispanic Federal Executives, and has provided support to both their annual training program and the Hispanic Summit. In support of the President's New Freedom initiative and the commitment to increase employment opportunities for persons with disabilities, Treasury will re-negotiate its goal of 12,000 new hires of qualified disabled individuals, across all career fields and grade levels by FY 2005. However, Treasury remains committed to support of the President's goal. To help Treasury in that regard, an agreement was signed with the Department of Defense for our Computer Accessibility Program to assist in the provision of reasonable accommodation to individuals with disabilities. Treasury's representation rates for women and for African-Americans continue to be above the civilian labor force and government rates for employment.

Treasury is also focused on increasing the efficiency of its Equal Employment Opportunity process. Treasury is on course to consolidate from four Treasury Complaint Centers to one Center to gain efficiencies in both process and resources. Treasury is committed to move the management of the Centers to an agency-wide shared services structure in IRS. Treasury has re-energized its shared neutrals program to provide alternative dispute resolution services through a cadre of shared mediators for all of its bureaus. Treasury is also developing a dispute prevention strategy focusing on training managers and employees on conflict resolution skills and techniques and establishing a culture that values early resolution of disputes. Complaints decreased from 1,269 in FY 2002 to 1,102 in FY 2003 (13 percent decrease).

Ensure Strong Financial Management of Treasury's Accounts. Treasury received an unqualified auditor's opinion on its FY 2002 financial statements, its third consecutive unqualified opinion. Equally significant, Treasury issued its FY 2002 Performance and Accountability Report on November 15, 2002, three and one-half months ahead of FY 2001's report and the Office of Management and Budget's deadline. This accomplishment was repeated for FY 2003 with the issuance of this report on November 14, 2003. This success is attributable to several factors. During FY 2003, Treasury continued to refine its initiative to close the financial books within three days following the close of each month. This initiative provides strong support for the accelerated annual financial statement preparation and audit process, the preparation of quarterly financial statements and, more importantly, helps provide timely, accurate financial information for internal management.

Treasury also maintained its strong focus on correcting material management control weaknesses. The Department began the year with 20 material weaknesses, down from the baseline of 60 in FY 1998. Five of these material weaknesses were attributable to the USCS, which was transferred to the Department of Homeland Security in FY 2003 and one to the former Office of Enforcement. An additional five material weaknesses were closed, downgraded, or consolidated during FY 2003, leaving an ending balance of nine weaknesses. Treasury continued to work with its bureaus on the development and implementation of financial systems improvement plans under the Federal Financial Management Improvement Act (FFMIA). At the end of FY 2003, 80 percent of bureaus were in compliance with FFMIA requirements, compared with 72 percent at the close of FY 2002. Both the IRS and FMS remain as non-compliant with FFMIA. Treasury will reach 100 percent compliance with FFMIA when the IRS and FMS achieve full compliance.

Make Wise Capital Investments and Effectively Manage Treasury's Assets. Treasury's capital investment portfolio of over $5.0 billion includes both bureau and Department-wide major projects. During FY 2003, Treasury continued and enhanced its standardized review and monitoring process for all major projects. Treasury again emphasized the following activities: making well-developed business cases (OMB Budget Exhibits 300); monitoring investments during the "control phase"; and demonstrating an improvement in the capital investment process for the associated scores in the President's Management Agenda.

For the FY 2005 budget cycle, Treasury's system for tracking cost, schedule and performance data required by the Clinger-Cohen Act and the Office of Management and Budget is the Information Technology Investment Portfolio System (I-TIPS). For the FY 2005 budget cycle (during FY 2003), the Department followed the new OMB Circular A-11 requirements for the Budget Exhibits 300 and 53 and baselined project cost, schedule and performance data for this new budget cycle. As part of the budget review and submission process, Treasury established a Technology Investment Review Board and a Non-Information Technology Investment Review Board to support the overall Departmental capital investment process. In addition to reviewing the FY 2005 portfolio, the boards will, on a quarterly basis, review major project results and recommend corrective actions, as necessary.

Procure Quality Goods and Services at a Fair and Reasonable Price and in a Timely Manner. Treasury continued to maintain a strong procurement program. The Department spends over $3.0 billion annual for the acquisition of contractor goods and services in support of critical program missions. During

FY 2003, Treasury exceeded its 80 percent goal of competition on contract dollars awarded in excess of $25,000 with an actual result of 82 percent. Achievement of this goal was due in part to the full and successful implementation of Federal Business Opportunities (FedBizOpps). Treasury procurement is in full compliance with the 100 percent goal established for utilization of FedBizOpps for the posting of contract opportunities. Treasury continues effective use of the Central Contract Registration system established last year. Additionally, in accordance with OMB guidance to address contract bundling Treasury has developed a detailed action plan to comply with the requirements and ensure that Treasury achieve an appropriate balance between the bundling and aggregation inherent in enterprise contracts and the Administration's support of small disadvantaged businesses.

Promote efficiencies in the delivery of administrative products and services. The Treasury franchising effort has achieved efficiencies and generated value internally to Treasury and other federal agencies. This is demonstrated by reducing or eliminating duplicative/redundant services, implementing best practices, reducing the costs of services, implementing performance measures and benchmarking, and focusing on customer service.

In order to remain competitive, The Franchise Fund (the Fund) has continued to find ways to reduce their operating overhead costs. Many of the Fund's customers have benefited from its reduced pricing, rebates, volume discounts due to economies of scale and improved efficiency of administrative services offered. The Fund is able to give a price reduction when obtaining large orders because, in most instances, its operating costs remain the same or increase significantly less as a percentage of revenue as its customer base increases. These economies of scale, along with the reduction in redundancy, is exactly what OMB, Congressional staff members, and the CFO Council had in mind when they assessed the value of franchising in its infancy. The Fund continues to implement performance measures and benchmarks that focus on customer service and efficiencies to provide a transparent view to the public of how the Fund is working to spend funds wisely and to help fellow Federal Government organizations to do the same.

Highlights of our efforts and successes include:

- Reduced the number of service providers through integrated contract and financial management — FedSource provides integrated contract and financial administration. These services are provided to over 1,900 customers government-wide. A primary function of FedSource is to act as the general agent for government agencies in the acquisition process. FedSource performs a value-added function as the consolidator of requirements and the operating agent of the participating agencies.

- Reduced the number of service providers through the consolidation of administrative accounting, travel, procurement and personnel functions — The Administrative Resource Center now provides:

    - 33 entities with administrative accounting services
    - 33 entities with travel services
    - 36 entities with procurement services
    - 20 entities with personnel services

- The Fund's total revenue grew to $414 million, representing a 34 percent increase over the previous fiscal year and demonstrating the continuing demand for the Fund's products and services.

Ensure Continuity of Treasury Operations. During FY 2003, Treasury made great strides in developing and implementing its Headquarters' Continuity of Operations (COOP) capabilities. Treasury developed, vetted, and finalized the COOP and assist Headquarters in the development of their individual office COOP. In addition, Treasury assisted each of its bureaus in the development and finalization of their COOP.

In accordance with Federal Preparedness Circular 65 (FPC-65), *Federal Executive Branch Continuity of Operations,* Treasury developed and vetted the *essential functions* that must be performed by Treasury in the event of a national security emergency and identified Treasury personnel from Headquarters who will perform these *essential functions.* Those personnel make up the Treasury Headquarters COOP Team.

Treasury Headquarters also designed, developed, and made operational its Emergency Management Center (EMC) at an emergency relocation site. Treasury trained the members of the Treasury COOP team on the operational capabilities of the EMC so that, in the event of an emergency, they would be able to deploy and operate from the facility in support of Treasury's *essential functions.*

Treasury's essential functions include protecting U.S. financial resources, preserving public and private financial institutions, maintaining an accounting and financial report system, and developing a plan for restoration of the economy. In accordance with Executive Order 12656, Treasury established a viable emergency management center as well as a secure facility outside the DC Metropolitan Area to ensure continuation of essential operations. In FY 2003, Treasury instituted a personal Safety and Health training and drill program, which included town hall meetings to discuss emergency preparedness for both work and home as well as Shelter-in-Place and Evacuation drills for employees.

Treasury Investment Review Board (TIRB) was established during FY 2003 as a governance structure to ensure that all products produced by the Chief Information Office would be consistent with the Department's strategic objectives and review and approve all Treasury Information Technology (IT) investments. Monthly meetings are conducted to drive Treasury's IT governance framework and compliance with OMB Exhibit A-11. Through the TIRB, Treasury communicates procurement, project management and portfolio management requirements and holds bureaus accountable for performance that relates to project management objectives. A disciplined approach for evaluating portfolio and project performance and controlling IT investments for major projects is being instituted. Such actions are improving the scores on Treasury's business cases (OMB Exhibit 300) and institutionalizing the long-term portfolio management activities of the Capital Planning and Investment Control Process (CPIC).

Working with the Department, the IRS undertook an aggressive remediation program this fiscal year for major systems investments in order to ensure all aspects of performance budget formulation. This has resulted in greatly improved Exhibit 300 submissions for the FY 2005 budget process that link major investments to a Strategic Plan, an Enterprise Architecture, and performance measures.

Initiation of an IT Governance process with Treasury, championing secure IT solutions (i.e., security standards, managed telecommunications services, and information assurance) and expanding E-Government initiatives within Treasury, results in the $2.6B spent annually by the Department on IT being spent more wisely. Additional benefits include the increased level of trust generated between the public or other government agencies that interactions with the Department are accurate and secure. Expanded use of E-Government also lowers the burden for businesses and individual taxpayers in dealing with the Treasury Department.

Partners

Treasury works closely with various organizations to ensure coordination on cross-cutting activities. These organizations include, among others, OMB, the Government-wide Chief Financial Officers Council, the Office of Personnel Management, the Government-wide Chief Information Officers Council, and the General Services Administration.

Treasury works closely with many organizations in achieving our results. Such organizations include all the Treasury bureaus, the Treasury Inspectors General, the GAO, the OMB, and other federal agencies such as the Department of Labor and the Office of Personnel Management. These organizations provide key information and guidance critical to the financial management of Treasury accounts.

Treasury partners with several organizations to ensure that Treasury's acquisition strategies are supporting the mission. Our partners consist of Treasury bureaus, Inspector General, OMB Office of Federal Procurement Policy and the Small Business Administration. These organizations provide key information and guidance critical to the management of acquisition programs/functions.

The Franchise Fund works closely with its vendors to assure that customers are receiving, not only excellent services and products, but also value for their money. The success of the Fund's performance-based contracts is evident in the continuing growth in our customer base and, equally if not more important, more sales per customer. The increase in sales per customer is evidence that the work with our vendors, both in performance-based contracting and occasional participation of the Fund in vendor focus groups, has provided meaningful movement forward in developing long-term and significant partnering.

The Fund also works closely with Treasury officials, OMB, GAO, the Brookings Institute and the CFO Council. Internally, the Fund managers partner to jointly meet customer needs, where applicable, and, as needed, provide services internally where cost/benefit and economies of scale dictate.

Treasury works closely with the following organizations, as well as others, to ensure coordination on cross-cutting activities: OMB, the Government-wide Chief Financial Officers Council, the Office of Personnel Management, the Government-wide Chief Information Officers Council, and the General Services Administration.

Customers

Treasury is committed to improving its mission performance through implementation of sound policies and improved use of its core information technology and physical infrastructures. Treasury's continuous efforts to promote policies and opportunities to attract, retain, and train high caliber employees benefits Treasury employees. In addition, by ensuring strong financial management of Treasury's accounts, we maximize the usage of taxpayer dollars.

OMB and Treasury's Congressional oversight committees benefit through the receipt of timely financial statements covering all of Treasury's programs well in advance of the next year's budget deliberations. Internal Treasury management benefits by having timely, reliable financial data to use in running their programs. And the American taxpayers benefit by having timely financial information on Treasury's programs and the knowledge that Treasury is providing sound stewardship and controls over their tax dollars.

Our Treasury bureaus benefit from the contracts and management systems to increase performance and enhance Treasury's procurement program. Taxpayers are the ultimate customers who depend on government to spend money wisely purchasing good and services.

Goal Assessment and Next Steps

Treasury will continue to focus on ways to become a world-class organization, and work to implement effectively the goals of the President's Management Agenda. Among other efforts in FY 2004, Treasury will:

- Work towards implementation of a competency-based approach to recruit, develop, and retain a high-quality diverse workforce.
- Develop a Human Capital Strategic Plan that is aligned with the President's Management Agenda.
- Develop strategies to minimize workforce conflicts of all types and to increase the use of alternative dispute resolution mechanisms.
- Enhance the Department's diversity strategy through partnerships with citizen-centered organizations that provide services to minorities, women, and individuals with disabilities.
- Improve the efficiency of complaint processing through the use of e-government, early intervention strategies, and the implementation of best practices.

Treasury's procurement program continues to benefit the agency by meeting the needs of customers and continues to strive for improvement in the procurement process and procedures. Treasury will continue to support e-government initiatives, such as the Integrated Acquisition Environment initiative, to improve and upgrade electronic systems and monitor the award of contracts to evaluate competition in small business goal performance. Treasury will continue to build on its procurement programs successes by refining management and reporting practices. Planned actions for FY 2004 include:

- Increase the number of performance-based contracts across Treasury;
- Use the Business Partner Network (BPN) effectively; and
- Continue to provide an environment in which small businesses have the maximum practicable opportunity to participate in Treasury's procurement program.

For FY 2004, Treasury will continue to upgrade and refine all its COOP plans. In addition, Treasury will focus on developing the same operational capabilities at its COOP site, and will continue planning for Treasury's participation in Exercise FORWARD CHALLENGE04, the first federal department and agency interagency COOP exercise since the events of September 11, 2001.

The Franchise Fund will continue to strive to create efficiencies in the delivery of its products and services and in its internal administrative processes. Becoming more efficient and effective will enhance its effectiveness in delivering quality customer service. As the government works smarter, the taxpayer wins.

While having robust systems and relevant financial information is important, without quality people, the capacity to initiate innovative ideas and deliver prompt, effective decisions are hindered. The Fund encourages continued learning among its employees, free expression of opinions, and at the same time instills a shared vision and a common direction. Employees are empowered to take on major responsibilities and make decisions that will influence the outcome of their work. Its directors are determined to have a flat management structure to facilitate open and effective communication between the businesses, thereby encouraging the flow of ideas and enabling the Fund to move at a much faster pace. The fundamental characteristic of an unaligned team is wasted energy. By contrast, the Fund strives to become more aligned, generating a commonality of direction where individual energies are harmonized. The result is a shared purpose, mutual vision, and the understanding of how to complement one another's efforts.

Each manager is assigned to one or more initiatives, each is accountable for results, and each understands the importance of the mission. These initiatives are outlined in the strategic plan and are discussed in open forums during the year. Examples include: continuously improving financial management through enhanced processes/procedures; implement and conduct an on-going process improvement program; finalize a performance management system; implement a universal website for the Fund, customers, and contractors (leading to a knowledge management system).

Treasury has also demonstrated consistent progress in remediating IT security weaknesses and conducted a Security Program review of all Treasury components. As a result of issuing new IT Security Policy, Bureaus will be submitting implementation plans over the next year. In an effort to successfully meet OMB IT security performance measures, Treasury has a plan of action to perform Certification and Accreditation (C&A) of greater than 80 percent of major systems by the third quarter of 2004.

The Department will continue to pursue opportunities with expanded E-Government, with the following some of the highlights of the next steps the OCIO will take over the coming fiscal year:

- Development of a draft Treasury target architecture based on proposed initiatives included in the FY 2004 and FY 2005 budget submissions,
- Completion of the FY 2006 Information Resources Management Strategic Plan, identifying the link between the President's Management Agenda, Treasury's business goals, and the basis for revisions to the Modernization blueprint,
- Preparation of the FY 2005 and 2006 business cases (OMB Exhibit 300) that maintain IT projects within 10 percent of baseline, and
- Continued identification of E-Government applications, using the Enterprise Architecture project as a management enabling tool.

The challenge for the Department has been to move away from a growing queue of projects and programs that have promised great returns, but have not delivered to expectations. In addition, external constraints such as scare budget dollars, limited resources and the time necessary to absorb change, growing complexity with initiatives from 12 bureaus, and more scrutiny by outside stakeholders such as OMB and Congress, as a result of legislation, have made it imperative to abandon traditional directions and move toward a comprehensive, Department-wide decision making approach to managing IT investments. A new, more effective solution is the sound IT governance approach and portfolio management systems being adopted by the Department, which will maximize returns and minimize risks.

STRATEGIC GOAL M2: Improve Customer Satisfaction

Strategic Goal Overview

Delivering quality products and services to the public requires constant attention to customer satisfaction: regularly finding out what customer expectations are, making necessary adjustments to delivery, and measuring performance against those expectations.

Strategies and Results

Below are several Treasury bureau strategies and results to measure and improve customer satisfaction during FY 2003.

FMS assessed the satisfaction of its customers with both check and electronic payment services. Ninety-nine percent of the federal agencies that responded reported an overall satisfaction level of satisfied or very satisfied for both overall FMS customer service and how Regional Financial Centers in particular are processing payments. In addition, FMS is in the process of designing a customer satisfaction survey for its collections customers.

OCC is evaluated throughout the year by bank officials and applicants on the products and services provided through the examination and corporate applications functions. OCC's products and services are rated on attributes, such as quality, timeliness, staff professionalism, and communications, using a five-point scale with one as the highest rating. Six examination standards and five licensing standards were included in the evaluation process. OCC received a 40 percent response rate to the examination questionnaire and the ratings ranged between 1.20 and 1.31, exceeding OCC's FY 2003 goals. There was a 43 percent response rate to the licensing survey with the ratings ranging between 1.09 and 1.23, exceeding OCC's FY 2003 goals.

IRS. As measured by the independent Roper Survey and the American Customer Satisfaction Index, the IRS has increased in favorability in the public's opinion. The combination of statistics from the last quarter of FY 2002 and in FY 2003 show a continued upward trend in the responses to the question, "Is your opinion of the IRS highly favorable?" with more than 60 percent of the people surveyed favorably inclined toward the IRS, versus 37 percent in July 1999.

IRS obtains quarterly data on specific customer groups in 25 key areas through mail and telephone surveys to assess service provided. These areas include toll-free, collection, and examination. Information is analyzed and used to improve processing and interactions with taxpayers within the specific customer groups. In FY 2003, survey data led to significant changes in the corporate and audit program, benefiting the taxpayer.

OTS monitors customer service standards for its Examination Process, Congressional Correspondence, Interpretive Opinions, Consumer Assistance, and Application Processing. Annually, OTS is assessed by institutions through the annual Thrift Satisfaction Survey. Five measures on the annual survey quantify customer satisfaction with the examination process and with the accuracy, timeliness, and manner in which OTS offices interact with each institution. All 2003 responses indicate a level of satisfaction between 72 percent and 100 percent. Ninety-eight percent of the respondents indicated that the examination was of value to their organization.

FinCEN conducted a baseline customer satisfaction survey of financial institution customers receiving regulatory guidance from FinCEN's Office of Regulatory Programs. The purpose of the survey was to serve as a diagnostic tool for program managers, track performance over time, and provide feedback to FinCEN's stakeholders. The survey showed that 77 percent of its customers were satisfied, overall, with the service provided by FinCEN. Users gave high performance ratings to FinCEN with regard to the performance of their FinCEN representative and the usefulness of the information found on FinCEN's website. A lower rating was given to the convenience of the process for requesting guidance. FinCEN is working to enhance this process by making the regulatory helpline phone number more visible and the website more user friendly. This survey will be re-administered in FY 2005.

In FY 2003, FinCEN re-administered an FY 2002 customer satisfaction survey of law enforcement officials for whom FinCEN has prepared case reports. In the FY 2003 survey, FinCEN asked for the first time if customers felt that FinCEN's investigative reports were valuable compared to other resources available to them. The survey showed that 71 percent of FinCEN's customers rated these reports as valuable. Other questions asked from the previous report, including overall satisfaction, timeliness, and convenience did not show significantly different results. To further enhance the timeliness of its reports, FinCEN implemented, in FY 2003, a pilot program to conduct research on-line and send case reports to customers through secure email. The survey will be re-administered in FY 2005.

BPD is refining the survey it conducts of its retail customers and has established a standard to achieve a 90 percent customer satisfaction level for FY 2004. BPD is incorporating into its new on-line TreasuryDirect System, the capability to collect information on customer satisfaction with the all-electronic services provided by the system. BPD continues to expand the services and features offered in TreasuryDirect throughout the year, and this on-line capability to measure customer satisfaction will provide immediate and ongoing feedback on new services and features.

Mint's Customer Service Index is an indicator of quality of its product and service to the customer. Production of quality products and excellent customer service is paramount. The Customer Service Index contains three components: the percentage of orders without returns, the percentage of calls answered within one minute, and the percentage of orders fulfilled within seven days. The Customer Service Index was 87 percent in FY 2003, which beat the target of 70 percent.

The Franchise Fund works closely with its vendors to assure that customers are receiving not only excellent services and products, but also value for their money. The success of the Fund's performance-based contracts is evident in the continuing growth in its customer base and, equally if not more important, more sales per customer. The increase in sales per customer is evidence that the work with our vendors, both in performance-based contracting and occasional participation of the Fund in vendor focus groups, has provided meaningful movement forward in developing long-term and significant partnering. The Fund also works closely with Treasury Officials, OMB, GAO, the Brookings Institute and the CFO Council. Internally, the Fund managers partner to jointly meet customer needs, where applicable, and, as needed, provide services internally where cost/benefit and economies of scale dictate.

The Fund supports approximately 2,400 customers represented from almost every federal agency. The Fund's total customers increased about 12 percent in FY 2003.

Goal Assessment and Next Steps

OCC has consistently received high ratings on its examinations and corporate applications functions. OCC will continue to use bank and applicant feedback to help improve its work processes and maintain a high level of performance, while also maintaining the requisite independence of a financial regulator.

OTS plans to continue using the annual Thrift Satisfaction Survey as a forum for institutions to provide feedback. OTS evaluates the narrative results from the annual thrift satisfaction survey to ensure that best practices are shared and that industry recommendations are addressed.

IRS uses taxpayer feedback to enhance work processes and this has helped consistently improve survey results since the low scores of 1998. Based on this feedback, IRS plans to continue increasing self-service options for taxpayers to address tax law questions and account issues, reengineering compliance processes to reduce cycle times, and revising forms and notices for clarity.

FinCEN implemented a program in FY 2002 to conduct periodic assessments of customer service and the value of its products and services. Initial surveys addressed FinCEN's investigative case reports and regulatory guidance, and will be repeated in FY 2005 to measure progress. Over the next few years, FinCEN expects to expand the number of products and services that will be covered by customer surveys.

The Franchise Fund must continually assess customer needs and demands. This requires face-to-face and multi-media approaches. One of the critical elements in this approach is performing a dynamic customer satisfaction survey. Fund managers understand that the most important element in "customer satisfaction management" is daily vigilance of customer needs and filling those needs. One of the most critical elements in assuring that the Fund provides daily vigilance is working as a team.

STRATEGIC GOAL M3: Improve Employee Satisfaction

Strategic Goal Overview

Employee satisfaction is a key indicator of management effectiveness and is critical to Treasury's ability to succeed in meeting its mission and providing quality products and services to the public.

Strategies and Results

Several Treasury bureaus surveyed their employees and improved the workplace environment:

DO Headquarters. Treasury Headquarters took several steps to address results of the Gallup Organization employee engagement survey that was administered during FY 2002. Results of the survey were rolled out to managers and employees, with managers conducting feedback and action-planning sessions to address results. Actions included: establishing a Deputy Assistant Secretary for Workforce Management organization to focus on workforce planning, staffing, and leadership development; hiring a Chief Human Capital Officer, with specific focus on diversity and succession planning; providing improved tools for employees, including better IT products and solutions, more communication options, and a monthly newsletter for Headquarters; and updating Position Descriptions and Individual Development Plans for all employees. Many of these activities continue, in order to affect additional improvements. The survey is planned to be administered again in late FY 2004.

IRS target for its employee satisfaction rate of 58 percent was exceeded by two percentage points in FY 2003. The success in this goal is largely attributed to the senior leadership's focus on specific survey topics within their respective business units. For example, the leadership of Wage and Investment directed attention to the survey item, "My Opinions Count," throughout FY 2002 and realized improvements in that area in the FY 2003 survey results. Similarly, Large and Mid-Size Business and Tax Exempt and Government Entities realized improvement in the item "I have the materials and equipment I need to do my work right," after targeting attention to computer hardware, software and support improvements.

IRS improved the efficiency of the survey process at the corporate level with a transition from a paper format to an electronic survey. In FY 2003, 93 percent of all surveys were submitted electronically, up from 80 percent in FY 2002.

FinCEN's FY 2002 survey showed that 66 percent of employees were satisfied overall with their jobs. Areas with the greatest potential for improvement included communication and management training. Actions taken to improve communication in FY 2003 include providing greater on-line access to activities reports and policy updates, and more frequent dissemination of information through senior staff and all-hands meetings. Actions taken to address management issues included extensive supervisory training, and delegation of some responsibilities to managers to expedite certain actions.

FMS conducted an OPM-administered survey in FY 2002. The results revealed that the FMS level of employee satisfaction was higher than Federal Government and private sector averages. Based on the survey results, FMS continued working in FY 2003 to address employee concerns about training. FMS implemented a new training policy to enhance job skills throughout FMS and to ensure that employees stay abreast of the latest developments in business processes, technology, and accounting practices.

Mint implemented a quarterly “pulse check” survey to assess the level of employee satisfaction. The survey is administered to 25 percent of the Mint workforce each quarter. At the end of FY 2003, 60 percent of respondents reported being satisfied with their jobs. While most reported high job satisfaction, there is always room for improvement. Management monitors the results closely and implements changes Mint-wide and at the business unit level to improve the workforce climate.

Partners

Treasury partners with the Office of Personnel Management to conduct employee surveys with some of the bureaus and organizations. In addition, the IRS and BPD works in partnership with the National Treasury Employees Union (NTEU) to develop and implement aspects of the annual employee satisfaction surveys.

Customers

IRS employees and business units are the customers of the Annual Employee Satisfaction Survey. Both groups benefit from the workplace improvements that are the end result of the survey process.

In each bureau and organization, the employee is the customer where efforts are being made to provide and improve satisfaction.

Goal Assessment and Next Steps

FMS will assess the success of its ongoing effort to maintain a high level of employee satisfaction through participation in OPM’s future surveys. FMS will conduct another survey of several employee sectors in FY 2004.

IRS will continue to pursue the steps that have led to the current successes in the area of employee satisfaction, primarily its focus on actions at the workgroup level and at the senior leadership level. The paperless survey administration will be expanded in the upcoming year with a target of an entirely paperless survey in FY 2004.

BPD has set an FY 2004 employee job satisfaction standard of 70 percent or better. To encourage maximum response rates, BPD will offer a convenient on-line survey that will allow employees to respond anonymously, but also enable collection of the information by organizational component. An important part of the information that BPD will attempt to collect is employee assessment of management’s demonstration of organizational values.

FinCEN conducts its employee satisfaction survey on a biennial basis to allow sufficient time to address survey recommendations. The baseline survey was conducted in FY 2002, and the follow up survey will be administered in FY 2004. Additionally, plans are underway to revise FinCEN’s performance evaluation process in FY 2004 to allow for greater accountability.

Mint will continue to monitor the results of the quarterly survey to identify trends and determine opportunities for improvement. This information will also be tracked through time to determine the effectiveness of planned workplace improvements.

TREASURY INSPECTORS GENERAL

Treasury's two independent Inspectors General provide independent, objective oversight of Treasury operations and programs, with the Treasury Inspector General for Tax Administration (TIGTA) monitoring IRS activities and the Office of Inspector General (OIG) focusing on the activities of the other Treasury bureaus. There is a proposal for TIGTA and OIG to be consolidated into a single Treasury Inspector General office in FY 2004.

They are charged with providing audit and investigative services that promote economy, efficiency, and effectiveness regarding Treasury operations. OIG conducts audits and investigations related to the Treasury programs and operations, except for IRS. TIGTA conducts audits and investigations involving IRS programs and operations. Highlights of their performance during FY 2003 are presented below and detailed performance data is presented in Part VI of this report.

OFFICE OF THE INSPECTOR GENERAL

The OIG conducts audits and investigations related to Treasury's programs and operations, except for the IRS. During FY 2003, pursuant to the Homeland Security Act of 2002, the OIG divested 70 percent of its resources, but only 30 percent of its audit and investigations workload, to the Department of Homeland Security OIG. Additionally, the OIG divested its entire investigative field office structure and most of its audit field office structure along with critical skill sets and considerable institutional knowledge of Treasury programs and operations. The divestiture required the OIG to revise its performance measures and goals from those published in its FY 2003 Annual Performance Plan.

Strategies and Results

The reduction of resources post-divestiture impacted the OIG's ability to conduct audits and investigations in a timely manner. The OIG was unable to conduct 63 planned audits and evaluations of critical Treasury programs and operations that remain a part of Treasury after divestiture. Some criminal investigations could not be done. In light of the divestiture, work performed by the OIG still had a significant impact in improving the management of Treasury and promoting economy, efficiency, and effectiveness in Treasury's programs and operations.

During FY 2003, the OIG issued 116 audit and evaluations reports, which identified monetary benefits totaling $5.1 billion, including $1.5 billion related to divested programs and $3.6 billion related to programs remaining with Treasury. This represents the highest monetary benefits resulting from audits in the history of the OIG and, based on the FY 2003 enacted budget level, represents a return on investment of over 140:1. Another major achievement this year was the issuance of the audit report on Treasury's FY 2002 consolidated financial statements on November 15th, 2002, which was three and one-half months ahead of Treasury's financial reporting for the previous year and 2 and one-half months ahead of the FY 2002 financial reporting deadline established by OMB. The OIG sustained this acceleration by issuing its report on Treasury's FY 2003 consolidated statements on November 14, 2003.

Audits conducted by the Treasury OIG resulted in Treasury establishing an aggressive plan to improve information security and yielded major benefits in improving other Treasury operations. For example, a report on the FMS' Plastic Card Network identified opportunities to put $3.6 billion to better use.

Another report identified significant data reliability issues that exist with the Suspicious Activity Report (SAR) database that provides law enforcement agencies with leads and/or an audit trail to investigate terrorist financing, money laundering schemes, and other illegal activities.

In the area of Investigations, the OIG initiated 70 investigations and issued 53 Reports of Investigation in FY 2003. Investigations work resulted, for example, in two high-level Treasury officials being sentenced to 7 years' incarceration for bribery, wire fraud, conflict of interest, and conspiracy for misconduct relating to information technology contracts; in the government receiving a $188,000 settlement from the estate of an investigated former U.S. Mint employee; and in a private citizen pleading guilty to bank fraud for forging $140,000 worth of Treasury checks.

Goal Assessment and Next Steps

In FY 2004, the OIG anticipates completing 48 audits and evaluations. In addition to mandated work, audits are designed to support Treasury's efforts to execute the President's Management Agenda and to address high-risk programs and operations throughout Treasury. The OIG intends to provide some level of audit coverage to all Treasury offices and bureaus. However, at current resource levels, the OIG will not be able to undertake a number of high-priority audits. Coverage at certain bureaus will be limited to mandated financial statement and information technology audits.

The OIG anticipates completing 40 investigations in FY 2004. It intends to continue to investigate serious employee misconduct, fraud involving Treasury contracts, grants, and agreements; and allegations of fraud involving failed financial institutions. The OIG will resume oversight reviews of the remaining Treasury bureaus; conduct investigations using new computer forensics; and increase investigations of abuse of Federal Employees Compensation Act benefits by Treasury employees. The OIG plans an outreach program regarding each Treasury employee's responsibility to report suspected wrongdoing.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Strategies and Results

TIGTA achieved its FY 2003 strategic goals that support its mission to provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws. In an ever-changing environment, TIGTA consistently met or exceeded performance metrics aligned to its primary responsibilities – audit and investigative services.

TIGTA continues to provide critical audit and investigative services to ensure the integrity of tax administration on behalf of the nation's taxpayers. TIGTA protects the public's confidence in the tax system by supporting the IRS in achieving its strategic goals, identifying and addressing IRS' material weaknesses, and implementing the President's Management Agenda and Treasury's priorities. TIGTA undertook an extensive evaluation of its existing Strategic Plan and Annual Performance Plan as called for in the Government Performance and Results Act. As a result, modifications have been made to its strategic goals and performance measures. TIGTA's responsibilities are best reflected in the following strategic goals:

Promote the Economy, Efficiency and Effectiveness of Tax Administration. TIGTA's audits and investigations identify opportunities to improve administration of the nation's tax laws. TIGTA's comprehensive, independent performance and financial audits of IRS programs and operations focus on mandated reviews and on high-risk challenges facing the IRS. The audits address a variety of issues, including information technology; computer and employee security; tax compliance initiatives;

performance and financial management; taxpayer protection and rights; tax return processing; customer service; and tax fraud. Recommendations result in cost savings, as well as other quantifiable impacts, such as protection of revenue and increased revenue.

TIGTA undertakes various investigative initiatives designed to protect the IRS against external threats that would impede the efficient and effective administration of its operations. These investigative initiatives identify individuals who espouse violence against IRS employees or who otherwise would pose a threat to the safety of IRS employees as they carry out their work. They also provide necessary information for IRS officials to make anticipatory or proactive operational decisions about potential terrorist attacks or other activities that might be a threat to IRS systems and operations.

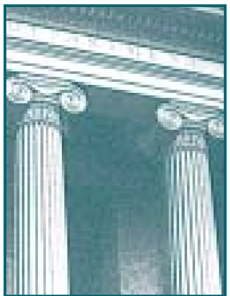
Protect the Integrity of Tax Administration. TIGTA provides oversight of IRS activities and operations through its investigative and audit efforts. To combat fraud, waste and abuse, its investigative work is centered on IRS criminal and administrative misconduct that could weaken the public's trust in government and impede effective tax administration. To heighten integrity awareness and to provide a deterrent effect against fraud, waste, abuse and misconduct, TIGTA conducts integrity awareness presentations for IRS employees, as well as law enforcement agencies, tax practitioners, and community groups. TIGTA also performs audits to determine if the IRS adequately ensures fair and equitable treatment of taxpayers. Audit recommendations result in cost savings, as well as other quantifiable impacts, such as the reduction of taxpayer burden; protection of taxpayer rights and entitlements; taxpayer privacy and security; and protection of IRS resources.

Be an organization that values its people. This management goal supports all of TIGTA's programs that support the organization's mission. TIGTA continues its efforts to maintain a supportive environment that fosters respect for employees' opinions, contributions and personal commitments, and recognizes diversity as essential for effective teamwork. This management goal supports all of TIGTA's programs by providing the human capital necessary to achieve its' mission.

Goal Assessment and Next Steps

TIGTA protects the public's confidence in the tax system by supporting the IRS in achieving its strategic goals, identifying and addressing IRS' material weaknesses, and implementing the President's Management Agenda and Treasury priorities. TIGTA has undergone an intense external and internal analysis of its existing strategic plan.

TIGTA will continue to develop new performance metrics that will align individual and office performance with its strategic plan.

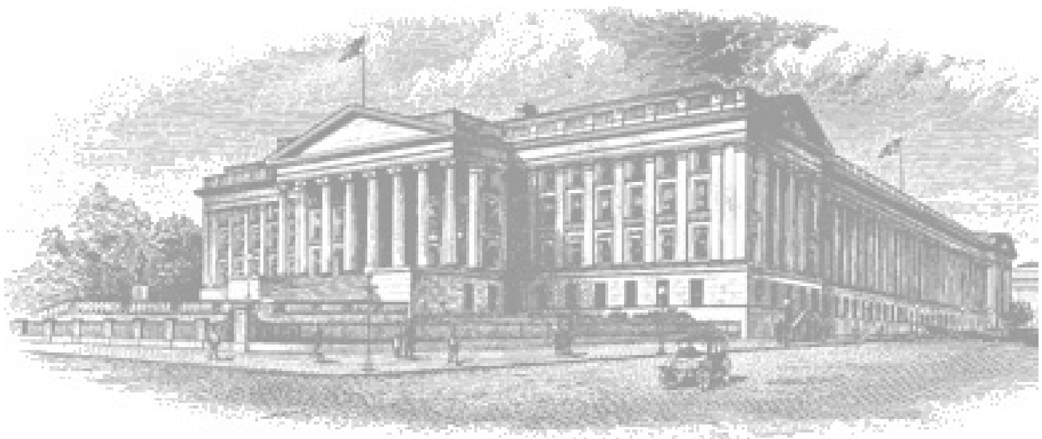


PART III

ANNUAL FINANCIAL REPORT

ANNUAL FINANCIAL REPORT

Audit Report



OIG-04-003

Audit of the Department of the Treasury's Fiscal Years 2003 and 2002 Financial Statements

November 14, 2003

Office of Inspector General

Department of the Treasury

Contents

DEPARTMENT OF THE TREASURY
WASHINGTON

Inspector General

November 14, 2003

MEMORANDUM FOR SECRETARY SNOW

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Report on the Department of the Treasury's Financial Statements for Fiscal Years 2003 and 2002

SUMMARY

The attached report presents the results of our audits of the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2003 and 2002. These audits are required by the Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA). The Department's FY 2003 and 2002 financial statements, and our audit report thereon, are incorporated in the accompanying *Department of the Treasury Performance and Accountability Report for Fiscal Year 2003.*

We have issued unqualified opinions on the Department's FY 2003 and 2002 financial statements.

Our report discusses 2 material weaknesses and 1 other reportable condition in internal control identified during our audit. The material weaknesses relate to: 1) financial management and reporting at the Internal Revenue Service (IRS), and 2) electronic data processing controls, most notably at the IRS and the Financial Management Service. The other reportable condition relates to financial management improvements needed at the Alcohol and Tobacco Tax and Trade Bureau and the Office of International Affairs.

We reported that the Department's financial management systems are not in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The Department also determined, through its self-assessment, that its financial management systems are not in substantial compliance with the requirements of FFMIA.

In accordance with applicable auditing standards, the Report of the Office of Inspector General is dated November 7, 2003, the last date of audit field work.

DISCUSSION

The Department has established itself as a leader in accelerated performance and accountability reporting. Last year's annual report was accelerated from more than 3 months to only 45 days after the close of the fiscal year end, 2 years in advance of the Office of Management and Budget's (OMB) requirement for accelerated annual reporting. This was cited by OMB as one of the most significant achievements in furthering the President's Management Agenda for Improved Financial Performance, and it has served as a catalyst to encourage other agencies to attempt to accelerate their annual reports ahead of the mandated requirements.

FY 2003 was a year of significant change and accompanying challenges for the Department, especially managing the divestiture of most of its law enforcement bureaus and activities to the Departments of Homeland Security and Justice. Despite these challenges the Department was able to sustain its accelerated schedule and submit its FY 2003 annual report on November 14, 2003.

The Department also made progress during the past year in addressing financial management deficiencies identified by financial statement audits, however longstanding deficiencies still persist. The material weaknesses at the IRS have, for the most part, existed since financial statement audits were initiated at the IRS in FY 1992. Similarly, computer security has been reported as a material weakness at the Department since consolidated financial statement audits were fully implemented in FY 1997. The real measure of financial management success is not only clean opinions on the annual financial statements, but the elimination of the material weaknesses that inhibit timely, accurate and reliable financial information throughout the year.

The Department's financial reporting initiatives have been noteworthy achievements. The monthly "3 Day Close" and accelerated annual reporting have greatly improved the quality as well as timeliness of financial information. However, in order for these improvements to translate into more meaningful operating benefits, financial reporting systems must be integrated with performance measurement and budgetary reporting systems. This will also require the development of good cost accounting to provide reliable information regarding the cost of the Department's programs and activities to enable cost benefit analysis of program performance.

Although steady progress has been made, achieving true financial management excellence continues to be a formidable challenge for the Department. Your personal support is essential for the Department to meet the financial management and other challenges laid out in the President's Management Agenda. We are strongly committed to working with you to achieve these objectives.

In accordance with the Department of the Treasury Directive No. 40-01, we request a corrective action plan be provided to us within 30 days of the date of this memorandum.

Should you or your staff have questions, you may contact me at (202) 622-1090 or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Financial Management and Information Technology Audits, at (202) 927-5430.

Attachments

cc: Teresa Mullett Ressel
Assistant Secretary for Management and Chief Financial Officer

OIG

Report of the Office of Inspector General

The Department of the Treasury Office of Inspector General

To the Secretary of the Treasury:

We audited the Department of the Treasury's (the Department) Consolidated Balance Sheets as of September 30, 2003 and 2002, the related Consolidated Statements of Net Cost, Changes in Net Position, and Financing, Statements of Custodial Activity, and Combined Statements of Budgetary Resources for the years then ended. These financial statements are incorporated in the accompanying *Department of the Treasury Performance and Accountability Report Fiscal Year 2003 (Performance and Accountability Report).*

Results in Brief

This report presents our unqualified opinion on these financial statements. Our audit disclosed the following material weaknesses in internal control:

- Financial Management and Reporting at the Internal Revenue Service (IRS) Needs Improvement (Repeat Condition).

- Electronic Data Processing (EDP) Controls Over Financial Systems Should be Strengthened (Repeat Condition).

We also identified one other reportable condition in internal control related to financial management infrastructure improvements needed at the Alcohol and Tobacco Tax and Trade Bureau (TTB) and the Department's Office of International Affairs (OIA).

Our audit disclosed the following reportable instances of noncompliance with laws and regulations, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA):

- IRS did not always release Federal tax liens in accordance with Section 6325 of the Internal Revenue Code (IRC) (Repeat Condition).

- IRS' installment agreements are not in compliance with Section 6159 of the IRC (Repeat Condition).

In addition, the Department's financial management systems did not substantially comply with Federal Financial Management Systems Requirements (FFMSR), Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level as required under FFMIA (Repeat Condition).

Management's Responsibilities

Management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, (3) ensuring that the Department's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

Scope of Audit

We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01–02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01–02). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the financial statements of the IRS or the Bureau of the Public Debt's (BPD) Schedules of Federal Debt for fiscal years (FY) 2003 and 2002, the accounts for which are included in the Department's financial statements. The IRS' FY 2003 and 2002 financial statements included custodial revenues of $1.9 trillion and $2.0 trillion, total assets of $24.8 billion and $24.7 billion, and net costs of operations of $10.1 billion and $10.0 billion, respectively. BPD's FY 2003 and 2002 Schedules of Federal Debt included Federal debt and interest payable of $6.8 trillion and $6.2 trillion, and interest expense of $315 billion and $335 billion, respectively. These accounts were audited by another auditor whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included in IRS' financial statements and BPD's Schedules of Federal Debt for FY 2003 and 2002, is based solely on the reports of the other auditor. We believe that our audits and the reports of the other auditor provide a reasonable basis for our opinion and our conclusions on internal control and compliance with laws and regulations.

In planning and conducting our audit of the Department's financial statements, we considered its internal control over financial reporting by obtaining an understanding of the design of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, with respect to internal controls related to performance measures reported in Management's Discussion and Analysis (MD&A), the Annual Performance Report and the Full Report of Treasury's FY 2003 Performance Measures by Focus and Strategic Goal, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with: (1) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (2) certain other laws and regulations, specified in OMB Bulletin No. 01-02, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Department. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the following three general requirements: FFMSR, applicable Federal accounting standards, and the SGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a).

Results of Audit

Opinion on the Financial Statements

In our opinion, based on our audits and the reports of the other auditor, the Department's financial statements present fairly, in all material respects, its assets, liabilities, and net position as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary resources, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 32 to the financial statements, certain adjustments to restate budgetary accounts related to debt interest, and seigniorage on newly minted coins, were made to the previously reported balances for the year ended September 30, 2002.

The MD&A and the Required Supplemental Information (RSI) included in Part III of the accompanying *Performance and Accountability Report*, are not required parts of the financial statements but are required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the MD&A and RSI and express no opinion on them.

Our audits were conducted for the purpose of expressing an opinion on the Department's financial statements referred to above. Other information presented in the *Performance and Accountability Report* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on it.

Internal Control

Internal control is a process, effected by the Department's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;

- Compliance with applicable laws and regulations - transactions are executed in accordance with: (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (2) any other laws and regulations, identified in OMB Bulletin No. 01-02; and

- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin No. 01-02, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that could adversely affect the Department's ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and one other reportable condition as defined above. Material weaknesses that we identified in our report, *Audit of the Department of the Treasury's Fiscal Years 2002 and 2001 Financial Statements* (OIG-03-014, issued November 15, 2002) that continued to exist during FY 2003, are identified as "Repeat Condition".

Material Weaknesses

Financial Management and Reporting at the IRS Needs Improvement (Repeat Condition)

IRS continues to face many of the pervasive internal control weaknesses that have been reported each year since its financial statements were first subjected to audit in FY 1992. Despite these weaknesses, IRS was able to produce financial statements covering its tax custodial and administrative activities that are fairly stated in all material respects. However, many of IRS' longstanding systems and internal control weaknesses continued to exist, necessitating continued reliance on costly compensating processes, statistical projections, external contractors, substantial adjustments, and labor intensive efforts to prepare reliable financial statements. These costly efforts would not have been necessary if IRS' systems and controls had operated effectively.

IRS has made progress in improving its financial management, however, IRS personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until IRS successfully addresses the underlying systems and internal control weaknesses. Additionally, this process does not produce the reliable, useful, and timely financial and performance information IRS needs for decision making on an ongoing basis, nor can it fully address the underlying financial management and operational issues that adversely affect IRS' ability to effectively fulfill its responsibilities as the nation's tax collector.

The material weaknesses in internal control identified during the FY 2003 IRS audit, all of which are repeat conditions, are summarized as follows:

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

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

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

- Weaknesses in computer security controls, resulting in increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.

The material weaknesses in internal control noted above may adversely affect any decision by IRS' management that is based, in whole or in part, on information that is inaccurate because of these weaknesses. Also, unaudited financial information reported by IRS, including performance information, may also contain misstatements resulting from these weaknesses.

In addition, two other reportable conditions were identified related to deficiencies in controls over (1) hard-copy tax receipts and taxpayer data, and (2) property and equipment. In prior audits, the deficiency in controls over property and equipment was reported as a material weakness, but based upon improvements identified during the FY 2003 audit, this weakness was reassessed as a reportable condition.

Recommendations:

Recommendations to address the weaknesses discussed above have been provided to the IRS. We reaffirm our prior year recommendation that the Assistant Secretary for Management and Chief Financial Officer ensure that IRS develops and implements an appropriate corrective action plan that will fully address the material weaknesses and reportable conditions identified in the audit of its financial statements.

EDP Controls Over Financial Systems Should be Strengthened (Repeat Condition)

Material weaknesses in EDP controls were identified at IRS, and the Financial Management Service (FMS). In addition, other reportable conditions related to EDP controls were identified at TTB, and the Office of the Comptroller of the Currency (OCC). In the aggregate, these conditions, which involve both general and application computer controls, comprise a material weakness at the Department. The details of the bureau specific weaknesses and audit recommendations were, or will be, provided to respective bureau management separately.

During FY 2003, significant progress was made at the U.S. Mint (Mint). As a result, the material weakness in EDP controls at the Mint was resolved. This accomplishment, coupled with some progress at other bureaus and the divestiture of the United States Customs Service (Customs), has resulted in fewer weaknesses.

General Controls

General controls, which provide the structure, policies and procedures that apply to the Department's overall computer operations, need to be strengthened. General controls are grouped into six domains:

- entity-wide security program planning and management,
- access controls,
- application software development and change control,
- system software,
- service continuity, and
- segregation of duties.

In FY 2002, we reported weaknesses in all six domains. The progress cited above, as well as the divestiture of Customs, has reduced the number of domains for which we have identified weaknesses. Consequently, we are no longer reporting weaknesses in entity-wide security program planning and management, or segregation of duties. The remaining significant general control weaknesses are summarized below.

<u>Access controls</u>

Access controls are designed to limit or detect access to computer data, programs, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. A number of access control weaknesses were identified throughout the Department. These weaknesses included inconsistently implemented password controls, inconsistent examination of audit logs, active but not needed user accounts, users with greater access than needed, untimely cancellation of access for terminated employees, and improperly configured software. Such weaknesses diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data.

<u>Application software development and change control</u>

Change controls prevent unauthorized modifications to existing computer programs from being implemented. Change control weaknesses found included informal processes to request changes, absence of special procedures for emergency changes, and absence of testing standards. These weaknesses increased the probability that unauthorized, inadequately tested, or harmful changes to computer programs could be implemented.

System software

System software is a set of powerful programs, which includes operating system software, designed to operate and control the processing of computer equipment. System software controls limit the access to these sensitive programs and related files. Weaknesses in the development and enforcement of policies and procedures over usage and changes to operating system software, utilities, and upgrades were found. These weaknesses increase the risk that unauthorized or inadequately tested changes to operating system software could be implemented.

Service continuity

Service continuity controls ensure that when unexpected events occur, critical operations continue without undue interruption and critical and sensitive data are protected. Weaknesses in this area included incomplete disaster recovery testing of key interfaces, and lack of adequate plans for continuity of a key application operated by an outside agency. If not corrected, these weaknesses could impair the timely restoration of critical systems if a disaster or other unexpected event were to occur.

Application Controls

Application controls are directly related to computer programs designed to perform specific functions, such as accounting. These controls help ensure that transactions are valid, properly authorized, and completely and accurately processed and reported. The limited application control testing performed identified the following weaknesses:

- Inadequate computer controls pertaining to a travel application contributed to duplicate payments of approximately $274,000.

- An accounting application was found to have inadequate procedures to ensure the integrity of its interfaces. As a result, some security issues pertaining to the application, its interfaces and data would not be readily apparent.

- Many users of a key application possessed incompatible duties; some possessed excessive access. Consequently, some users could prepare and certify their own data.

Recommendations:

Recommendations were, or will be, provided to bureau management to address these conditions. We reaffirm our prior year recommendation that the Chief Information Officer provide effective oversight to ensure that the specific recommendations detailed in the above referenced reports, and the related plans for corrective actions, are implemented completely and timely by the various bureaus.

Reportable Condition

Financial Management Infrastructure Improvements are Needed at TTB and OIA

During the performance of our audit, we identified the following financial management infrastructure weaknesses at TTB and OIA:

- TTB was established as a separate bureau under the Department of the Treasury by the Homeland Security Act. TTB management designed an organizational structure to provide oversight and control of its financial management processes, however, it has not obtained the necessary staffing to complete the designed organizational structure. TTB has not appointed a CFO and staff to monitor and control its financial management and reporting processes. To address this condition, TTB executed a Memorandum of Agreement (MOA) with the Department of Justice's Bureau of Alcohol, Tobacco, Firearms, and Explosives to provide TTB with continuing financial management support services. However, performance under the MOA did not always result in adequate segregation of duties and effective oversight of TTB's financial management processes. TTB is the government's third largest revenue collector and needs to establish its own financial management capability.

- As part of our audit of the Department's financial statements, we audited certain accounts related to its International Assistance Programs (IAP), however, we did not issue a separate audit report on the IAP accounts. The IAP consists of international monetary programs, multilateral lending assistance, and certain loans by the United States to foreign countries managed by OIA. FMS performs limited accounting services for the IAP such as maintaining the general ledger and producing various financial reports. However, due to the magnitude and complexity of IAP's transactions and operations, effective financial management is needed to provide OIA, which is an economic policy-making office, expertise in: (1) establishing accounting policy, (2) making adequate accounting estimates, including valuation of assets, (3) implementing effective internal controls over financial reporting, and (4) preparing informative and required financial statement disclosures.

  As a result of the Departmental Offices reorganization in FY 2003, IAP's financial manager was transferred to another office leaving the financial manager position vacant. Subsequently, IAP's former financial manager was detailed back to IAP to provide financial management assistance to IAP concurrently with the performance of his new duties. However, our audit identified instances in which this arrangement did not provide for sufficient financial management supervision and review of IAP's operations.

Recommendation:

We recommend that the Assistant Secretary for Management and Chief Financial Officer oversee efforts to ensure effective financial management structures are established at TTB and IAP.

* * * * * *

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations, exclusive of FFMIA, disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02:

- The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under Section 6325 of the IRC, IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied or has become legally unenforceable or the Secretary of the Treasury has accepted a bond for the assessed tax. The FY 2003 audit identified instances in which the IRS did not release the applicable Federal tax lien within 30 days of the tax liability being either paid off or abated as required by the IRC. (Repeat Condition)

- Section 6159 of the IRC authorizes IRS to enter into installment agreements with taxpayers to fully satisfy the taxpayer's tax liability. During the FY 2003 audit, instances were identified in which the terms of installment agreements did not require full satisfaction of the tax liability. (Repeat Condition)

Except for the instances described above, the results of our tests of compliance disclosed no other instances of noncompliance with other laws and regulations, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests disclosed instances where the Department's financial management systems did not substantially comply with FFMIA section 803(a) requirements related to compliance with FFMSR, applicable Federal accounting standards and the SGL at the transaction level. (Repeat Condition)

Instances of noncompliance with FFMSR are summarized below:

- IRS' financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to depend extensively on labor intensive compensating procedures to generate reliable financial statements. IRS also lacks a subsidiary ledger for its unpaid assessments and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances.

- The material weakness *EDP Controls Over Financial Systems Should be Strengthened* related to EDP controls at IRS and FMS, discussed above.

The instance of noncompliance with Federal accounting standards is summarized below:

- Material weaknesses at IRS related to controls over unpaid tax assessments and tax revenue and refunds.

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

- IRS' general ledger system comprises two independent general ledgers that are not integrated with each other nor with their supporting records for material balances, and does not use the standard Federal accounting classification structure for custodial activities.

During FY 2003, the Department made progress in reducing instances of financial management systems non-compliance with FFMIA through actions to remediate material weaknesses at the Mint and FMS related to information system controls and controls over outstanding checks, respectively. Also, the divestiture of

Customs reduced the instances of non-compliance identified at the Department.

The Secretary of the Treasury also has determined in the Secretary's Letter of Assurance, in Part IV of the accompanying *Performance and Accountability Report*, that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related timeframes are also presented in Part IV.

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

IRS has established a remediation plan to address the conditions affecting its systems' ability to comply with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, designates resources to be devoted to implementing those actions, and specifies timeframes for their completion. Due to the long term nature of IRS' systems modernizations efforts, many of the planned timeframes exceed the three-year resolution period specified in FFMIA. The Department received a waiver from OMB for the requirement to bring IRS' financial management systems into substantial compliance within the three-year timeframe.

Recommendations:

We recommend that the Assistant Secretary for Management and Chief Financial Officer: (1) ensure that IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; (2) ensure that IRS addresses the noncompliance with Section 6159 of the IRC; and (3) continue to monitor and assess progress of bureaus in developing and implementing their remediation plans to address the identified instances of financial management systems noncompliance with the requirements of FFMIA, and in taking appropriate actions when key target dates are not met.

* * * * * *

We have reviewed our findings and recommendations with the Department's financial management and have incorporated their comments as appropriate. The response to our audit report from the Assistant Secretary for Management and Chief Financial Officer is included in Appendix 1 of this report.

This report is intended solely for the information and use of the management of the Department, OMB, the U.S. General Accounting Office, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available as a matter of public record.

William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
November 7, 2003

Appendix 1
Management's Response

DEPARTMENT OF THE TREASURY
WASHINGTON, DC

Assistant Secretary

November 12, 2003

MEMORANDUM FOR JEFFREY RUSH, JR.
INSPECTOR GENERAL

FROM: Teresa Mullett Ressel
Assistant Secretary for Management
and Chief Financial Officer

SUBJECT: Management Response –Report of the Office of Inspector General on the Department of the Treasury's Fiscal Year (FY) 2003 Financial Statements

On behalf of Secretary Snow, I am responding to your audit report on the Department's FY 2003 financial statements included in Treasury's FY 2003 Performance and Accountability Report.

We appreciate your highly successful efforts to audit the Department's fiscal year 2003 financial statements and provide timely, objective advice on how to improve our financial reporting processes. Our offices continued to work diligently together to achieve significant results, culminating in the issuance of the FY 2002 and now the FY 2003 reports on a vastly accelerated basis, while at the same time maintaining an unqualified opinion on the financial statements. Further, our mutual success this year was accomplished despite the added complexities presented by the divestiture of four bureaus to the Departments of Justice and Homeland Security.

Issuing the Department's Performance and Accountability Report on November 14, 2003, while again achieving an unqualified audit opinion, is an extraordinary achievement. All of our bureaus and program offices are to be congratulated for repeating FY 2002's accomplishment. Without their tireless, dedicated efforts our accelerated reporting would not be possible. Likewise, it would not be possible without your office's consistently high level of professional assistance, enthusiasm, technical expertise, and commitment to doing whatever it takes to get the job done. The timely, high quality results speak for themselves.

As you note in your report, the Department did make progress in FY 2003 in addressing our financial management deficiencies. However, we agree that we must continue and increase our efforts to address longstanding weaknesses which hamper our ability to produce timely, reliable financial information. While we are proud to have achieved another unqualified audit opinion, we still have to employ labor intensive procedures in certain critical areas to compensate for our financial systems deficiencies. Until these deficiencies are corrected they will adversely affect our overall financial management capabilities and will be a burden on our employees who must deal with these deficiencies on a daily basis. We will continue to increase our emphasis on addressing these deficiencies. We will also continue our efforts to integrate budget and performance data, which we agree needs to be supported by good, timely cost data.

We concur with the two Departmental level material weaknesses, the reportable condition, and the instances of noncompliance with laws and regulations contained in your report. Corrective actions are underway to address each of these items, and we will provide your office with new or updated corrective action plans, as appropriate. We will strive to continue and improve our efforts to address the problems discussed in your report.

Over the past several years our offices, the Treasury Inspector General for Tax Administration, and the General Accounting Office have developed a professional, cooperative working relationship. I am confident that these effective relationships will continue to yield joint successes in improving Treasury's financial management practices.

Appendix 2
Report Distribution

Office of Management and Budget

Director, Office of Management and Budget

United States Senate

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Governmental Affairs
Ranking Member, Committee on Governmental Affairs

United States House of Representatives

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Minority Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Government Reform
Ranking Minority Member, Committee on Government Reform

United States General Accounting Office

Comptroller General of the United States

Consolidated Balance Sheet
As of September 30, 2003 and 2002
(In Millions)

	FY 2003	FY 2002
ASSETS		
Intra-governmental Assets		
Fund Balance with Treasury (Note 2)	$53,910	$54,752
Loans and Interest Receivable (Note 3)	224,463	229,937
Advances to the Black Lung Trust Fund (Note 4)	8,243	7,719
Due from the General Fund, Net (Note 5)	6,511,415	5,919,329
Accounts Receivable and Related Interest (Note 11)	825	715
Other Intra-governmental Assets	27	26
Total Intra-governmental Assets	**$6,798,883**	**$6,212,478**
Cash, Foreign Currency & Other Monetary Assets (Note 6)	$73,020	$101,781
Gold and Silver Reserves (Note 7)	10,933	10,933
Loans and Interest Receivable (Note 3)	1,190	1,342
Investments and Related Interest (Note 8)	9,254	8,153
Reserve Position in International Monetary Fund (Note 9)	24,072	20,864
Investments in International Financial Institutions (Note 10)	5,332	5,254
Tax, Other Receivables, and Related Interest, Net (Note 11)	21,573	22,014
Inventory and Related Property, Net (Note 12)	439	543
Property, Plant and Equipment, Net (Note 13)	2,603	3,838
Other Assets	45	60
Total Assets (Note 33)	**$6,947,344**	**$6,387,260**
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Note 15)	$2,884,015	$2,684,929
Loans Payable and Interest (Note 16)	0	15,337
Other Intra-governmental Liabilities	527	664
Total Intra-governmental Liabilities	**$2,884,542**	**$2,700,930**
Federal Debt and Interest Payable (Note 15)	$3,919,055	$3,546,780
Certificates Issued to Federal Reserve Banks (Note 18)	2,200	2,200
Allocation of Special Drawing Rights (Note 6)	7,005	6,481
Gold Certificates Issued to Federal Reserve Banks (Note 7)	10,924	10,924
Refunds (Note 30)	1,193	1,896
D.C. Pension Liability (Note 19)	8,305	8,345
Other Liabilities (Note 21)	4,762	6,229
Total Liabilities (Note 33)	**$6,837,986**	**$6,283,785**
Net Position		
Unexpended Appropriations	$50,433	$49,828
Cumulative Results of Operations	58,925	53,647
Total Net Position (Notes 32 & 33)	**$109,358**	**$103,475**
Total Liabilities and Net Position	**$6,947,344**	**$6,387,260**

The accompanying notes are an integral part of these statements.
Commitments & Contingencies are disclosed in Note 20.

Consolidated Statement of Net Cost
For the Year Ended September 30, 2003
(In Millions)

Cost of Treasury Operations:	Intra-governmental	With the Public	Total
Economic Program:			
Production	$311	$2,704	$3,015
Less Earned Revenue	(4)	(4,250)	(4,254)
Net Program Cost	**$307**	**($1,546)**	**($1,239)**
Financial Program:			
Production	$4,797	$9,099	$13,896
Less Earned Revenue	(3,230)	(1,490)	(4,720)
Net Program Cost	**$1,567**	**$7,609**	**$9,176**
Law Enforcement Program:			
Production	$243	$572	$815
Less Earned Revenue	(2)	(1)	(3)
Net Program Cost	**$241**	**$571**	**$812**
Total Programs Costs, Net	**$2,115**	**$6,634**	**$8,749**
Costs Not Assigned to Programs	123	1,051	1,174
Less Earned Revenue Not Assigned to Programs	(423)	(1)	(424)
NET COST OF CONTINUING OPERATIONS	**$1,815**	**$7,684**	**$9,499**
NET COST OF TRANSFERRED OPERATIONS *(Note 33)*	**554**	**1,585**	**2,139**
TOTAL NET COST OF OPERATIONS	**$2,369**	**$9,269**	**$11,638**
Federal Costs:			
Federal Debt Interest			$314,168
Less Interest Revenue From Loans			(11,417)
Net Federal Debt Interest Costs (Note 23)			**$302,751**
Federal Debt Buyback Loss			0
Other Federal Costs (Note 23)			12,859
NET FEDERAL COSTS			**$315,610**
NET COST OF OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS			**$327,248**

The accompanying notes are an integral part of these financial statements.

Notes 23 & 33 provide additional cost information both for Treasury components and for the bureaus transferred out of the Department during FY 2003.

Consolidated Statement of Net Cost
For the Year Ended September 30, 2002 (Restated)
(In Millions)

Cost of Treasury Operations:	Intra-governmental	With the Public	Total
Economic Program:			
Production	$154	$2,553	$2,707
Less Earned Revenue	(3)	(1,907)	(1,910)
Net Program Cost	**$151**	**$646**	**$797**
Financial Program:			
Production	$4,573	$9,217	$13,790
Less Earned Revenue (Note 32)	(3,219)	(1,463)	(4,682)
Net Program Cost (Note 32)	**$1,354**	**$7,754**	**$9,108**
Law Enforcement Program:			
Production	$126	$598	$724
Less Earned Revenue	(3)	0	(3)
Net Program Cost	**$123**	**$598**	**$721**
Total Programs Costs, Net	**$1,628**	**$8,998**	**$10,626**
Costs Not Assigned to Programs	130	$1,080	1,210
Less Earned Revenue Not Assigned to Programs	(265)	(2)	(267)
NET COST OF CONTINUING OPERATIONS (Note 32)	**$1,493**	**$10,076**	**$11,569**
NET COST OF TRANSFERRED OPERATIONS *(Note 33)*	**1,238**	**3,847**	**5,085**
TOTAL NET COST OF OPERATIONS (Note 32)	**$2,731**	**$13,923**	**$16,654**
Federal Costs:			
Federal Debt Interest			$334,151
Less Interest Revenue From Loans			(11,260)
Net Federal Debt Interest Costs (Note 23)			**$322,891**
Federal Debt Buyback Loss			3,800
Other Federal Costs (Note 23)			8,953
NET FEDERAL COSTS			**$335,644**
NET COST OF TREASURY OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS (Note 32)			**$352,298**

The accompanying notes are an integral part of these financial statements.

Notes 23 & 33 provide additional cost information both for Treasury components and for the bureaus transferred out of the Department during FY 2003.

Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2003
(In Millions)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance - 10/1/2002 (Note 32)	$53,647	$49,828
Prior Period Adjustments	28	(35)
Beginning Balance, as Adjusted	**$53,675**	**$49,793**
Budgetary Financing Sources:		
Appropriations Received		357,817
Appropriations Transferred In/Out (Note 33)		(4,149)
Other Adjustments		(183)
Appropriations Used	352,845	(352,845)
Non-exchange Revenue	2,489	
Donations and Forfeitures of Cash and Cash Equivalents	160	
Transfers In/Out without Reimbursement	(1,657)	
Other Budgetary Financing Sources	(5)	
Other Financing Sources:		
Donations and Forfeitures of Property	(12)	
Accrued Interest & Discount on the Debt	(7,177)	
Transfers In/out Without Reimbursement (Note 33)	(1,650)	
Imputed Financing Sources	729	
Other (Note 22)	(13,224)	
Total Financing Sources	**$332,498**	**$640**
Net Cost	**(327,248)**	
Ending Balances	**$58,925**	**$50,433**

The accompanying notes are an integral part of these statements.

Note 25 provides a Combining Statement of Changes in Net Position by each Treasury reporting component including transferred bureaus.

Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2002 (Restated)
(In Millions)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance - 10/1/2001 (Note 32)	$50,164	$51,907
Prior Period Adjustments	(44)	56
Beginning Balance, as Adjusted	**$50,120**	**$51,963**
Budgetary Financing Sources:		
Appropriations Received		369,848
Appropriations Transferred In/Out		178
Other Adjustments		(474)
Appropriations Used	371,687	(371,687)
Non-exchange Revenue	1,242	
Donations and Forfeitures of Cash and Cash Equivalents	99	
Transfers In/Out without Reimbursement	4	
Other Budgetary Financing Sources	(5)	
Other Financing Sources:		
Donations and Forfeitures of Property	(42)	
Accrued Interest & Discount on the Debt	(4,748)	
Transfers In/out Without Reimbursement	44	
Imputed Financing Sources	688	
Other (Note 32)	(13,144)	
Total Financing Sources (Note 32)	**$355,825**	**($2,135)**
Net Cost (Note 32)	(352,298)	
Ending Balances	**$53,647**	**$49,828**

The accompanying notes are an integral part of these statements.

Note 25 provides a Combining Statement of Changes in Net Position by each Treasury reporting component including transferred bureaus.

Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(In Millions)

	FY 2003	Restated FY 2002
BUDGETARY RESOURCES		
Budget Authority:		
Appropriations Received	$365,544	$429,315
Borrowing Authority	3	6
Net Transfers (Note 33)	(2,344)	114,103
Unobligated Balance:		
Beginning of Period	65,588	37,032
Change in Accounting for IAP Budgetary Accounting (Note 9)	0	26,550
Net Transfers (Note 33)	(1,150)	103
Spending Authority from Offsetting Collections:		
Earned:		
Collected	10,652	7,753
Receivable from Federal Sources	28	1
Change in Unfilled Customer Orders:		
Advance Received	(2)	13
Without Advance From Federal Sources	100	30
Transfers from Trust Funds	0	3
Subtotal	10,778	7,800
Recoveries of Prior Year Obligations	594	448
Temporarily Not Available Pursuant to Public Law	(297)	(275)
Permanently Not Available	(10,154)	(118,919)
TOTAL BUDGETARY RESOURCES	**$428,562**	$496,163
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$351,474	$427,129
Reimbursable	3,229	3,446
Subtotal	354,703	430,575
Unobligated Balance:		
Apportioned	15,280	13,832
Exempt from Apportionment	48,217	41,459
Unobligated Balance Not Available	10,362	10,297
TOTAL STATUS OF BUDGETARY RESOURCES	**$428,562**	$496,163

The accompanying notes are an integral part of these statements.
This combined statement includes intra-agency balances that would be eliminated in a consolidated statement.
Note 32 provides additional information on the restatement of prior year financial statements.

Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(In Millions)

(Continued)

	FY 2003	Restated FY 2002
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net, Beginning of Period	$36,845	$8,469
Change in Accounting for IAP Budgetary Accounting (Note 9)	0	29,443
Obligated Balance Transferred, Net	(1,419)	
Obligated Balance, Net, End of Period:		
Accounts Receivable	(174)	(207)
Unfilled Customer Orders from Federal Sources	(223)	(241)
Undelivered Orders	33,593	34,412
Accounts Payable	1,822	2,881
Outlays:		
Disbursements	354,387	431,003
Collections	(10,648)	(7,612)
Subtotal	343,739	423,391
Less: Offsetting Receipts	(1,269)	(1,570)
NET OUTLAYS	**$342,470**	$421,821

The accompanying notes are an integral part of these statements.

This combined statement includes intra-agency balances that would be eliminated in a consolidated statement.

Note 32 provides additional information on the restatement of prior year financial statements.

Consolidated Statement of Financing
For the Years Ended September 30, 2003 and 2002 (Restated)
(In Millions)

	FY 2003	Restated FY 2002
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$354,703	$430,575
Less: Spending Authority from Offsetting Collections and Recoveries	11,372	8,248
Obligations Net of Offsetting Collections and Recoveries	343,331	$422,327
Less: Offsetting Receipts	(1,269)	(1,570)
Net Obligations	**$342,062**	$420,757
Other Resources		
Donations and Forfeiture of Property	(12)	(42)
Financing Sources for Accrued Interest & Discount on the Debt	(7,177)	(4,748)
Transfers In/Out Without Reimbursement (Note 33)	(1,650)	44
Imputed Financing from Costs Absorbed by Others	729	688
Other (Note 32)	(13,281)	(13,209)
Net Other Resources Used to Finance Activities (Note 32)	**(21,391)**	($17,267)
Total Resources Used to Finance Activities (Note 32)	**$320,671**	$403,490
Resources Used to Finance Items Not Part of the Net Cost:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	555	(1,371)
Resources that Fund Expenses Recognized in Prior Periods	169	122
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations:		
Credit Program Collections that Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(358)	(201)
Other	(1,003)	(1,400)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	685	1,298
Adjustment to Accrued Interest & Discount on the Debt	(3,534)	53,524
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost	(2,918)	(144)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**($6,404)**	$51,828
Total Resources Used to Finance Net Cost (Note 32)	**$327,075**	$351,662

The accompanying notes are an integral part of these statements.
Note 32 provides additional information on the restatement of prior year financial statements.

Consolidated Statement of Financing
For the Years Ended September 30, 2003 and 2002
(In Millions)

(Continued)

	FY 2003	Restated FY 2002
Components of Net Cost of Operations that will Require or Generate Resources in Future Periods:		
Increase in Annual Leave Liability	($3)	$35
Upward/Downward Reestimates of Credit Subsidy Expenses	(208)	122
Increase in Exchange Revenue Receivable from the Public	(2)	122
Other	(109)	206
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	**($322)**	$485
Components of Net Cost of Operations that will not Require or Generate Resources:		
Depreciation and Amortization	$609	$674
Revaluation of Assets or Liabilities	(150)	(512)
Other	36	(11)
Total Components of Net Cost of Operations that will not Require or Generate Resources:	**$495**	$151
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**$173**	$636
Net Cost of Operations (Note 32)	**$327,248**	$352,298

The accompanying notes are an integral part of these statements.
Note 32 provides additional information on the restatement of prior year financial statements.

Statement of Custodial Activity
For the Years Ended September 30, 2003 and September 30, 2002
(In Millions)

	FY 2003	FY 2002
Sources of Custodial Revenue & Collections:		
Revenue Received (Note 29)		
Individual Income and FICA Taxes	$1,670,274	$1,713,335
Corporate Income Taxes	194,264	211,046
Estate and Gift Taxes	22,827	27,241
Excise Taxes	68,264	69,020
Railroad Retirement Taxes	4,359	4,573
Duties (Note 33)	8,334	19,788
Unemployment Taxes	6,635	6,740
Deposit of Earnings, Federal Reserve System	21,878	23,683
Fines, Penalties, Interest & Other Revenue (Note 33)	2,187	2,957
Total Revenue Received	**$1,999,022**	**$2,078,383**
Less Payments from permanent, indefinite appropriations for refunds of taxes and duties (including related interest), duty drawback, and earned income credit (Note 30 & 33)	(301,086)	(283,303)
Net Revenue Received	**$1,697,936**	**$1,795,080**
Accrual Adjustment	697	1,320
Total Source of Custodial Revenue & Collections	**$1,698,633**	**$1,796,400**
Disposition of Custodial Revenue & Collections:		
Amounts Provided to Non Federal Entities	$403	$407
Amounts Provided to Fund the Federal Government (Note 29)	1,697,533	1,794,673
Accrual Adjustment- (See Same Line Item Above)	697	1,320
Total Disposition of Custodial Revenue & Collections	**$1,698,633**	**$1,796,400**
NET CUSTODIAL REVENUE ACTIVITY	**$0**	**$0**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Department of the Treasury (the Department) was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts have figured in the development of the Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the Federal Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and tax policy; fiscal policy; governing the fiscal operations of the Government; maintaining foreign assets control; managing the Federal debt; overseeing the law enforcement functions carried out by the Department; managing the development of financial policy; representing the United States on international monetary, trade and investment issues; overseeing Departmental overseas operations; and directing the activities of the Department in manufacturing coins, currency, and other products for customer agencies and the public.

The Department, for purposes of these financial statements, is comprised of the Departmental Offices, International Assistance Programs (IAP), Office of Inspector General (OIG), Treasury Forfeiture Fund, Treasury Franchise Fund, Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), the Federal Financing Bank (FFB) and Air Transportation Stabilization Board (ATSB). ATSB was established in FY 2002 (see Note 17 for additional ATSB information). These components of the Departmental Offices are displayed as separate reporting entities for financial statement purposes only.

In addition, the Department has the following nine operating bureaus: Office of the Comptroller of the Currency (OCC); Bureau of Engraving and Printing (BEP); Financial Crimes Enforcement Network (FinCEN); Financial Management Service (FMS); Internal Revenue Service (IRS); U.S. Mint (Mint); Bureau of the Public Debt (BPD); Office of Thrift Supervision (OTS), and the Alcohol and Tobacco Tax & Trade Bureau (TTB).

The Homeland Security Act of 2002, Public Law 107-296, transferred the functions (with the exception of Customs revenue collection function), personnel, assets, and liabilities of the U.S. Customs Service (USCS), the United States Secret Service (USSS), and the Federal Law Enforcement Training Center (FLETC), including most of the related functions of the Secretary of the Treasury, to the Department of Homeland Security (DHS) on March 1, 2003. The Secretary exercised his authority, provided in the Act, to delegate the Customs revenue collection function to the Department of Homeland Security.

This legislation also transferred authorities, functions, personnel and assets of the Bureau of Alcohol, Tobacco and Firearms (ATF), including the related functions of the Secretary of the Treasury, to the Department of Justice (DOJ) on January 24, 2003. ATF administrative and revenue collection functions related to alcohol and tobacco were retained within the Department. The newly created Alcohol and Tobacco Tax & Trade Bureau, established by the Homeland Security Act, performs these revenue and administrative functions. Accordingly, the Department's Statement of Custodial Activity includes collections made by ATF from October 1, 2002 to January 23, 2003, and collections made by TTB from January 24, 2003 to September 30, 2003.

The Department's FY 2003 operating statements include transferred bureau information from October 1, 2002 to the effective transfer dates (January 24, 2003 - ATF & March 1, 2003 - USCS, FLETC, and USSS).

The operations of the transferred bureaus are reported in the financial statements of DHS or DOJ from the effective transfer date through September 30, 2003.

The assets and liabilities/ unpaid obligations of the transferred bureaus ceased to be part of the Department's reporting entity on the effective transfer dates. Transfers are displayed on the Department's Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources and Consolidated Statement of Financing. The net cost of transferred entities is separately displayed on the Consolidated Statement of Net Cost as "Net Cost of Transferred Operations" for both FY 2003 and 2002. FY 2003 and 2002 custodial collections performed by transferred bureaus are included on the Statement of Custodial Activity. In future years, the custodial statement will not display collections of duties as a result of the transfer of USCS. The collections of fines, penalties and other revenue will also be affected by the transfer. The FY 2003 Statement of Custodial Activity only displays USCS collections from October 1, 2002 to February 28, 2003. Please refer to Note 33 for detailed information.

The transferred bureaus, except the Federal Law Enforcement Training Center, were significant reporters of Treasury's forfeited and seized properties. Therefore, condensed schedules of seized and forfeited properties are presented in Note 12 for FY 2003. Detailed information is available in the financial statements of the Treasury Forfeiture Fund.

The accompanying financial statements reflect the activities of the Department. The Department's financial statements reflect the reporting of its own entity activities, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the Federal Government and others. Non-entity activities include the collection of Federal revenue, servicing the Federal debt, disbursing certain Federal funds, and maintaining certain assets and liabilities for the Federal Government as well as for others.

Revenues, expenses, assets, and liabilities resulting from transactions between the Department's various entities for both entity and non-entity activities have been eliminated in preparing the accompanying consolidated financial statements. Non-entity and entity activity eliminated on the Department's Balance Sheet includes investments and debt of $15.6 billion as of September 30, 2003 ($14.7 billion as of September 30, 2002). It also includes loans and borrowings of $36 billion as of September 30, 2003 ($26 billion as of September 30, 2002.) In terms of revenue and expenses, $2.5 billion was eliminated between entity and non-entity activities for fiscal year ended September 30, 2003 ($2.7 billion for fiscal year ended September 30, 2002).

B. Basis of Accounting & Presentation

The financial statements have been prepared from the accounting records of the Department in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements." Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the Federal Government.

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. They consist of the consolidated Balance Sheet, the consolidated Statement of Net Cost, the consolidated Statement of Changes in Net Position, the combined Statement of Budgetary Resources, the consolidated Statement of Financing, and the Statement of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both FY 2003 and FY 2002 information.

While these financial statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The *Budget of the United States* (also known as the President's Budget), with actual numbers for FY 2003, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in January 2004. It will be available from the United States Government Printing Office.

The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2002 Performance and Accountability Report and the actual FY 2002 balances included in the FY 2004 President's Budget.

Comparison of Treasury's FY 2002 Combined Statement of Budgetary Resources to the President's Budget (in millions)

	Total Budgetary Resources	Status of Budgetary Resources	Net Outlays
Statement of Budgetary Resources	**$496,163**	**$496,163**	**$421,821**
Reconciling Items,			
BPD	($64,108)	($64,108)	($64,100)
IRS	36,797	36,797	37,103
ESF	4,364	4,364	32
IAP	1,651	1,651	1
Other Treasury Entities (Expired Accounts & Divested Bureaus)	(401)	(401)	181
Subtotal of Reconciling Items	($21,697)	($21,697)	$26,783
President's Budget Amounts	**$474,466**	**$474,466**	**$395,038**

The differences are the result of:

Bureau of the Public Debt (BPD)

- The majority of the $7.7 billion difference relates to premium/discount paid on debt buybacks reported in the SBR, which are not covered by budgetary resources; therefore, is not included in the President's Budget. These amounts are claims on future resources as discussed in Note 15.

- The $64 billion difference in Outlays includes the $7.7 billion discussed above and Accrued interest of $57 billion. Prior to FY 2002, the Department recognized obligations incurred for the interest expense on the SBR only to the extent of the cash disbursement, while the President's Budget recognized obligations incurred for cash disbursements and the accrual of interest expense. In FY 2002, OMB provided clarification with regard to reporting interest expense on the SBR. As a result, beginning in FY 2002, the Department reports obligations incurred for the cash disbursement and accrual of interest expense to be consistent with the reporting with the President's Budget. However, a one-time adjustment was made to the FY 2002 SBR to reflect the cumulative effect of the difference in the budgetary reporting from prior years.

Internal Revenue Service (IRS**)**

- The majority of the $37 billion difference is due to certain non-entity revenue activity fund symbols, such as the approximately $27 billion for the earned income tax credit, which are funded by permanent indefinite appropriations, only being included in the President's Budget. These non-entity activities do not affect net position; and therefore, are not included in the Statements of Budgetary Resources or Net Cost, as discussed in Note 27.

Exchange Stabilization Fund (ESF)

- ESF holds investments in foreign currencies, which values change as a result of foreign exchange rate fluctuations. ESF investment balances are adjusted for the related revaluation gains and losses for financial reporting purposes; however, these adjustments are not reflected in the President's Budgets.

International Assistance Programs (IAP)

- The difference relates to reporting of transfers between the US Quota IMF Letter of Credit and the Reserve Position, which is discussed in Note 9. The President's Budget reports a recovery of prior year obligations and obligations incurred. The SBR does not include these amounts because these transactions do not represent net budget outlays; therefore, not requiring obligations for reporting purposes.

C. Tax and Other Non-Entity Receivables

Tax receivables are not accrued until related tax returns are filed, assessments are made, and prepayments are netted against liabilities. Accruals are made to reflect penalties and interest on tax receivables through the balance sheet date. Further, there are differences in recording assessments that should be reported on the balance sheet (tax receivables) and those that should be disclosed as compliance assessments and write-offs. A summary of each category follows:

Tax Receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which the Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of the Department. Tax receivables are shown on the balance sheet net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible.

Compliance Assessments are unpaid assessments in which neither the taxpayer nor a court has affirmed that the taxpayer owes amounts to the Federal Government. Examples include assessments resulting from an audit or examination in which the taxpayer does not agree with the results of the audit or examination. These assessments are not reported in the financial statements. However, statutory provisions require that these accounts be maintained until the statutory period for collection expires.

Write-offs consist of unpaid assessments on which the Department does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency. These amounts are not reported on the balance sheet as they are deemed uncollectible. However, statutory provisions require that these accounts be maintained until the statutory period for collection expires.

Other non-entity accounts receivable and related interest are recognized for amounts due to the Federal Government. These amounts include interest outstanding on monies deposited in Federal Reserve Banks. It also includes amounts Federal agencies owe to the Federal Government for the payment of water and sewage service which is a payment made by the Department on behalf of the Federal Government.

D. Investments

Investments are stated at amortized cost, which is an approximation of fair value. Premiums and discounts on investments are amortized using the straight line and effective interest methods.

Investments are adjusted to market value if the Department intends to sell the security prior to maturity and there is a reduction in the security in value that is more than temporary.

E. Inventories and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. The Department utilizes various accounting methods to value inventory and operating supplies, which approximate historical costs. All operating materials and supplies are recorded as an expense when consumed in operations.

Recognition of revenue from the forfeiture of property is deferred until the property is sold, or transferred to a state, local, or federal agency, or to a foreign government. Revenue is not recorded if the forfeited asset is ultimately destroyed, such as counterfeit property.

F. Loans and Interest Receivable - from Other Federal Agencies

Intra-governmental entity Loans and Interest Receivable, from other Federal agencies, represent loans and interest receivable held by the Department. No subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because these are guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from Other Federal Agencies represent loans issued by the Department to Federal agencies on behalf of the Federal Government. The Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Department's intermediary role in issuing these loans, the Department does not record an allowance or subsidy costs related to these loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the Federal agency that issues the loans.

G. Property, Plant and Equipment

The Department's property, plant and equipment is recorded at cost and is depreciated using the straight line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Department owns the Treasury building - a multi-use heritage asset. Multi-use heritage assets are assets of historical significance whose predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury building are capitalized as general PP&E and depreciated over their service life.

The Department is comprised of many bureaus that are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy uses ranges rather than setting specific capitalization thresholds. The Department's capitalization policy permits the management of each of the Department's bureaus to select an appropriate capitalization threshold within the range of $25,000 minimum and $50,000 maximum, unless a higher or lower threshold is determined to be more appropriate in the circumstances by bureau management, after reaching agreement with their auditors and Departmental management. The Department also uses ranges for bulk purchases: $250,000 minimum and $500,000 maximum for non-manufacturing bureaus and $25,000 minimum and $50,000 maximum for manufacturing bureaus. Bureaus determine the individual item cost that will be applied to bulk purchases. In addition, the Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

H. Federal Debt

Debt and associated interest are reported on the accrual basis of accounting. Certain debt securities are issued at a discount or premium. Prior to FY 2003, discounts and premiums were amortized over the term of the security using the interest method for zero coupon bonds and the straight-line method, which is not materially different from the interest method, for other securities. However, during FY 2003 the Bureau of Public Debt changed to the effective interest method for intra-governmental marketable debt securities and Government Account Series (GAS) market based securities. The interest method for marketable debt held by the public was also changed for consistent reporting with intra-governmental debt holdings (see Notes 5 and 15).

I. Pension Costs, Other Retirement Benefits, and Other Post Employment Benefits

The Department recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributed 8.51 percent of salaries for regular CSRS employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Department contributed 10.7 percent for regular FERS employees.

Similar to Federal retirement plans, OPM, rather than the Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. As a result of SFFAS No. 5, the Department is required to report the full cost of providing other retirement benefits (ORB). In addition, SFFAS No. 5 also requires the Department to recognize an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

Additionally, the Department's Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) separately sponsor certain benefit plans for their employees. OCC sponsors a life insurance benefit plan for current employees who are not enrolled in FEGLI plans. This plan is a defined benefit plan, and OCC is fully responsible for the associated liability. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. Certificates Issued to Federal Reserve Banks

Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

K. Allocations of Special Drawing Rights

Allocations of Special Drawing Rights are valued as of September 30, 2003 and September 30, 2002, using current exchange rates which approximate their fair value. Footnote Number 6, "Cash, Foreign Currency, and Other Monetary Assets," provides additional information regarding how the allocations are valued.

L. Federal Employee Benefits Payable - FECA Actuarial Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

M. Revenue & Financing Sources

The Department's activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). Exchange revenues are recognized when earned; i.e. goods have been delivered or services have been rendered. Non-exchange revenues are accounted for when received by the collecting entity. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Department also incurs certain costs that are paid in total or in part by other Federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations and transfers of assets without reimbursements also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position in accordance with SFFAS No. 7. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

N. Sources of Custodial Revenues and Collections

Non-entity revenue reported on the Department's Statement of Custodial Activity includes cash collected and received by the Department. It does not include revenue collected by other Federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the Federal Government or are earmarked for certain trust funds. Revenue from taxes and duties are recognized when cash is received.

O. Tax Assessments and Abatements

Under the IRC Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs, such as examination, under reporter, substitute for return, and combined annual wage reporting.

The Department also has authority to abate the paid or unpaid portion of an assessed tax, interest and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process (e.g., a qualifying corporation claimed a net operating loss that created a credit that can be carried back to reduce a prior year's tax liability, amended tax returns, correction of an assessment from an enforcement program, taxes discharged in bankruptcy, accepted offers in compromise, penalty abatements for reasonable cause, contested assessments made due to mathematical or clerical errors, and assessments contested after the liability has been satisfied). Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Types of Taxes and Other Revenue

The type of taxes and other revenue received included on the Department's Consolidated Statement of Custodial Activity includes:

Individual Income and FICA Taxes -- Federal income and social security taxes paid under Subtitle A of the Internal Revenue Code (IRC). Pursuant to the Social Security Act, as amended by P.L. 94-202 effective January 1, 1978, Social Security taxes are collected primarily through the Federal Tax Deposit (FTD) system and remitted to the Social Security trust fund.

Corporate Income Taxes -- Federal income taxes paid by businesses under Subtitle A of the IRC.

Estate and Gift Taxes -- Taxes paid under Subtitle B of the IRC.

Excise Taxes -- The Department collects excise taxes for various trust funds and accounts, including the Highway Trust Fund, Airport and Airways Trust Fund, and the Mass Transit Account. Excise taxes are collected on various items including the purchase of airline tickets, gasoline products, and many others. The Department also collects excise taxes on distilled spirits and imported liquor, tobacco, and firearms.

Railroad Retirement Taxes -- The collection of railroad retirement taxes under Subtitle C of the IRC is administered by the IRS as imposed by the Railroad Retirement Tax Act for the purpose of providing retirement benefits for railroad employees.

Duties -- Amounts collected by Customs on imported goods. The Department of Homeland Security assumed this custodial function on March 1, 2003.

Unemployment Taxes -- The collection of unemployment taxes under Subtitle C of the IRC is administered by the IRS. Federal unemployment taxes are also collected primarily through the FTD system and remitted to the Department of Labor's Unemployment Trust Fund.

Federal Reserve Earnings -- Funds deposited by the Federal Reserve Banks, from earnings on deposits. Pursuant to Sec. 16 of the Federal Reserve Act, the Federal Reserve Banks remit earnings and deposits to the General Fund.

Fines, Penalties, Interest, and Other Revenue -- Fines assessed for violations, or late charges and interest charged for delinquent payment of taxes. Other revenue includes fees and licenses, and other miscellaneous revenue collected by the Department and deposited into the General Fund.

Disposition of Custodial Revenue Collections

Amounts are recognized as dispositions for: (1) funds deposited to the general fund and other entities; and (2) amounts to be transferred upon collection.

P. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, duty drawbacks, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity of the Department. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Consolidated Statement of Net Cost. Likewise, the resultant refunds of overpayments are not recognized by the Department as an operating expense of the Department. Consequently, to present refunds as an expense of the Department on the Consolidated Statement of Net Cost with related appropriations used would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department also receives other permanent and indefinite appropriations to make certain payments on behalf of the United States Government. These appropriations are provided to make payments to the Federal Reserve for services provided. They also include appropriations provided to make other disbursements on behalf of the Federal Government, including payments made to various individuals as the result of certain claims and judgments rendered against the United States.

Q. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities often incur costs that are paid in total or in part for other entities. These constitute subsidized costs which are recognized by the receiving entity. An imputed financing source is also recognized by the receiving entity. The Department of the Treasury recognized imputed costs and financing sources in fiscal years 2003 and 2002 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which includes unemployment and workers compensation under the Federal Employee's Compensation Act; and losses in litigation proceedings.

R. Confiscated Iraqi Assets

On March 20, 2003, the President of the United States signed an Executive Order, "Confiscating and Vesting Certain Iraqi Property." The President vested in the United States Department of the Treasury all right, title, and interest in blocked funds held in the United States in certain accounts in the name of the Government of Iraq, Rafidain Bank, Rasheed Bank, or the State Organization for Marketing Oil. The Treasury Office of

Foreign Assets Control acted to implement the Executive Order. Approximately $1.724 billion was vested in Treasury in April 2003. An additional $192 million was received during the year. The Department, at the direction of the Office of Management and Budget, has been transferring the vested funds to other agencies, such as the Department of Defense, for use in the reconstruction of Iraq. During FY 2003, the Department transferred $1.660 billion, and $192 million was disbursed. The transfers out are reported on the Department's Consolidated Statement of Changes in Net Position. At September 30, 2003, $64 million remained with the Department.

2. Fund Balance with Treasury

Fund Balances

As of September 30, 2003 and September 30, 2002, fund balance consisted of the following (in millions):

	Entity	Non-Entity	**2003 Total**	Entity	Non-Entity	2002 Total
Appropriated Funds	$50,742	$741	**$51,483**	$50,316	$1,107	$51,423
Trust Funds	6	0	**6**	79	0	79
Revolving Funds	1,974	9	**1,983**	1,492	11	1,503
Other Fund Types	123	315	**438**	764	983	1,747
Total	$52,845	$1,065	**$53,910**	$52,651	$2,101	$54,752

Status of Fund Balance with Treasury

As of September 30, 2003 and September 30, 2002, the status of fund balance with Treasury consisted of the following (in millions):

	2003	2002
Unobligated Balance – Available	**$41,006**	$36,390
Unobligated Balance – Unavailable	**10,362**	10,297
Obligated Balance Not Yet Disbursed	**2,542**	8,065
Total	**$53,910**	$54,752

The above balances do not include unobligated and obligated balances related to the Exchange Stabilization Fund (ESF). While ESF balances are included on the Combined Statement of Budgetary Resources (SBR), they are not a component of the Fund Balance with Treasury. The ESF balances displayed on the SBR are components of cash, foreign currency, and other monetary assets (see Note 6).

The Fund Balance with Treasury includes $280 million restricted unobligated balances.

3. Loans and Interest Receivable

Intra-governmental

As of September 30, 2003 and September 30, 2002, intra-governmental loans and interest receivable consisted of the following (in millions):

	Loans Receivable	Interest Receivable	**2003 Total**	Loans Receivable	Interest Receivable	2002 Total
Entity:						
Agency Loans Purchased	$6,905	$0	**$6,905**	$8,125	---	$8,125
Direct Loans Purchased	7,274	0	**7,274**	11,114	---	11,114
Guaranteed Loans	21,451	0	**21,451**	20,469	---	20,469
Interest Receivable	0	392	**392**	---	$529	529
Less: Discount and Allowance	(583)	0	**(583)**	(478)	---	(478)
Subtotal - Entity	$35,047	$392	**$35,439**	$39,230	$529	$39,759
Non-Entity:						
Federal Direct Student Loan Program	$91,787	$0	**$91,787**	$89,498	$0	$89,498
Disaster Loan Fund	5,081	0	**5,081**	9,742	0	9,742
Rural Electrification & Telecommunication Fund	10,093	0	**10,093**	11,070	0	11,070
Commodity Credit Corporation	20,127	91	**20,218**	19,234	65	19,299
Rural Housing Insurance Fund	10,300	0	**10,300**	9,708	0	9,708
Federal Housing Administration	8,794	0	**8,794**	7,553	0	7,553
Housing for the Elderly and Handicapped	2,640	106	**2,746**	2,640	127	2,767
Export Import Bank	7,280	0	**7,280**	6,657	0	6,657
Other	31,710	1,015	**32,725**	32,732	1,152	33,884
Subtotal – Non-Entity	$187,812	$1,212	**$189,024**	$188,834	$1,344	$190,178
Total Intra-governmental Loans & Interest Receivable	$222,859	$1,604	**$224,463**	$228,064	$1,873	$229,937

Agency loans purchased are either notes or pools of loans sold by Federal agencies in the form of certificates representing shares of ownership in the loan pool. The selling agencies guarantee the principal and interest repayments on the notes or certificates. Guaranteed loans are loans made to non-federal borrowers whose obligation to repay the principal and interest is guaranteed by a federal agency.

Non-Federal

As of September 30, 2003 and September 30, 2002, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	Non-Entity	**2003 Total**	Entity	Non-Entity	2002 Total
Direct Loans	$54	$871	**$925**	$41	$956	$997
Interest	0	287	**287**	---	361	361
Less: Allowance and Subsidy Cost	(22)	0	**(22)**	(16)	---	(16)
Total Non-Federal Loans & Interest Receivable	$32	$1,158	**$1,190**	$25	$1,317	$1,342

These amounts include certain loans and credits issued by the United States to various foreign governments. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, and the U.S. Government has not waived or renounced its rights with respect to any of them. All such loans and credits remain due and payable.

Loans to Turkey

The Emergency Wartime Supplemental Appropriations Act (PL 108-11), signed by the President on April 16, 2003, included an appropriation of up to $1 billion as the loan subsidy cost for Turkey that the USG could convert into up to $8.5 billion in loans for Turkey. On September 5, 2003, the State Department submitted a Congressional Notification (CN) on use of the $1 billion, including the possibility of an $8.5 billion loan. The fifteen day notification period ended on September 19, 2003, without Congressional objection. On September 22, 2003, Secretary Snow and Turkish Economy Minister Babacan signed the Financial Agreement (FA) governing this loan.

Under the terms of the FA, the agreement does not become legally effective until the date that both parties complete their internal legal procedures for the ratification of this agreement and inform each other accordingly by an exchange of diplomatic notes. Under Turkish law, the Turkish Council of Ministers must ratify the FA to make it effective. (Under U.S. law, after the CN process and FA signature, there are no other legal requirements for ratifying the FA.) The FA is not legally effective until the Turkish government ratifies it. However, the Office of Management and Budget has held that the point of obligation of these funds was the signature of the FA because there are no legal procedures that would preclude the USG from exchanging diplomatic notes.

As of November 7, 2003, the Turkish Government had not yet ratified the FA.

4. Advances to the Black Lung Trust Fund

Advances have been provided to the Black Lung Trust Fund from the General Fund pursuant to 26 USC 9501, and are used to carry out the purposes of this trust fund. The principal and interest on these advances are to be repaid to the General Fund when the Secretary of the Treasury determines that monies are available in the Black Lung Trust Fund for such purposes. Interest is charged from the date funds are advanced to the trust fund.

5. Due from the General Fund

The Department is responsible for managing various assets and liabilities on behalf of the Federal Government. Assets managed by the Department on behalf of the General Fund includes cash, silver reserves, loans, advances, and tax receivables. In terms of liabilities, the Department manages the Federal debt as well as tax refunds on behalf of the Federal Government.

Because these assets and liabilities belong to the Federal Government, the Department does not report the net related effect of these transactions in net position. Instead, the Department reports this net effect in the account, “Due from the General Fund.” As of September 30, 2003 and September 30, 2002, Due from the General Fund (Net) included the following (in millions):

	2003	2002
Liabilities Requiring Funding From the General Fund		
Federal Debt & Interest Payable	**$3,919,055**	$3,546,780
Federal Debt & Interest Payable - Intra-governmental	**2,884,015**	2,684,929
Refunds & Drawbacks	**1,193**	1,863
Other Liabilities	**5**	2
Adjustment for Eliminated Investments	**15,656**	14,689
Total - Due From the General Fund	**$6,819,924**	$6,248,263
Less Amounts to be Distributed to the General Fund		
Fund Balance	**$248**	$242
Advances to the Black Lung Trust Fund	**8,243**	7,719
Cash, Foreign Currency and Other Monetary Assets	**50,779**	81,619
Gold & Silver Reserves	**9**	9
Loans & Interest Receivable - Intra-governmental (Entity & Non-Entity)	**225,824**	215,516
Loans & Interest Receivable	**1,158**	1,317
Accounts Receivable - Intra-governmental	**750**	667
Tax and Other Non-Entity Receivables	**21,482**	21,837
Other Assets	**16**	8
Total - Due To the General Fund	**$308,509**	$328,934
Due From the General Fund, Net	**$6,511,415**	$5,919,329

The $15,656 million Adjustment for Eliminated Investments in FY 2003 (and $14,689 million in FY 2002) represent investments held by ESF and other reporting entities that were eliminated against Federal Debt.

On the balance sheet the Department reported $21,573 million in Tax, Other Receivables, and Related Interest as of September 30, 2003 ($22,014 million as of September 30, 2002). However, only $21,482 million is reported as due to the General Fund ($21,837 million as of September 30, 2002). The difference is attributable to the inclusion of amounts which will be paid to others outside the Federal government, and miscellaneous entity receivables (see Note 11).

In addition, on the balance sheet the Department reported $189 billion in intra-governmental non-entity loans and interest receivable as of September 30, 2003 ($190 billion as of September 30, 2002). However, on the chart above $226 billion is reflected as due to the General Fund ($216 billion as of September 30, 2002). The difference is attributed to $36 billion in intra-Treasury loans and borrowings being eliminated on the balance sheet. Because this amount was eliminated, the Department is reporting an additional $36 billion in entity intra-governmental receivables as a payable to the General Fund (for FY 2002, the amount reported was $26 billion).

During FY 2003 the Bureau of Public Debt (BPD) changed from the straight-line method to the effective interest method for amortization of premiums and discounts on intra-governmental marketable debt securities and Government Account Series (GAS) market based securities. SFFAS No. 5 allows either the straight-line method or effective interest method for long-term securities. Federal entities holding these securities as investments are required to use the effective interest method (see Note 15). The change, which resulted in a $4.3 billion adjustment, was made to achieve accounting consistency between BPD and the investing federal entities. A change of $670 million was also made to debt held by the public for consistency with intra-governmental reporting. The net adjustment to Due from the General Fund was $3.6 billion.

6. Cash, Foreign Currency, and Other Monetary Assets

The amounts held as of September 30, 2003 and September 30, 2002 were as follows (in millions):

	2003	2002
Entity:		
Cash	**$4**	$17
Foreign Currency:		
Japanese Yen	**1,418**	1,297
European Euro	**8,182**	6,683
Other	**22**	31
Other Monetary Assets:		
Special Drawing Rights	**12,093**	11,753
Other	**134**	149
Subtotal – Entity	**$21,853**	$19,930
Non-Entity:		
Operating Cash of the Federal Government	**$50,829**	$81,623
Undistributed Cash/Offers in Compromise	**3**	18
Foreign Currency	**32**	40
Other	**303**	170
Subtotal - Non-Entity	**$51,167**	$81,851
Total Cash, Foreign Currency, and other Monetary Assets	**$73,020**	$101,781

Entity

Entity cash, foreign currency, and other monetary assets primarily includes foreign currency denominated assets (FCDA), special drawing rights (SDR), and forfeited cash. SDRs and FCDAs are valued as of September 30, 2003 and September 30, 2002, using current exchange rates. "Other" includes U.S. dollars restricted for use by the International Monetary Fund (IMF), that are maintained in two accounts at the Federal Reserve Bank of New York.

Certain operations of the Department result in the holding of various FCDAs. The foreign currency holdings are normally invested in interest bearing assets issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, (except for foreign currencies under swap agreements with developing countries) were valued at $6.1 billion as of September 30, 2003 ($5.1 billion as of September 30, 2002). Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As of September 30, 2003, FCDAs with maturities greater than three months were valued at $3.5 billion ($2.9 billion as of September 30, 2002).

The SDR is an international reserve asset created by the IMF. It was created as a supplement to existing reserve assets, and on several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDR department. The SDR's value as a reserve asset derives, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European Euro, the Japanese yen, and the pound sterling. The Department's SDR holdings and allocations are revalued monthly based on the SDR valuation rate calculated by the IMF.

During fiscal year 2003, the Department purchased, at the prevailing rates, $348.1 million equivalent of SDRs received from the IMF by the General Fund of the U.S. Government as remuneration (interest) on the U.S. reserve position in the IMF ($371.8 million equivalent of SDRs during fiscal year 2002), and paid the General Fund $.6 million in FY 2003 (and $1.7 million in FY 2002), in interest on dollars due the General Fund in return for SDRs received as remuneration. As of September 30, 2003, the Department had no remaining outstanding payable equivalent of SDRs and an $8.1 million interest to the General Fund. (As of September 30, 2002, the Department had no remaining outstanding payable equivalent of SDRs and interest to the General Fund).

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are permanent resources unless:

a. canceled by the Board of Governors based on an 85 percent majority decision of the total voting power of the Executive Board of the IMF;
b. the SDR Department of the IMF is liquidated;
c. the IMF is liquidated; or
d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Department's liability related to the SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981, the IMF has made no further allocations of SDRs. As of September 30, 2003, the amount of SDR holdings of the United States was the equivalent of $12.1 billion and the amount of SDR allocations to the United States was the equivalent of $7.0 billion. (As of September 30, 2002, the amount of SDR holdings of the United States was the equivalent of $11.7 billion and the amount of SDR allocations to the United States was the equivalent of $6.5 billion.)

Non-Entity

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the Federal Government, managed by the Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromises which are maintained as the result of the Department's law enforcement and tax collecting responsibilities.

The Operating Cash of the Federal Government represents balances from tax collections, Customs duties, other revenues, federal debt receipts, time deposits, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts.

The Operating Cash of the Federal Government also includes other cash representing the balances of petty cash and other funds held in agencies' books, plus time deposits in financial institutions totaling 22.1 billion. Effective August 2003, $14.9 billion of the total time deposit balances were invested by Treasury in non-marketable Depositary Compensation Securities. The remaining balances of $7.2 billion, (and $27 billion as of September 30, 2002) are deposited interest free to compensate commercial banks for services provided on behalf of the Federal Government (such as handling over the counter deposits for federal program agencies, providing lockbox services for agency collection programs, etc.). Operating Cash of the Federal Government is either insured (for balances less than $100,000) by the Federal Deposit Insurance Corporation or collaterized by securities pledged by the depository institutions and held by the Federal Reserve Banks.

7. Gold & Silver Reserves, and Gold Certificates Issued to Federal Reserve Banks

The Department is responsible for safeguarding most of the Federal Government's gold and silver reserves in accordance with 31 USC 5117. The consolidated Balance Sheet also reflects gold being held in the Federal Reserve Bank of New York.

Gold reserves being held by the Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve as provided under 31 USC 5117. Since 1934, Gold certificates have been issued in non-definitive or book-entry form to the Federal Reserve. The Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Department at the legal standard value established by law. Upon issuance of gold certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the Federal Government. Therefore, all of the Department's certificates issued are payable to the Federal Reserve.

Absent any historical cost records to determine the acquisition cost of the gold and silver over several decades, the statutory rates of $42.2222 per fine troy ounce (FTO) for gold and $1.2929292 per FTO for silver are used to value the entire custodial reserves, which are in the custody of the U.S. Mint and the Federal Reserve Bank of New York. As of September 30, 2003 and September 30, 2002, the gold and silver reserves consisted of the following:

As of September 30, 2003:	FTO's	Statutory Rate	**9/30/2003 Statutory Value (Millions)**	Market Value per FTO	**9/30/2003 Market Value (Millions)**
Gold	245,262,897	$42.2222	**$10,356**	$388.00	**$95,162**
Gold Held by Federal Reserve Bank & in Transit	13,450,413	$42.2222	**568**	$388.00	**5,219**
Subtotal – Gold	258,713,310		**$10,924**		**$100,381**
Silver	7,075,171	$1.2929292	**9**	$5.12	**36**
Total Gold and Silver Reserves			**$10,933**		**$100,417**

As of September 30, 2002:	FTO's	Statutory Rate	9/30/2002 Statutory Value (Millions)	Market Value per FTO	9/30/2002 Market Value (Millions)
Gold	245,262,897	$42.2222	$10,356	$323.70	$79,392
Gold Held by Federal Reserve Bank & in Transit	13,450,413	$42.2222	568	$323.70	4,354
Subtotal – Gold	258,713,310		$10,924		$83,746
Silver	7,075,171	$1.2929292	9	$4.53	32
Total Gold and Silver Reserves			$10,933		$83,778

8. Investments and Related Interest

The Exchange Stabilization Fund holds most of the Department's investments. Securities that the Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. As of September 30, 2003 and September 30, 2002, entity investments consisted of the following (in millions):

As of 9/30/2003: Type of Investment	Cost/Acquisition Value	Amortized (Premium)/ Discount	Net Investment	Interest Receivable	**9/30/2003 Investment Balance**	***9/30/2003 Market Value***
Euro Bonds and Notes	$1,572	$35	$1,607	$50	**$1,657**	***$1,721***
Euro BUBills	288	(1)	287	0	**287**	***287***
Japanese Financing Bills	3,424	(1)	3,423	0	**3,423**	***3,424***
Japanese T- Bills	3,634	0	3,634	0	**3,634**	***3,634***
Other	253	0	253	0	**253**	***83***
Total Non-Federal	$9,171	$33	$9,204	$50	**$9,254**	***$9,149***

As of 9/30/2002: Type of Investment	Cost	Amortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/2002 Investment Balance	*9/30/2002 Market Value*
Euro Bonds and Notes	$1,333	$33	$1,366	$44	$1,410	*$1,450*
Euro BUBills	240	(1)	239	0	239	*239*
Japanese Financing Bills	3,134	0	3,134	0	3,134	*3,134*
Japanese T- Bills	3,327	0	3,327	0	3,327	*3,327*
Other	44	(1)	43	0	43	*43*
Total Non-Federal	$8,078	$31	$8,109	$44	$8,153	*$8,193*

9. Reserve Position in the International Monetary Fund

The United States participates in the IMF through a quota subscription. Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or Special Drawing Rights (SDRs), which are international reserve currency assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit made available to the IMF. This letter of credit is issued by the Treasury and maintained by the Federal Reserve Bank of New York (FRBNY), and it represents the bulk of the IMF's holdings of dollars. Approximately one quarter of one percent of the U.S. quota is maintained in cash balances in an IMF account at FRBNY.

While resources for transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because U.S. / IMF quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest bearing and can be drawn at any time in case of a balance of payments need. When the IMF draws dollars from the letter of credit to finance its operations and expenses, the drawing does not represent a net budget outlay on the part of the United States because there is a commensurate increase in the U.S. reserve position. When the IMF repays dollars to the United States, no net budget receipt results because the U.S. reserve position declines simultaneously by an equal amount.

The U.S. reserve position is denominated in SDRs, as is the U.S. quota. Consequently, fluctuations in the value of the dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. reserve position in the IMF. For example, when the dollar appreciates against the SDR, a valuation loss is experienced and recorded as an increase to the Appropriations Used line item on the Statement of Changes in Net Position, because the dollar value of U.S. reserve position has decreased. Conversely, a valuation gain is experienced when the dollar depreciates against the SDR. As a result of the depreciation of the dollar against the SDR between the end of fiscal year 2002 and the end of fiscal year 2003, the U.S. experienced a valuation **gain** on the reserve position of approximately $1,722 million. (Between the end of fiscal year 2001 and the end of fiscal year 2002, a valuation gain of $446 million was reported.) There are no transactions associated with this exchange-rate driven change in the dollar value of the reserve position, and there are no net outlays involved prospectively, although outlays are recorded retrospectively to reflect the valuation change.

As of September 30, 2003, the U.S. quota in the IMF was SDR 37.1 billion, valued at approximately $53.1 billion. (The quota as of September 30, 2002 was SDR 37.1 billion, valued at approximately $49.1 billion.) The quota consisted of the following (in millions):

	2003	2002
Letter of Credit /1.	**$28,916**	$28,160
U.S. Dollars Held in Cash by the IMF /1.	**128**	113
Reserve Position /2.	**24,072**	20,864
U.S. Quota in the IMF	**$53,116**	$49,137

/1. This amount is included in entity appropriated funds under Note 2, Fund Balance with Treasury, and unexpended appropriations - obligations/undelivered orders.

/2. This amount is included in cumulative results of operations.

The unused domestic currency portion of the U.S. quota, denominated in SDRs, but payable in U.S. dollars, is periodically adjusted to maintain the SDR value of these holdings. These adjustments are settled after the close of the IMF financial year on April 30, although accrued maintenance of value amounts are calculated daily. Such adjustments do not involve a flow of funds. At April 30, 2003, the depreciation of the dollar against the SDR since April 30, 2002, called for an upward adjustment of the letter of credit by $2,580 million. (At April 30, 2002, the depreciation of the dollar against the SDR since April 30, 2001, called for an **upward** adjustment of the letter of credit by $69.2 million.) The dollar balances shown above for the letter of credit include accrued maintenance of value amounts.

The United States earns "remuneration" (interest) on its reserve position in the IMF except for the portion of the reserve position originally paid in gold. Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. (The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket.) Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors' share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors' share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines. The total reduction in the IMF remuneration from burden-sharing received during FY 2003 and FY 2002 was $18.6 million and $19.1 million, respectively.

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in times of crisis when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). There were no U.S. loans outstanding under these arrangements in FY 2003 and FY 2002. The dollar equivalent of SDR 6.7 billion has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2003 and September 30, 2002, this amounted to $9.6 billion and $8.9 billion respectively in standing appropriations available for lending through the GAB or NAB as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB result in a simultaneous adjustment to the U.S. reserve position in the IMF.

In FY 2002, a new accounting policy was established to improve the presentation of the U.S. participation in the IMF and GAB/NAB in the financial statements. The Department did not recognize the U.S. quota in the IMF and U.S. participation in the GAB and NAB as budgetary resources in the Combined Statement of Budgetary Resources for FY 2001 and prior fiscal years. On the Combined Statement of Budgetary Resources for FY 2002, the effects of this change on unobligated and obligated balances are reflected in the line items, “Change in accounting for IAP budgetary accounting.”

10. Investments in International Financial Institutions

The Department participates in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transition to market economies and sustainable economic growth and development, thereby advancing United States’ economic, political, and commercial interests abroad. The MDBs consist of the World Bank Group, five regional development banks (the African, Asian, European, Inter-American and North American institutions), the Global Environment Facility and the International Fund for Agricultural Development, as enumerated in the table below. These investments are non-marketable equity investments valued at cost.

As of September 30, 2003 and September 30, 2002, investments in international financial institutions consisted of the following (in millions):

	2003	2002
African Development Bank	**$155**	$150
Asian Development Bank	**442**	434
European Bank for Reconstruction & Development	**522**	486
Inter-American Development Bank	**1,442**	1,414
International Bank for Reconstruction & Development	**1,985**	1,985
International Finance Corporation	**569**	570
Multilateral Investment Guarantee Agency	**43**	41
Global Environment	**174**	174
Total	**$5,332**	$5,254

11. Accounts Receivable

A. Tax, Other Receivables, and Related Interest, Net

Tax and other receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued, reduced by an estimate for uncollectible amounts. Also included are earnings due on monies deposited in Federal Reserve Banks. As of September 30, 2003 and September 30, 2002, tax, other receivables consisted of the following (in millions):

	2003	2002
Non-Entity:		
Tax Receivables, Gross	**$89,027**	$88,599
Receivable, Deposit of Earnings, Federal Reserve	**1,468**	646
Other Receivables & Interest	**10**	85
Total Tax and Other Non-Entity Receivables - Gross	**$90,505**	$89,330
Less: Allowance	**(69,015)**	(67,487)
Total Tax and Other Non-Entity Receivables, Net*	**$21,490**	$21,843
Entity: Miscellaneous Receivables and Related Interest	**83**	171
Total Tax, Other Receivables & Related Interest	**$21,573**	$22,014

* See Note 14, Non-Entity Assets.

An allowance for doubtful accounts was established for the difference between the gross receivables and the portion deemed collectible. The portion of tax receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectibility from a statistical sample of taxes receivable. The Department does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

IRS Federal taxes receivable constitute the largest portion of the receivables. IRS Federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts.

B. Intra-governmental Accounts Receivable and Related Interest

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by the Department under the Contract Disputes Act ($750 million of the $825 million and $667 million of the $715 million displayed for 2003 and 2002, respectively). Unlike Judgment Fund payments, other Federal agencies are required to reimburse the Department for payments made to contractors, on their behalf, under the Act. These amounts remain a receivable on the books of the Financial Management Service and a payable on the other Federal agencies' books until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions.

12. Inventory and Related Property

Inventory and related property includes inventory, operating materials and supplies, and forfeited property held by the Department. As of September 30, 2003 and September 30, 2002, inventory and related property consisted of the following (in millions):

	2003	2002
Inventory		
Inventory Held for Current Sale	**$395**	$402
Less: Allowance for Losses	**0**	(0)
Total Inventory, Net	**$395**	$402
[Composition of Inventory]:		
Raw Materials & Supplies	***$175***	*$132*
Work in Process	***147***	*178*
Finished Goods	***73***	*92*
Total	***$395***	*$402*
Operating Materials and Supplies		
Held for Use	**$30**	$108
Held in Reserve for Future Use	**0**	
Less: Excess, Obsolete, and Unserviceable	**0**	(0)
Total Operating Materials and Supplies, Net	**$30**	$108
Forfeited Property, Net		
Property Held for Sale	**$19**	$35
Less: Allowance	**(5)**	(2)
Total Forfeited Property, Net	**$14**	$33
Total Inventory and Related Property, Net	**$439**	$543

Inventory

The Department's manufacturing entities, the Bureau of Engraving and Printing (BEP) and the United States Mint, maintain inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. The Financial Management Service also holds inventory for check processing activities.

Operating Materials and Supplies

The Department's operating materials and supplies are maintained for the production of bureau products.

Forfeited and Seized Property

The Department, through the Treasury Forfeiture Fund Program, seizes certain property as a consequence of enforcing various Federal laws. The seized assets may be subsequently forfeited to the government through abandonment or administrative/judicial procedures. Forfeited property is recorded at estimated fair market value at the time of seizure, and may be adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayers liability is recorded when title to the property passes to the Federal Government and a corresponding credit is made to the related accounts receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and are reflected as a reduction of sales of forfeited property.

Seized property as defined by *SFFAS No. 3, Accounting for Inventory and Related Property*, includes monetary instruments, real property, and tangible personal property of others in the actual constructive possession of the custodial agency. The Department seizes monetary instruments and property in terms of the definition provided by SFFAS No. 3 as the result of tax, forfeiture, criminal, and other enforcement actions. Seized property (including currency and monetary instruments) is recorded at its estimated fair market value at the time of the seizure, as determined by the seizing organization. Valuation is usually based on market analysis such as third party appraisals, standard property value publications or bank statements.

Prohibited forfeited property was reported by the Department in prior years. Prohibited items are items with no legal market value and which can not be sold. They include illegal drugs, explosives, firearms, and pornography. Prohibited property was primarily attributable to law enforcement activity that was divested; therefore, prohibited property is not reported in the Department's FY 2003 financial statements.

Forfeited property was $43.6 million and $44.7 million at September 30, 2003 and 2002, respectively. Seized currency and other monetary instruments were $396.6 million and $379.0 million at September 30, 2003 and 2002, respectively. Other seized property was $279.1 million and $237.9 million at September 30, 2003 and 2002, respectively.

13. Property, Plant, and Equipment

As of September 30, 2003 and September 30, 2002, property, plant and equipment consisted of the following (in millions):

As of September 30, 2003:	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	**Net 2003 Total**
Land	N/A	N/A	$10	$0	**$10**
Structures, Facilities	S/L	3-50 yrs	546	(202)	**344**
ADP Software	S/L	2-10 yrs	324	(91)	**233**
Equipment	S/L	2-20 yrs	865	(500)	**365**
Assets under Capital Lease	S/L	2-25 yrs	218	(106)	**112**
Construction in Progress	N/A	N/A	126	0	**126**
Aircraft	S/L	12-20 yrs	0	0	**0**
ADP Equipment	S/L	3-5 yrs	1,334	(754)	**580**
Vessels	S/L	5-10 yrs	0	0	**0**
Vehicles	S/L	6 yrs	92	(68)	**24**
Other	S/L	2-30 yrs	1,167	(358)	**809**
Total	N/A	N/A	$4,682	($2,079)	**$2,603**

As of September 30, 2002:	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	Net 2002 Total
Land	N/A	N/A	$37	$0	$37
Structures, Facilities	S/L	3-50 yrs	791	(275)	516
ADP Software	S/L	2-10 yrs	398	(113)	285
Equipment	S/L	2-20 yrs	1,341	(766)	575
Assets under Capital Lease	S/L	2-25 yrs	351	(93)	258
Construction in Progress	N/A	N/A	457	0	457
Aircraft	S/L	12-20 yrs	411	(246)	165
ADP Equipment	S/L	3-5 yrs	1,393	(759)	634
Vessels	S/L	5-10 yrs	14	(12)	2
Vehicles	S/L	6 yrs	212	(108)	104
Other	S/L	2-30 yrs	1,129	(324)	805
Total	N/A	N/A	$6,534	($2,696)	$3,838

* N/A - Not Applicable

The Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties.

The Treasury Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely.

14. Non-Entity Assets

As of September 30, 2003 and September 30, 2002, non-entity assets consisted of the following (in millions):

	2003	2002
Intra-governmental Assets:		
Fund Balance	**$1,065**	$2,101
Loans and Interest Receivable	**189,024**	190,178
Accounts Receivable and Related Interest	**750**	667
Advances to the Black Lung Trust Fund	**8,243**	7,719
Due from the General Fund *	**6,495,759**	5,904,640
Total Non-Entity Intra-governmental Assets	**$6,694,841**	$6,105,305
Cash, Foreign Currency and Other Monetary Assets	**$51,167**	$81,851
Gold & Silver Reserves	**10,933**	10,933
Loans and Interest Receivable	**1,158**	1,317
Tax, Other Receivables, and Related Interest, Net	**21,490**	21,843
Other Assets	**16**	8
Total Non-Entity Assets	**$6,779,605**	$6,221,257

* See Note 5. Due from the General Fund, above, does not include entity investments.

Non-entity assets are those that are held by the Department but are not available for use by the Department. Non-entity fund balance represents unused balances of appropriations received by various Treasury entities to conduct custodial operations such as the payment of interest on the Federal debt and refunds of taxes, duties, fees, and drawbacks. Non-entity loans and interest receivable represents loans managed by the Department on behalf of the Federal Government. These loans are provided to Federal agencies, and the Department is responsible for collecting these loans and transferring the proceeds to the General Fund. Non-entity cash, foreign currency, and other monetary assets include the operating cash of the Federal Government, managed by the Department. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments.

15. Federal Debt & Interest Payable

The Department is responsible for administering the Federal Debt on behalf of the Federal Government. The Federal Debt includes borrowings from the public as well as borrowings from Federal agencies. The Federal Debt managed by the Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development. The Federal Debt as of September 30, 2003 and September 30, 2002 were as follows (in millions):

Intra-governmental

	2003	2002
Beginning Balance	**$2,645,522**	$2,438,339
New Borrowings*	**198,248**	207,183
Premium/Discount	**(448)**	(1,605)
Interest Payable Covered by Budgetary Resources	**40,693**	41,012
Total	**$2,884,015**	$2,684,929

*New Borrowings (Intra-governmental) - represent the net increase in amounts borrowed.

Owed to the Public

	2003	2002
Beginning Balance	**$3,553,180**	$3,339,310
New Borrowings	**4,299,022**	3,803,649
Repayments	**(3,928,112)**	(3,589,779)
Premium/Discount	**(36,846)**	(39,274)
Interest Payable Covered by Budgetary Resources	**31,811**	32,874
Total	**$3,919,055**	$3,546,780

Debt held by the public approximates the federal government's competition with other sectors in the credit markets. This affects interest rates and private capital accumulation.

In contrast, debt held by Federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e. excess of receipts over disbursements plus accrued interest). Debt held by Federal entities does not have any of the economic effects of borrowings from the public. It is not a current transaction of the government with the public; it does not compete with the private sector for available funds in the credit markets. It reduces the need to borrow from the public and so may hold down interest rates. Unlike debt held by the public, debt held by Federal entities does not represent an immediate burden on current taxpayers. Rather it is a claim on future resources. The surplus is held in Treasury securities which gives the Federal entities a claim on the Federal Government, equal to the value of those securities. When the securities have to be redeemed, the Department must come up with the cash. Actions that could be taken to meet these cash needs include lowering spending, increasing taxes, and increasing borrowings from the public.

Federal Debt Held by Other Federal Agencies

Certain Federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the Federal Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the Federal Government. The vast majority are non-marketable securities issued mostly at par value. Most non-marketable debt securities are issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for Government Account Securities (GAS) in fiscal year 2003 was 5.5 percent (6 percent in FY 2002).

The Federal Debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The investments held, at par value (not including interest receivable), by the various Federal agencies as of September 30, 2003 and September 30, 2002 were as follows (in millions):

	2003	2002
SSA: Federal Old-Age and Survivors Insurance Trust Fund	**$1,313,427**	$1,173,759
OPM: Civil Service Retirement and Disability Fund *	**601,709**	558,713
DOD: Military Retirement Fund	**172,362**	162,396
HHS: Federal Hospital Insurance Trust Fund	**251,323**	228,906
SSA: Federal Disability Insurance Trust Fund *	**170,793**	155,287
DOL: Unemployment Trust Fund	**48,188**	68,265
HHS: Federal Supplementary Medical Insurance Trust Fund	**24,922**	38,804
FDIC: The Bank Insurance Fund	**31,055**	30,542
DOT: Highway and Airport Trust Fund	**13,578**	18,840
OPM: Employees' Life Insurance Fund	**26,778**	25,350
RRB: Railroad Retirement Account	**503**	23,383
HUD: FHA Liquidating Account	**23,819**	21,249
VA: National Service Life Insurance Fund	**11,246**	11,465
Nuclear Waste Disposal Fund	**25,881**	23,421
Other Programs and Funds – Consolidated	**128,186**	105,142
Total Federal Debt Held By Federal Entities	**$2,843,770**	$2,645,522

* These amounts include marketable Treasury securities as well as Government Account Series (GAS) securities as follows (in millions):

	GAS Securities	Marketable Treasury Securities	**2003**	2002
Civil Service Retirement and Disability Fund, Par Value	$601,429	$280	**$601,709**	$558,713
Federal Disability Insurance Trust Fund, Par Value	$170,763	$30	**$170,793**	$155,287

Note: Abbreviations used in the above table are listed in the Glossary of Acronyms in Part VI – Appendices.

Federal Debt Held by the Public

As of September 30, 2003 and September 30, 2002, Federal Debt held by the Public consisted of the following (at par value, in millions):

	Term	Average Interest Rates	**2003**	2002
Marketable:				
Treasury Bills	*1 Year Or Less*	1.0%	**$918,196**	$868,220
Treasury Notes	*Over 1 Year - 10 Years*	3.8%	**1,919,459**	1,615,310
Treasury Bonds	*Over 10 Years*	7.8%	**622,675**	637,827
Total Marketable			**$3,460,330**	$3,121,357
Non-Marketable	*On Demand to Over 10 Years*	5.3%	**463,760**	431,823
Total Federal Debt (Public)			**$3,924,090**	$3,553,180

Marketable bills are issued at a discount and repaid at the par amount of the security upon maturity. The average interest rate on a Treasury Bill represents the average effective yield on the security.

Marketable notes and bonds are issued as long term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value, or at an amount that reflects a discount or a premium. The average interest rate represents the stated interest rate adjusted for any discount or premium. As of September 30, 2003, marketable notes included $120,035 million of Inflation Indexed Notes and the marketable bonds included $46,085 million of Inflation Indexed Bonds. (As of September 30, 2002, the amounts were $93,738 million and $45,132 million, respectively.)

Non-Marketable securities primarily consist of $201,606 million in U.S. Savings Securities ($193,357 million as of September 30, 2002), $148,366 million in securities issued to State and Local Governments ($144,286 million as of September 30, 2002), $11,007 million in Foreign Series Securities ($12,519 million as of September 30, 2002), $14,911 million in Depository Compensation Securities ($0 as of September 30, 2002) and $29,995 million Domestic Series Securities ($29,995 million as of September 30, 2002 also). Non-marketable securities are issued at both par and discounted values. The average interest rate on the non-marketable securities represents the weighted effective yield.

The Federal debt is subject to a statutory debt limit (31 U.S.C., Section 3101). The limit was $7,384 billion and $6,400 billion at, respectively, September 30, 2003 and September 30, 2002. The debt limit includes both Treasury securities held by the public and intra-governmental debt holdings. Intra-Treasury debt holdings are eliminated in the consolidation of these financial statements.

16. Loans Payable & Interest

The Federal Financing Bank (FFB) finances its loan portfolio primarily by borrowing from the Bureau of Public Debt. This intra-Departmental borrowing is eliminated in preparing the Department's consolidated financial statements. At September 30, 2002 the FFB also had borrowings of $14,999,990 from the Civil Service Retirement and Disability Fund (CSR&DF), which is administered by the Office of Personnel Management (OPM). Early in FY 2003, the FFB borrowed funds from the Bureau of Public Debt to exercise its call option and pay off the debt to the CSR&DF. From February 20 to May 27, 2003, the Department faced a debt issuance suspension period that required it to depart from its normal debt management procedures and to invoke legal authorities provided to avoid breaching the debt ceiling. Part of the actions taken involved suspending the investment of receipts of the CSR&DF and exchanging Government Account Series (GAS) securities issued by the Bureau of Public Debt for FFB securities. On March 5, 2003, the FFB exchanged certain GAS securities held by CSR&DF with an FFB loan, in the principal amount of $14,999,990. On May 27, 2003, Public Law 108-24 was enacted, raising the statutory debt ceiling by $984 billion to $7,384 billion. On June 30, 2003, the FFB repaid the March 5, 2003 loan from the CSR&DF, leaving a balance of zero at September 30, 2003.

17. Air Transportation Stabilization Program

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (Public Law 107-42). Title I of Public Law 107-42 established the Air Transportation Stabilization Board (ATSB) to issue federal credit instruments (loan guarantees) to assist air carriers that suffered losses as a result of the terrorist attacks on the United States that occurred on September 11, 2001.

The Act provides that the Board be composed of the Chairman of the Board of Governors of the Federal Reserve System, the Secretary of Transportation, the Secretary of Treasury, and the Comptroller General of the United States (as a non-voting member) or their designees. The board members are unpaid for their work contribution to the Board. The Board and related staff will exist only as long as necessary to service the loan guarantees.

The ATSB reviews and makes decisions on applications for Federal credit instruments, and is authorized to issue up to $10 billion in loan guarantees. The program is governed and accounted for in accordance with the provisions of the Federal Credit Reform Act of 1990. The present value of subsidy costs are recognized as a cost in the year the guaranteed loan is disbursed. Loan guarantee liabilities are reported at present value.

The ATSB has five loan guarantees outstanding at the end of fiscal year 2003, to guarantee $1.5 billion of $1.6 billion of loans from commercial lenders to air carriers. The total subsidy cost for the five loans at fiscal year end 2003, was $252.6 million (16 percent of the gross loan). The components of the subsidy included the estimated present value of defaults, $1.3 billion (81 percent of the gross loan), offset by the estimated present value of fees to be received, $1.0 billion (65 percent of the gross loan). As of September 30, 2003, the ATSB loan guarantee liability was $353.4 million.

The total subsidy cost for FY 2003 of $252.6 million, is comprised of the FY 2002 subsidy of $294.5 million, additional subsidies of $180.1 million for loan guarantees issued during fiscal year 2003, subsidy modifications of -$13.9 million during FY 2003, and a net downward re-estimate of subsidies of $208.1 million for FY 2003. The Office of Management and Budget approved ATSB's re-estimates for FY 2003 on October 31, 2003. Fees received in FY 2003 totaled $60.7 million. Administrative expenses for FY 2003 were $5.5 million.

As of September 30, 2003, the ATSB has conditionally approved one additional loan application for $30.0 million (of which approximately $ 27.0 million will be guaranteed). Additionally, one airline that was not approved in December of 2002 may submit a revised application seeking approval. This loan, when originally submitted, was for $2.0 billion. Note that all loan terms, including guaranteed amounts, are subject to significant fluctuation until the closing date.

18. Certificates Issued to Federal Reserve Banks

The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other Exchange Stabilization Fund operations. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary of the Treasury may determine.

19. D.C. Pension Liability

Pursuant to Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, the Department became responsible for certain District of Columbia retirement plans. The Act was intended to relieve the District of Columbia Government of the burden of unfunded pension liabilities transferred to the District by the Federal Government in 1979. The Act established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund), to make Federal Benefit Payments and pay necessary administrative expenses for the District of Columbia Police Officers, Firefighters, and Teachers Retirement Plans; and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund) to make Federal Benefit Payments and pay necessary administrative expenses of the Judges' Retirement Plan.

Treasury assumed responsibility for all benefits earned for the judges; and benefits earned on or before June 30, 1997, for the police officers, firefighters, and teachers. The Act also established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund) that accumulates funds to finance Federal Benefits Payments and necessary administrative expenses for the Police Officers, Firefighters, and Teachers Retirement Plans after funds in the Trust Fund have been depleted. Treasury is required to make annual amortized payments from the General Fund of the Treasury to the Judicial Retirement Fund and the Supplemental Fund. The amount paid into the Supplemental Fund from the General Fund was $269.2 million during fiscal year 2003 (and $251.7 million during FY 2002). The amount paid into the Judicial Retirement Fund from the General Fund was $6.7 million during fiscal year 2003 (and $6.7 million during FY 2002).

As of September 30, 2003, the assets of the three funds were approximately $4 billion, and liabilities were $8.3 billion, resulting in an unfunded liability of $4.3 billion. (As of September 30, 2002, the assets of the three funds were approximately $4 billion, and liabilities were $8.3 billion, resulting in an unfunded liability of $4.3 billion.) The actuarial cost method used to determine costs for the Trust and Judicial Retirement funds is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon assumptions selected by the U.S. Treasury. The assumptions used were an annual rate of investment return of 6 percent in FY 2003 and FY 2002, salary increases at an annual rate of 4 percent in FY 2003 and FY 2002, and inflation and cost-of-living adjustments at 3 percent in FY 2003 and FY 2002. The costs incurred by the plans for the year are included on the Consolidated Statement of Net Cost.

20. Commitments, Contingencies, and Other Risks

The Department is a party in various administrative proceedings, legal actions, and claims brought by or against it. At September 30, 2003, no claims were reported in which a loss is probable. (At September 30, 2002, the Department accrued $588.2 million.)

At September 30, 2003, no contingencies existed relative to proceedings, actions and claims for which it is reasonably possible that a loss may be incurred. (At September 30, 2002, such contingencies were estimated to be approximately $161.8 million.)

The Department identified cases in which a loss is reasonably possible, but for which a range of potential loss could not be determined. Based on the information provided by legal counsel and in the opinion of management, the ultimate resolution of these proceedings, actions and claims may materially affect the Department's financial position or results. These specific cases are summarized as follows:

Cobell v. Norton (formerly Cobell v. Babbitt): Native Americans allege that the Departments of Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' Individual Indian Monies. The plaintiffs have not made claims for specific dollar amounts in the Federal district court proceedings, but in public statements have asserted that the class is owed tens of billions of dollars.

Cruz v. United States, de la Torre v. United States, Barba v. United States & Chavez v. United States: These are claims that Mexican workers who were employed in the United States beginning in 1942 did not receive funds which were withheld from the workers, nor did they receive an accounting for such funds.

Ferreiro v. United States: Plaintiffs possibly claim allegedly past due civil service retirement benefits relating to individuals' employment by the U.S. government in Cuba prior to 1963 or, possibly U.S. civil service retirees living in Cuba.

Asociacion De Empleados Del Area Canalera v. the Panama Canal Commission: Panamanian citizens (and their beneficiaries) who were employed by the Panama Canal Commission prior to 2000 allege they did not receive all of their rights, benefits and privileges accorded them under U.S. law and a treaty.

Tribal Trust Fund Cases: Ten cases in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases which do not name the Department as a defendant.

Multilateral development banks (MDBs): The Department has subscribed to additional capital for certain multilateral development banks (MDBs), portion of which are callable. However, these subscriptions are callable under certain limited circumstances to meet the obligations of the respective MDBs. There has never been, nor is there anticipated, a call on the Department's subscriptions. As of September 30, 2003 and September 30, 2002 U.S. callable capital in MDBs were as follows (in millions):

	2003	2002
African Development Bank	**$1,268**	$1,189
Asian Development Bank	**5,911**	6,817
European Bank for Reconstruction and Development	**1,433**	1,310
Inter-American Development Bank	**28,687**	29,007
International Bank for Reconstruction & Development	**22,641**	29,966
Multilateral Investment Guarantee Agency	**280**	266
North American Development Bank	**1,275**	1,275
Total	**$61,495**	$69,830

Terrorism Risk Insurance Program: The Terrorism Risk Insurance Act of 2002 provides the Department an appropriation to compensate for commercial property and casualty insurance losses resulting from certified acts of terrorism. Under the program, the Federal government is responsible for paying 90 percent of the insured losses arising from acts of terrorism above the applicable insurer deductibles and below the annual cap of $100 billion. Any claims would be paid from permanent, indefinite budget authority and would not require subsequent appropriations. The Act sunsets on December 31, 2005. The Terrorism Risk Insurance Program is activated upon the declaration of an "act of terrorism" by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General. Acts of terrorism are defined by specific statutory criteria and, as of this date, there have been no such acts. If an act of terrorism meets legal criteria, the Office of Management and Budget will apportion funds to the Department to reimburse claimants for losses.

21. LIABILITIES

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2003 and September 30, 2002, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2003	2002
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:		
Federal Debt Principal, Premium/Discount	**$2,843,322**	$2,643,917
Other Intra-governmental Liabilities	**95**	176
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:	**$2,843,417**	$2,644,093
Federal Debt Principal, Premium/Discount	**$3,887,244**	$3,513,906
DC Pension Liability	**4,335**	4,366
Other Liabilities	**1,039**	1,802
Total Liabilities Not Covered by Budgetary & Other Resources	**$6,736,035**	$6,164,167

Other Liabilities with the Public

Total "Other Liabilities" displayed on the Balance Sheet consists of both liabilities that are covered and not covered by budgetary resources. The amounts displayed of $4,762 and $6,229 million, respectively, at September 30, 2003 and September 30, 2002 consisted of the following (in millions):

	2003	2002
Actuarial Liability for the Federal Worker's Compensation Program (FECA)	**$661**	$1,076
Liability for Deposit Funds (Funds Held by the Federal Government) & Suspense Accounts	**757**	964
ATSB Loan Guarantee Liabilities & Other ATSB Program Liabilities (Note 17)	**821**	0
Accrued Funded Payroll & Benefits	**233**	297
Capital Lease Liabilities	**106**	274
Accounts Payable & Accrued Liabilities (including employee leave)	**2,184**	3,618
Total Other Liabilities with the Public	**$4,762**	$6,229

22. Net Position

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and had not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the net results of operations since inception plus the cumulative amount of prior period adjustments, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and (c)expenses for contingent liabilities. Also included in cumulative results of operations are prior period adjustments. Prior period adjustments primarily involved accounting corrections related to prior year activity.

Other Financing Sources on the Consolidated Statement of Changes in Net Position

Other

The amount reported as "Other" on the Consolidated Statement of Changes in Net Position under "Other Financing Sources**"** mainly includes the amounts reported by the Bureau of Public Debt $13,118 and $12,947 million, respectively, reported for the years ended September 30, 2003 and September 30, 2002.

The Department also includes seigniorage in "Other." Seigniorage is the face value of newly minted coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the Treasury. The distribution is also included in "Other." In any given year, the amount recognized as seigniorage may differ with the amount distributed by an insignificant amount.

Seigniorage in the amounts of $537 and $896 million was recognized, respectively, for the years ended September 30, 2003 and September 30, 2002.

23. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations

The Department's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of the Department's organizational structure and operations requires that supporting schedules be included in the notes to the financial statements. The supporting schedules provide consolidating information, which fully displays the costs of each sub-organization.

The programs displayed on the Department's Consolidated Statement of Net Cost are equivalent to the missions identified in the Department's Strategic Plan, as applicable to the reporting period.

The classification of sub-organizations has been determined in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to the Department-wide programs is the result of using the following cost assignment methods: (1) direct costs; (2) cause and effect; and (3) cost allocation.

The Department's Strategic Plan includes a management mission. Costs related to the management mission are not displayed as a separate program. The rationale is that the strategic plan does not consider the Management Mission to be programmatic. In addition, SFFAS No. 4, recognizes that "a reporting entity and its segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of the organization costs, and they should be reported on the entity's financial statements (such as the Statement of Net Cost) as costs not assigned to programs." Accordingly, high-level general management and administrative support costs are displayed as costs not assigned to programs. Costs not assigned to programs also include non-production costs (costs that are linked to events other than the production of goods and services) that cannot be assigned to one of the programs.

In addition, Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

The Department's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred on behalf of the Federal Government (payments made to/by the Temporary State Fiscal Relief /Assistance Fund, the Judgment Fund, the Resolution Funding Corporation, the District of Columbia, etc.). These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve intra-Departmental transactions.

The Temporary State Fiscal Relief /Assistance Fund was established in FY 2003 under Public Law 108-27. Upon submission of certification to the Financial Management Service, payments are made to the governments of States, the District of Columbia and U.S. Territories. Payments are made based upon population. During FY 2003, $5 billion was appropriated and paid. Relief payments will also be paid in FY 2004.

Other Federal Costs (Payments) consisted of the following (in millions):

	2003	2002
Temporary State Fiscal Relief/Assistance Fund	**$5,000**	$0
Credit Reform Interest on Uninvested Funds (Intra-governmental)	**3,689**	4,281
Resolution Funding Corporation	**1,717**	675
Judgments, Claims and Contract Disputes	**1,007**	1,995
Corporation for Public Broadcasting	**411**	375
Legal Services Corporation	**337**	296
Refund of Monies Erroneously Received	**10**	786
Other Payments	**688**	545
	$12,859	$8,953

24. Pricing Policies – Exchange Revenues

A portion of the earned revenue displayed on the Department's Statement of Net Cost is generated by the provision of goods or services to the public or to other Federal entities.

Exchange revenues resulting from work performed for other Treasury sub-organizations or Federal entities represent reimbursements for the full costs incurred by the performing entity. Reimbursable work between Federal appropriations is subject to the Economy Act (31 U.S.C. 1535) or other statutes authorizing reimbursement. Prices associated with revenue earned from the public are based on recovery of full cost or are set at a market price.

The tables appearing in the next several pages present detailed information on the net cost of Treasury's sub-organizations. A separate table detailing the net cost of bureaus that were transferred during FY 2003 is also included.

23. Consolidating Statement of Net Cost & Net Costs of Treasury by Sub-organizations – Continuing Operations (In Millions):

For FYE September 30, 2003	Air Trans. Stabilization Board	Bureau of Engraving & Printing	Bureau of Public Debt	Community Development Fin. Inst.	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Fin. Crimes Enforcement Network	Financial Management Service	Franchise Fund
Program Costs:											
Economic Program:											
Intra-governmental Gross Costs	$0	$0	$2	$7	$0	$7	$1	$0	$0	$0	$0
Less: Earned Revenue	0	0	0	0	0	0	(124)	0	0	0	0
Intra-governmental Net Costs	$0	$0	$2	$7	$0	$7	($123)	$0	$0	$0	$0
Gross Costs with the Public	$0	$0	$11	$78	$0	$21	$645	$0	$0	$0	$0
Less: Earned Revenue	0	0	0	(2)	0	0	(3,631)	0	0	0	0
Net Costs with the Public	$0	$0	$11	$76	$0	$21	($2,986)	$0	$0	$0	$0
Net Cost: Economic Program	**$0**	**$0**	**$13**	**$83**	**$0**	**$28**	**($3,109)**	**$0**	**$0**	**$0**	**$0**
Financial Program:											
Intra-governmental Gross Costs	$0	$75	$75	$0	$4	$7	$0	$3,921	$0	$169	$0
Less: Earned Revenue	0	(38)	(6)	0	(196)	(3)	0	(3,617)	0	(146)	0
Intra-governmental Net Costs	$0	$37	$69	$0	($192)	$4	$0	$304	$0	$23	$0
Gross Costs with the Public	$0	$469	$238	$0	$438	$24	$0	$0	$0	$364	$0
Less: Earned Revenue	0	(480)	(3)	0	(1)	0	0	0	0	0	0
Net Costs with the Public	$0	($11)	$235	$0	$437	$24	$0	$0	$0	$364	$0
Net Cost: Financial Program	**$0**	**$26**	**$304**	**$0**	**$245**	**$28**	**$0**	**$304**	**$0**	**$387**	**$0**
Law Enforcement Program:											
Intra-governmental Gross Costs	$0	$0	$0	$0	$0	$122	$0	$0	$24	$0	$0
Less: Earned Revenue	0	0	0	0	0	(2)	0	0	(2)	0	0
Intra-governmental Net Costs	$0	$0	$0	$0	$0	$120	$0	$0	$22	$0	$0
Gross Costs with the Public	$0	$0	$0	$0	$0	$19	$0	$0	$30	$0	$0
Less: Earned Revenue	0	0	0	0	0	0	0	0	0	0	0
Net Costs with the Public	$0	$0	$0	$0	$0	$19	$0	$0	$30	$0	$0
Net Cost: Law Enforcement Program	**$0**	**$0**	**$0**	**$0**	**$0**	**$139**	**$0**	**$0**	**$52**	**$0**	**$0**
Total Program Costs, Net	**$0**	**$26**	**$317**	**$83**	**$245**	**$195**	**($3,109)**	**$304**	**$52**	**$387**	**$0**
Costs Not Assigned to Programs:											
Intra-governmental	0	0	0	0	0	76	0	0	0	0	18
With the Public	(21)	0	0	0	0	591	0	0	0	0	392
Less: Earned Revenue Not Attributed to Programs:											
Intra-governmental	(15)	0	0	0	0	(257)	0	0	0	0	(413)
With the Public	0	0	0	0	0	0	0	0	0	0	(1)
Net Cost of Operations	**($36)**	**$26**	**$317**	**$83**	**$245**	**$605**	**($3,109)**	**$304**	**$52**	**$387**	**($4)**

23. Consolidating Statement of Net Cost & Net Costs of Treasury by Sub-organizations – Continuing Operations (In Millions):

For FYE September 30, 2003	Inspector General	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Treasury Forfeiture Fund	Treasury I.G. for Tax Admin.	International Assistance Programs	Alcohol, Tobacco Tax & Trade Bureau	Combined Total	Eliminations and Adjustments	**9/30/2003 Consolidated**
Program Costs:												
Economic Program:												
Intra-governmental Gross Costs	$0	$0	$0	$67	$22	$0	$0	$214	$0	**$320**	**($9)**	**$311**
Less: Earned Revenue	0	0	0	(10)	(8)	0	0	0	0	**(142)**	**138**	**(4)**
Intra-governmental Net Costs	$0	$0	$0	$57	$14	$0	$0	$214	$0	**$178**	**$129**	**$307**
Gross Costs with the Public	$0	$0	$0	$384	$136	$0	$0	$1,428	0	**$2,703**	**$1**	**$2,704**
Less: Earned Revenue	0	0	0	(456)	(161)	0	0	0	0	**(4,250)**	**0**	**(4,250)**
Net Costs with the Public	$0	$0	$0	($72)	($25)	$0	$0	$1,428	$0	**(1,547)**	**$1**	**($1,546)**
Net Cost: Economic Program	$0	$0	$0	($15)	($11)	$0	$0	$1,642	$0	**(1,369)**	**$130**	**($1,239)**
Financial Program:												
Intra-governmental Gross Costs	$0	$2,976	$61	$0	$0	$0	$0	$0	$25	**$7,313**	**($2,516)**	**$4,797**
Less: Earned Revenue	0	(26)	(4)	0	0	0	0	0	0	**(4,036)**	**806**	**(3,230)**
Intra-governmental Net Costs	$0	$2,950	$57	$0	$0	$0	$0	$0	$25	**$3,277**	**($1,710)**	**$1,567**
Gross Costs with the Public	$0	$6,727	$817	$0	$0	$0	$0	$0	$23	**$9,100**	**($1)**	**$9,099**
Less: Earned Revenue	0	(139)	(867)	0	0	0	0	0	(1)	**(1,491)**	**1**	**(1,490)**
Net Costs with the Public	$0	$6,588	($50)	$0	$0	$0	$0	$0	$22	**$7,609**	**$0**	**$7,609**
Net Cost: Financial Program	$0	$9,538	$7	$0	$0	$0	$0	$0	$47	**$10,886**	**($1,710)**	**$9,176**
Law Enforcement Program:												
Intra-governmental Gross Costs	$0	$178	$0	$0	$0	$69	$0	$0	$0	**$393**	**($150)**	**$243**
Less: Earned Revenue	0	(82)	0	0	0	0	0	0	0	**(86)**	**84**	**(2)**
Intra-governmental Net Costs	$0	$96	$0	$0	$0	$69	$0	$0	$0	**$307**	**($66)**	**$241**
Gross Costs with the Public	$0	$488	$0	$0	$0	$34	$0	$0	$0	**$571**	**$1**	**$572**
Less: Earned Revenue	0	(1)	0	0	0	0	0	0	0	**($1)**	**0**	**(1)**
Net Costs with the Public	$0	$487	$0	$0	$0	$34	$0	$0	$0	**$570**	**$1**	**$571**
Net Cost: Law Enforcement Program	$0	$583	$0	$0	$0	$103	$0	$0	$0	**$877**	**($65)**	**$812**
Total Program Costs, Net	**$0**	**$10,121**	**$7**	**($15)**	**($11)**	**$103**	**$0**	**$1,642**	**$47**	**$10,394**	**($1,645)**	**$8,749**
Costs Not Assigned to Programs:												
Intra-governmental	8	0	0	0	0	0	38	0	0	**140**	**($17)**	**123**
With the Public	15	0	0	0	0	0	74	0	0	**1,051**	**0**	**1,051**
Less: Earned Revenue Not Attributed to Programs:												
Intra-governmental	(1)	0	0	0	0	0	(3)	0	0	**(689)**	**266**	**(423)**
With the Public	0	0	0	0	0	0	0	0	0	**(1)**	**0**	**(1)**
Net Cost of Operations	**$22**	**$10,121**	**$7**	**($15)**	**($11)**	**$103**	**$109**	**$1,642**	**$47**	**$10,895**	**($1,396)**	**$9,499**

23. Consolidating Statement of Net Cost & Net Costs of Treasury by Sub-organizations – Continuing Operations (In Millions):

Restated for FYE September 30, 2002	Air Trans. Stabilization Board	Bureau of Engraving & Printing	Bureau of Public Debt	Community Development Fin. Inst.	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Fin. Crimes Enforcement Network	Financial Management Service	Franchise Fund
Program Costs:											
Economic Program:											
Intra-governmental Gross Costs	$0	$0	$3	$6	$0	$8	$2	$0	$0	$0	$0
Less: Earned Revenue	0	0	0	0	0	0	(184)	0	0	0	0
Intra-governmental Net Costs	$0	$0	$3	$6	$0	$8	($182)	$0	$0	$0	$0
Gross Costs with the Public	$0	$0	$12	$99	$0	$21	$310	$0	$0	$0	$0
Less: Earned Revenue	0	0	0	(1)	0	0	(1,320)	0	0	0	0
Net Costs with the Public	$0	$0	$12	$98	$0	$21	($1,010)	$0	$0	$0	$0
Net Cost: Economic Program	$0	$0	$15	$104	$0	$29	($1,192)	$0	$0	$0	$0
Financial Program:											
Intra-governmental Gross Costs	$0	$70	$73	$0	$3	$5	$0	$3,260	$0	$144	$0
Less: Earned Revenue	0	(47)	(5)	0	(205)	(3)	0	(3,064)	0	(122)	0
Intra-governmental Net Costs	$0	$23	$68	$0	($202)	$2	$0	$196	$0	$22	$0
Gross Costs with the Public	$0	$414	$237	$0	$624	$21	$0	$0	$0	$303	$0
Less: Earned Revenue	0	(396)	(3)	0	(1)	0	0	0	0	0	0
Net Costs with the Public	$0	$18	$234	$0	$623	$21	$0	$0	$0	$303	$0
Net Cost: Financial Program	$0	$41	$302	$0	$421	$23	$0	$196	$0	$325	$0
Law Enforcement Program:											
Intra-governmental Gross Costs	$0	$0	$0	$0	$0	$179	$0	$0	$18	$0	$0
Less: Earned Revenue	0	0	0	0	0	(2)	0	0	(3)	0	0
Intra-governmental Net Costs	$0	$0	$0	$0	$0	$177	$0	$0	$15	$0	$0
Gross Costs with the Public	$0	$0	$0	$0	$0	$22	$0	$0	$25	$0	$0
Less: Earned Revenue	0	0	0	0	0	0	0	0	0	0	0
Net Costs with the Public	$0	$0	$0	$0	$0	$22	$0	$0	$25	$0	$0
Net Cost: Law Enforcement Program	$0	$0	$0	$0	$0	$199	$0	$0	$40	$0	$0
Total Program Costs, Net	**$0**	**$41**	**$317**	**$104**	**$421**	**$251**	**($1,192)**	**$196**	**$40**	**$325**	**$0**
Costs Not Assigned to Programs:											
Intra-governmental	0	0	0	0	0	79	0	0	0	0	17
With the Public	298	0	0	0	0	362	0	0	0	0	287
Less: Earned Revenue Not Attributed to Programs:											
Intra-governmental	0	0	0	0	0	(245)	0	0	0	0	(308)
With the Public	0	0	0	0	0	0	0	0	0	0	(2)
Net Cost of Operations	**$298**	**$41**	**$317**	**$104**	**$421**	**$447**	**($1,192)**	**$196**	**$40**	**$325**	**($6)**

23. Consolidating Statement of Net Cost & Net Costs of Treasury by Sub-organizations – Continuing Operations (In Millions):

Restated for FYE September 30, 2002	Inspector General	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Treasury Forfeiture Fund	Treasury I.G. for Tax Admin.	International Assistance Programs	Combined Total	Eliminations and Adjustments	**9/30/2002 Consolidated**
Program Costs:											
Economic Program:											
Intra-governmental Gross Costs	$0	$0	$0	$59	$17	$0	$0	$66	**$161**	**($7)**	**$154**
Less: Earned Revenue	0	0	0	(13)	(8)	0	0	0	**(205)**	**202**	**(3)**
Intra-governmental Net Costs	$0	$0	$0	$46	$9	$0	$0	$66	**($44)**	**$195**	**$151**
Gross Costs with the Public	$0	$0	$0	$364	$144	$0	$0	$1,603	**$2,553**	**$0**	**$2,553**
Less: Earned Revenue	0	0	0	(430)	(156)	0	0	0	**(1,907)**	**0**	**(1,907)**
Net Costs with the Public	$0	$0	$0	($66)	($12)	$0	$0	$1,603	**$646**	**0**	**$646**
Net Cost: Economic Program	$0	$0	$0	($20)	($3)	$0	$0	$1,669	**$602**	**$195**	**$797**
Financial Program:											
Intra-governmental Gross Costs	$0	$2,892	$57	$0	$0	$0	$0	$0	**$6,504**	**($1,931)**	**$4,573**
Less: Earned Revenue	0	(19)	(3)	0	0	0	0	0	**(3,468)**	**249**	**(3,219)**
Intra-governmental Net Costs	$0	$2,873	$54	$0	$0	$0	$0	$0	**$3,036**	**($1,682)**	**$1,354**
Gross Costs with the Public	$0	$6,792	$827	$0	$0	$0	$0	$0	**$9,218**	**($1)**	**$9,217**
Less: Earned Revenue	0	(160)	(905)	0	0	0	0	0	**(1,465)**	**2**	**(1,463)**
Net Costs with the Public	$0	$6,632	($78)	$0	$0	$0	$0	$0	**$7,753**	**$1**	**$7,754**
Net Cost: Financial Program	$0	$9,505	($24)	$0	$0	$0	$0	$0	**$10,789**	**($1,681)**	**$9,108**
Law Enforcement Program:											
Intra-governmental Gross Costs	$0	$106	$0	$0	$0	$75	$0	$0	**$378**	**($252)**	**$126**
Less: Earned Revenue	0	(84)	0	0	0	0	0	0	**(89)**	**86**	**(3)**
Intra-governmental Net Costs	$0	$22	$0	$0	$0	$75	$0	$0	**$289**	**($166)**	**$123**
Gross Costs with the Public	$0	$509	$0	$0	$0	$42	$0	$0	**$598**	**$0**	**$598**
Less: Earned Revenue	0	0	0	0	0	0	0	0	**0**	**0**	**0**
Net Costs with the Public	$0	$509	$0	$0	$0	$42	$0	$0	**$598**	**$0**	**$598**
Net Cost: Law Enforcement Program	$0	$531	$0	$0	$0	$117	$0	$0	**$887**	**($166)**	**$721**
Total Program Costs, Net	**$0**	**$10,036**	**($24)**	**($20)**	**($3)**	**$117**	**$0**	**$1,669**	**$12,278**	**($1,652)**	**$10,626**
Costs Not Assigned to Programs:											
Intra-governmental	10	0	0	0	0	0	31	0	**137**	**($7)**	**130**
With the Public	27	0	0	0	0	0	105	0	**1,079**	**1**	**1,080**
Less: Earned Revenue Not Attributed to Programs:											
Intra-governmental	(1)	0	0	0	0	0	(4)	0	**(558)**	**293**	**(265)**
With the Public	0	0	0	0	0	0	0	0	**(2)**	**0**	**(2)**
Net Cost of Operations	**$36**	**$10,036**	**($24)**	**($20)**	**($3)**	**$117**	**$132**	**$1,669**	**$12,934**	**($1,365)**	**$11,569**

24. Total Cost and Earned Revenue by Federal Budget Functional Classification *(In Millions)*

FY 2003	Education & Training	Veterans Benefits	Energy	Commerce & Housing	Community & Regional Development	Net Interest	International Affairs	Administration of Justice	General Government	**2003 Total**
Agency Gross Cost:										
Gross Cost – Federal	$0	$0	$0	$89	$7	$157,710	$219	$836	$11,419	**$170,280**
Less: Intra-Departmental Eliminations	0	0	0	(5)	(4)	(339)	(2)	(163)	(2,563)	**(3,076)**
Inter-Departmental Gross Cost –	$0	$0	$0	$84	$3	$157,371	$217	$673	$8,856	**$167,204**
Gross Cost – Public	417	337	0	2,238	78	156,797	2,106	1,704	17,261	**180,938**
Agency Gross Cost	$417	$337	$0	$2,322	$81	$314,168	$2,323	$2,377	$26,117	**$348,142**
Agency Exchange Revenue:										
Exchange Revenue – Federal	$0	$0	$0	$18	$0	$13,131	$133	$89	$4,802	**$18,173**
Less: Intra-Departmental Eliminations	0	0	0	(15)	0	(1,714)	(124)	(57)	(1,157)	**(3,067)**
Inter-Dept. Exchange Revenue –	$0	$0	$0	$3	$0	$11,417	$9	$32	$3,645	**$15,106**
Exchange Revenue – Public	0	0	0	617	2	0	3,631	26	1,512	**5,788**
Agency Exchange Revenue	$0	$0	$0	$620	$2	$11,417	$3,640	$58	$5,157	**$20,894**
Agency Net Cost	**$417**	**$337**	**$0**	**$1,702**	**$79**	**$302,751**	**($1,317)**	**$2,319**	**$20,960**	**$327,248**

24. Total Cost and Earned Revenue by Federal Budget Functional Classification *(In Millions)*

FY 2002 - Restated	Education & Training	Veterans Benefits	Energy	Commerce & Housing	Community & Regional Development	Net Interest	International Affairs	Administration of Justice	General Government	2002 Total
Agency Gross Cost:										
Gross Cost – Federal	$0	$0	$0	$76	$6	$162,973	$71	$1,642	$11,050	$175,818
Less: Intra-Departmental Eliminations	0	0	0	(3)	(2)	(413)	(1)	(323)	(1,984)	(2,726)
Inter-Departmental Gross Cost –	$0	$0	$0	$73	$4	$162,560	$70	$1,319	$9,066	$173,092
Gross Cost – Public	380	333	0	1,182	99	175,391	1,936	3,960	14,198	197,479
Agency Gross Cost	$380	$333	$0	$1,255	$103	$337,951	$2,006	$5,279	$23,264	$370,571
Agency Exchange Revenue:										
Exchange Revenue – Federal	$0	$0	$0	$20	$0	$12,943	$188	$238	$4,108	$17,497
Less: Intra-Departmental Eliminations	0	0	0	(17)	0	(1,683)	(184)	(171)	(626)	(2,681)
Inter-Dept. Exchange Revenue –	$0	$0	$0	$3	$0	$11,260	$4	$67	$3,482	$14,816
Exchange Revenue – Public	0	0	0	586	1	0	1,320	39	1,511	3,457
Agency Exchange Revenue	$0	$0	$0	$589	$1	$11,260	$1,324	$106	$4,993	$18,273
Agency Net Cost	$380	$333	$0	$666	$102	$326,691	$682	$5,173	$18,271	$352,298

25. *Consolidating Statement of Changes in Net Position by Sub-organization (In Millions):*

	Air Trans. Stabilization Board	Bureau of Engraving & Printing	Bureau of Public Debt	Community Development Fin. Inst.	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Fin. Crimes Enforcement Network	Financial Management Service	Franchise Fund	Inspector General	Internal Revenue Service
Cumulative Results of Operations:													
Beginning Balance – 10/1/2002	($122)	$520	($1)	$34	($4,366)	$52	$28,686	($553)	$3	$49	$28	$(2)	$549
Prior Period Adjustments	0	0	(13)	0	0	0	0	0	0	38	0	0	0
Beginning Balance, as Adjusted	($122)	$520	($14)	$34	($4,366)	$52	$28,686	($553)	$3	$87	$28	($2)	$549
Budgetary Financing Sources:													
Appropriations Used	$299	$0	$321,997	$91	$276	$430	$0	$0	$53	$13,268	$0	$21	$9,685
Non-Exchange Revenue	0	0	0	0	0	1,917	0	0	0	50	0	0	0
Donations and Forfeitures of Cash and Cash Equivalents	0	0	1	0	0	0	0	0	0	0	0	0	0
Transfers In/Out without Reimbursement	(5)	0	0	0	0	(1,660)	0	0	0	0	0	0	0
Other Budgetary Financing Sources	0	0	0	0	0	0	0	0	0	(5)	0	0	0
Other Financing Sources:													
Donations & Forfeitures of Property	0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Interest & Discount on the Debt	0	0	(7,177)	0	0	0	0	0	0	0	0	0	0
Transfers In/Out without Reimbursement	(233)	0	0	0	0	1	0	0	2	0	0	0	12
Imputed Financing Sources	0	14	8	0	0	9	0	0	1	14	3	1	566
Other	0	0	(13,118)	(1)	0	0	0	0	0	(1)	0	0	(44)
Total Financing Sources	61	14	301,711	90	276	697	0	0	56	13,326	3	22	10,219
Net Cost of Operations	36	(26)	(301,693)	(83)	(245)	(605)	3,109	(304)	(52)	(13,262)	4	(22)	(10,121)
Ending Balance – 9/30/2003	**($25)**	**$508**	**$4**	**$41**	**($4,335)**	**$144**	**$31,795**	**($857)**	**$7**	**$151**	**$35**	**($2)**	**$647**
Unexpended Appropriations:													
Beginning Balance – 10/1/2002	$5	$0	$35	$86	$0	$346	$200	$239	$19	$78	$0	$6	$1,038
Prior Period Adjustments	0	0	0	0	0	0	0	0	0	(37)	0	0	3
Beginning Balance, as Adjusted	5	0	35	86	0	346	200	239	19	41	0	6	1,041
Budgetary Financing Sources:													
Appropriations Received	300	0	322,008	75	276	420	0	0	52	13,268	0	35	9,910
Appropriations Transferred In/Out	0	0	0	0	0	918	0	0	0	0	0	(14)	1
Appropriations Used	(299)	0	(321,997)	(91)	(276)	(430)	0	0	(53)	(13,268)	0	(21)	(9,685)
Other Adjustments	0	0	(2)	(2)	0	(4)	0	0	(1)	(2)	0	(1)	(127)
Total Financing Sources	1	0	9	(18)	0	904	0	0	(2)	(2)	0	(1)	99
Ending Balance – 9/30/2003	6	0	44	68	0	1,250	200	239	17	39	0	5	1,140
TOTAL NET POSITION	($19)	$508	$48	$109	($4,335)	$1,394	31,995	($618)	$24	$190	$35	$3	$1,787

25. Consolidating Statement of Changes in Net Position by Sub-organization (In Millions):

	U.S. Mint	Office of the Comptroller the Currency	Office of Thrift Supervision	Treasury Forfeiture Fund	Treasury I.G. for Tax Admin.	International Assistance Programs	Tax & Trade Bureau	Alcohol Tobacco Firearms	U.S. Customs Service	U.S. Secret Service	Federal Law Enforcement Training Cntr.	Combined Total	Eliminations And Adjustments	**9/30/2003 Consolidated**
Cumulative Results of Operations:														
Beginning Balance – 10/1/2002	$731	$252	$127	$173	($28)	$26,231	$0	$65	$993	$15	$211	$53,647	$0	**$53,647**
Prior Period Adjustments	0	0	0	0	(1)	0	0	0	0	3	1	28	0	**28**
Beginning Balance, as Adjusted	731	252	127	173	(29)	26,231	0	65	993	18	212	53,675	0	**53,675**
Budgetary Financing Sources:														
Appropriations Used	0	0	0	0	125	4,944	43	261	823	449	80	352,845	0	**352,845**
Non-Exchange Revenue	0	0	0	5	0	0	0	0	522	0	0	2,494	(5)	**2,489**
Donations and Forfeitures of Cash and Cash Equivalents	0	0	0	158	0	0	0	0	0	0	0	159	1	**160**
Transfers In/Out without Reimbursement	0	0	0	0	0	0	0	0	0	0	8	(1,657)	0	**(1,657)**
Other Budgetary Financing Sources	0	0	0	0	0	0	0	0	0	0	0	(5)	0	**(5)**
Other Financing Sources:														
Donations & Forfeitures of Property	0	0	0	(12)	0	0	0	0	0	0	0	(12)	0	**(12)**
Accrued Interest & Discount on the Debt	0	0	0	0	0	0	0	0	0	0	0	(7,177)	0	**(7,177)**
Transfers In/Out without Reimbursement	0	0	0	(39)	0	0	2	(61)	(1,071)	(20)	(243)	(1,650)	0	**(1,650)**
Imputed Financing Sources	11	20	5	0	7	0	2	7	52	10	2	732	(3)	**729**
Other	(63)	0	0	0	0	0	0	1	2	0	0	(13,224)	0	**(13,224)**
Total Financing Sources	(52)	20	5	112	132	4,944	47	208	328	439	(153)	332,505	(7)	**332,498**
Net Cost of Operations	(7)	15	11	(103)	(109)	(1,643)	(47)	(273)	(1,321)	(457)	(59)	(327,257)	9	**(327,248)**
Ending Balance – 9/30/2003	672	287	143	182	(6)	29,532	0	0	0	0	0	58,923	2	**58,925**
Unexpended Appropriations:														
Beginning Balance – 10/1/2002	0	0	0	0	10	45,831	0	183	1,362	269	121	49,828	0	**49,828**
Prior Period Adjustments	0	0	0	0	0	0	0	0	0	0	(1)	(35)	0	**(35)**
Beginning Balance, as Adjusted	0	0	0	0	10	45,831	0	183	1,362	269	120	49,793	0	**49,793**
Budgetary Financing Sources:														
Appropriations Received	0	0	0	0	125	6,325	0	887	2,727	1,233	176	357,817	0	**357,817**
Appropriations Transferred In/Out	0	0	0	0	(1)	201	54	(803)	(3,246)	(1,046)	(213)	(4,149)	0	**(4,149)**
Appropriations Used	0	0	0	0	(125)	(4,944)	(43)	(261)	(823)	(449)	(80)	(352,845)	0	**(352,845)**
Other Adjustments	0	0	0	0	0	(8)	0	(6)	(20)	(7)	(3)	(183)	0	**(183)**
Total Financing Sources	0	0	0	0	(1)	1,574	11	(183)	(1,362)	(269)	(120)	640	0	**640**
Ending Balance – 9/30/2003	0	0	0	0	9	47,405	$11	0	0	0	0	50,433	0	**50,433**
TOTAL NET POSITION	$672	$287	$143	$182	$3	$76,937	$11	$0	$0	$0	$0	$109,356	$2	**$109,358**

25. *Consolidating Statement of Changes in Net Position by Sub-organization (In Millions):*

	Air Trans. Stabilization Board	Bureau of Engraving & Printing	(Restated) Bureau of Public Debt	Community Development Fin. Inst.	DC Pensions Fund	(Restated) Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Fin. Crimes Enforcement Network	(Restated) Financial Management Service	Franchise Fund	Inspector General	Internal Revenue Service
Cumulative Results of Operations:					**Restated**								
Beginning Balance – 10/1/2001	$0	$549	($7)	$27	($4,203)	$27	$27,493	($357)	$1	$23	$19	($3)	$438
Prior Period Adjustments	0	0	3	0	0	0	0	0	0	0	0	0	0
Beginning Balance, as Adjusted	$0	$549	($4)	$27	($4,203)	$27	$27,493	($357)	$1	$23	$19	($3)	$438
Budgetary Financing Sources:													
Appropriations Used	176	0	343,428	111	258	466	0	0	40	9,292	0	34	9,747
Non-Exchange Revenue	0	0	0	0	0	0	0	0	0	6	0	0	0
Donations and Forfeitures of Cash and Cash Equivalents	0	0	1	0	0	0	0	0	0	0	0	0	0
Transfers In/Out without Reimbursement	0	0	0	0	0	0	0	0	0	0	0	1	0
Other Budgetary Financing Sources	0	0	0	0	0	0	0	0	0	(2)	0	0	0
Other Financing Sources:													
Donations & Forfeitures of Property	0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Interest & Discount on the Debt	0	0	(4,748)	0	0	0	0	0	0	0	0	0	0
Transfers In/Out without Reimbursement	0	0	0	0	0	0	0	0	1	0	0	0	10
Imputed Financing Sources	0	12	7	0	0	7	0	0	1	12	3	1	454
Other	0	0	(12,947)	0	0	0	0	0	0	(2)	0	0	(64)
Total Financing Sources	**$176**	**$12**	**$325,741**	**$111**	**$258**	**$473**	**$0**	**$0**	**$42**	**$9,306**	**$3**	**$36**	**$10,147**
Net Cost	(298)	(41)	(325,738)	(104)	(421)	(447)	1,192	(196)	(40)	(9,279)	6	(36)	(10,036)
Ending Balance – 9/30/2002	**($122)**	**$520**	**($1)**	**$34**	**($4,366)**	**$53**	**$28,685**	**($553)**	**$3**	**$50**	**$28**	**($3)**	**$549**
Unexpended Appropriations:					Restated								
Beginning Balance – 10/1/2001	$0	$0	$31	$117	$0	$368	$200	$239	$12	$102	$0	$6	$1,380
Prior Period Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance, as Adjusted	$0	$0	$31	$117	$0	$368	$200	$239	$12	$102	$0	$6	$1,380
Budgetary Financing Sources:													
Appropriations Received	172	0	343,433	80	258	429	0	0	47	9,284	0	35	9,509
Appropriations Transferred In/Out	9	0	0	0	0	18	0	0	0	0	0	0	0
Appropriations Used	(176)	0	(343,428)	(111)	(258)	(466)	0	0	(40)	(9,292)	0	(34)	(9,747)
Other Adjustments	0	0	(1)	(1)	0	(3)	0	0	0	(17)	0	(1)	(103)
Total Financing Sources	$5	$0	$4	($32)	$0	($22)	$0	$0	$7	($25)	$0	$0	($341)
Ending Balance – 9/30/2002	$5	$0	$35	$85	$0	$346	$200	$239	$19	$77	$0	$6	$1,039
TOTAL NET POSITION	($117)	$520	$34	$119	($4,366)	$399	$28,885	($314)	$22	$127	$28	$3	$1,588

25. *Consolidating Statement of Changes in Net Position by Sub-organization (In Millions):*

	(Restated) U.S. Mint Restated	Office of the Comptroller the Currency	Office of Thrift Supervision	Treasury Forfeiture Fund	(Restated) Treasury I.G. for Tax Admin.	International Assistance Programs	Alcohol Tobacco & Firearms	(Restated) U.S. Customs Service	(Restated) U.S. Secret Service	Federal Law Enforcement Training Cntr.	Combined Total	Eliminations And Adjustments	(Restated) 9/30/2002 Consolidated
Cumulative Results of													
Beginning Balance – 10/1/2001	$832	$214	$119	$238	$9	$23,681	($48)	$920	$22	$169	$50,163	$1	**$50,164**
Prior Period Adjustments	0	0	0	0	(35)	0	0	0	(11)	0	(43)	(1)	**(44)**
Beginning Balance, as Adjusted	$832	$214	$119	$238	($26)	$23,681	($48)	$920	$11	$169	$50,120	$0	**$50,120**
Budgetary Financing Sources:													
Appropriations Used	0	0	0	0	126	4,218	881	1,687	1,059	164	371,687	0	**371,687**
Non-Exchange Revenue	0	0	0	6	0	0	0	1,237	0	0	1,249	(7)	**1,242**
Donations and Forfeitures of Cash and Cash Equivalents	0	0	0	98	0	0	0	0	0	0	99	0	**99**
Transfers In/Out without Reimbursement	0	0	0	0	0	0	0	3	0	0	4	0	**4**
Other Budgetary Financing Sources	0	0	0	0	0	0	0	(3)	0	0	(5)	0	**(5)**
Other Financing Sources:													
Donations & Forfeitures of	0	0	0	(42)	0	0	0	0	0	0	(42)	0	**(42)**
Accrued Interest & Discount on the Debt	0	0	0	0	0	0	0	0	0	0	(4,748)	0	**(4,748)**
Transfers In/Out without Reimbursement	0	0	0	(10)	0	0	24	10	6	3	44	0	**44**
Imputed Financing Sources	9	18	5	0	5	0	28	137	25	4	728	(40)	**688**
Other	(133)	0	0	0	0	0	0	0	0	0	(13,146)	2	**(13,144)**
Total Financing Sources	**($124)**	**$18**	**$5**	**$52**	**$131**	**$4,218**	**$933**	**$3,071**	**$1,090**	**$171**	**$355,870**	**($45)**	**$355,825**
Net Cost	24	20	3	(117)	(132)	(1,669)	(821)	(2,998)	(1,086)	(129)	(352,343)	45	**(352,298)**
Ending Balance – 9/30/2002	**$732**	**$252**	**$127**	**$173**	**($27)**	**$26,230**	**$64**	**$993**	**$15**	**$211**	**$53,647**	**$0**	**$53,647**
Unexpended Appropriations:													
Beginning Balance – 10/1/2001	$0	$0	$0	$0	$11	$48,016	$212	$857	$241	$115	$51,907	$0	**$51,907**
Prior Period Adjustments	0	0	0	0	0	0	0	0	56	0	56	0	**56**
Beginning Balance, as Adjusted	$0	$0	$0	$0	$11	$48,016	$212	$857	$297	$115	$51,963	$0	**$51,963**
Budgetary Financing Sources:													
Appropriations Received	0	0	0	0	125	2,146	855	2,130	1,171	174	369,848	0	**369,848**
Appropriations Transferred In/Out	0	0	0	0	0	46	0	78	27	0	178	0	**178**
Appropriations Used	0	0	0	0	(126)	(4,218)	(881)	(1,687)	(1,059)	(164)	(371,687)	0	**(371,687)**
Other Adjustments	0	0	0	0	0	(159)	(3)	(15)	(167)	(4)	(474)	0	**(474)**
Total Financing Sources	$0	$0	$0	$0	($1)	($2,185)	($29)	$506	($28)	$6	($2,135)	$0	**($2,135)**
Ending Balance – 9/30/2002	$0	$0	$0	$0	$10	$45,831	$183	$1,363	$269	$121	$49,828	$0	**$49,828**
TOTAL NET POSITION	$732	$252	$127	$173	($17)	$72,061	$247	$2,356	$284	$332	$103,475	$0	**$103,475**

26. Adjustments to Budgetary Resources Available at the Beginning of the Year & Other Information - Statement of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statement of Budgetary Resources (per OMB Bulletin 01-09, Form and Content of Agency Financial Statements.) The information for the fiscal years ended September 30, 2003 and September 30, 2002 were as follows (in millions):

	2003	2002
Net Amount of Budgetary Resources Obligated for Undelivered Orders	**$30,931**	$32,826
Available Borrowing and Contract Authority at the end of the period	**$5,718**	$5,726
Adjustments During the Reporting Period to Budgetary Resources, Available at the Beginning of the Year	**$42**	$267
Amount of Contributed Capital Received During the Reporting Period	**$0**	$1

27. Existence, Purpose, and Availability of Permanent, Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax and duty refunds, duty drawbacks, earned income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity of Treasury. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Consolidated Statement of Net Cost. Likewise, the resultant refunds of overpayments are not available for use by the Department in its operations. Consequently, to present refunds as an expense of the Department on the Consolidated Statement of Net Cost with related appropriations used, would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt related activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department receives other permanent and indefinite appropriations to make payments on behalf of the United States Government. For example, one of these appropriations is provided to make payments to the Federal Reserve for services provided to the Department. Others are provided to make other disbursements on behalf of the Federal Government including payments made to various individuals as the result of certain claims and judgment rendered against the United States.

28. Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

Included in FY 2003 cumulative results of operations is $60.9 million that represents the Internal Revenue Service's authority to assess and collect user fees. In FY 2002, the Department reported user fee collections of $802 million, $640 million of the user fee collections were restricted by law to offset specific costs. The $640 million was attributed to user fees collected by the U.S. Customs Service, which was transferred to the Department of Homeland Security during FY 2003.

29. Collection and Disposition of Custodial Revenue

The Department collects the majority of Federal revenue from income and excise taxes and duties on imported goods. Collection activity, by revenue type and tax year, were as follows for the fiscal years ended September 30, 2003 and September 30, 2002 (in millions):

	Tax Year				**2003**
Revenue Type	2003	2002	2001	Pre-2001	**Collections**
Individual Income & FICA Taxes	$1,097,960	$547,938	$13,128	$11,248	**$1,670,274**
Corporate Income Taxes	124,349	59,471	853	9,591	**194,264**
Estate and Gift Taxes	135	18,654	1,316	2,722	**22,827**
Excise Taxes	49,602	18,198	106	358	**68,264**
Railroad Retirement Taxes	3,297	1,060	0	2	**4,359**
Duties	8,334	0	0	0	**8,334**
Unemployment Taxes	4,861	1,655	33	86	**6,635**
Federal Reserve Earnings	15,998	5,880	0	0	**21,878**
Fines, Penalties, Interest & Other	1,484	700	1	2	**2,187**
Subtotal	$1,306,020	$653,556	$15,437	$24,009	**$1,999,022**
Less: Amounts Collected for Non-Federal Entities					**(403)**
Total					**$1,998,619**

	Tax Year				2002
Revenue Type	2002	2001	2000	Pre-2000	Collections
Individual Income & FICA Taxes	$1,104,058	$584,167	$15,277	$9,833	$1,713,335
Corporate Income Taxes	112,872	88,849	977	8,348	211,046
Estate and Gift Taxes	135	23,607	1,447	2,052	27,241
Excise Taxes	50,558	18,043	85	334	69,020
Railroad Retirement Taxes	3,448	1,123	1	1	4,573
Duties	19,788	0	0	0	19,788
Unemployment Taxes	4,926	1,701	33	80	6,740
Federal Reserve Earnings	18,144	5,539	0	0	23,683
Fines, Penalties, Interest & Other	2,267	688	1	1	2,957
Subtotal	$1,316,196	$723,717	$17,821	$20,649	$2,078,383
Less: Amounts Collected for Non-Federal Entities					(407)
Total					$2,077,976

Amounts reported for Corporate Income Taxes collected in fiscal year 2003 include corporate taxes of $5 billion for tax year 2003. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2002 include corporate taxes of $5 billion for tax year 2002.) Individual Income and FICA Taxes, includes $62 billion in payroll taxes collected from other federal agencies. Of this amount, $10 billion represents the portion paid by the employers. (The comparable amounts for FY 2002 are $46 billion in payroll taxes collected from other federal agencies and $9 billion paid by the employers.)

Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2003 and September 30, 2002, collections of custodial revenue transferred to federal entities were as follows (in millions):

	2003	2002
Department of Agriculture	**$32**	$71
Department of Interior	**5**	18
General Fund	**1,697,496**	1,794,537
Retained by Treasury	**0**	47
Total	**$1,697,533**	$1,794,673

30. Federal Tax Refund Activity

Refund activity, broken out by revenue type and by tax year, were as follows for the fiscal years ended September 30, 2003 and September 30, 2002 (in millions):

	Tax Year				
Revenue Type	2003	2002	2001	Pre-2001	**2003 Refunds**
Individual Income & FICA Taxes	$584	$211,613	$13,074	$7,089	**$232,360**
Corporate Income Taxes	1,987	11,080	10,767	42,211	**66,045**
Estate and Gift Taxes	0	248	392	304	**944**
Excise Taxes	223	350	109	254	**936**
Railroad Retirement Taxes	0	2	1	8	**11**
Duties	668	0	0	0	**668**
Unemployment Taxes	0	70	19	33	**122**
Miscellaneous	0	0	0	0	**0**
Total	$3,462	$223,363	$24,362	$49,899	**$301,086**

Revenue Type	Tax Year 2002	2001	2000	Pre-2000	2002 Refunds
Individual Income & FICA Taxes	$531	$194,228	$12,417	$5,199	$212,375
Corporate Income Taxes	2,210	15,633	14,333	35,193	67,369
Estate and Gift Taxes	0	170	343	290	803
Excise Taxes	290	483	79	271	1,123
Railroad Retirement Taxes	0	2	1	6	9
Duties	756	185	132	417	1,490
Unemployment Taxes	0	88	17	27	132
Miscellaneous	2	0	0	0	2
Total	$3,789	$210,789	$27,322	$41,403	$283,303

Individual income & FICA taxes amount includes earned income tax credit (EITC) and child tax credit refunds. The EITC was originally authorized by the Tax Reduction Act of 1975 (Public Law 94-12) and made permanent by the Revenue Adjustment Act of 1978 (Public Law 95-600). The EITC is a special credit for taxpayers who work and whose earnings fall below the established allowance ceiling. Qualified taxpayers can receive partial credit in advance in each paycheck. In FY 2003, the Department issued $31.8 billion in EITC refunds, of which $63 million was applied to Advance EITC. An additional $5 billion of EITC refunds were applied to reduce taxpayer liability. (In FY 2002, $27.8 billion of EITC refunds were issued, $66 million of which was applied to Advance EITC, and an additional $4.7 billion of EITC refunds were applied to reduce taxpayer liability.) The child credit was originally authorized by the Taxpayer Relief Act of 1997 (Public Law 105-34). The child tax credit is a special credit for taxpayers who work, whose earnings fall below the established allowance ceiling, and who have a qualifying child. In FY 2003 the Department issued $6 billion in child tax credit refunds. An additional $22 billion of child tax credit refunds were applied to reduce taxpayer liability. (In FY 2002, $5 billion of child tax credit refunds were issued, and an additional $22 billion were applied to reduce taxpayer liability.)

Refunds and Drawbacks

As of September 30, 2003 and September 30, 2002, refunds and drawbacks owed by Treasury entities consisted of the following (in millions):

	2003	2002
Alcohol, Tobacco, and Firearms	**$0**	$9
Alcohol , Tobacco Tax and Trade Bureau	**0**	0
Customs Service	**0**	599
Internal Revenue Service	**1,193**	1,288
Total	**$1,193**	$1,896

31. Amounts Transferred to Government Trust Funds

Revenue collected by the Department is deposited into the General Fund, then transferred to Government Trust Funds (GTF) which are available for expenditure by the responsible program agencies. The Department is responsible for managing GTFs, investing all excess trust fund collections, and liquidating securities as funds are needed. The GTFs are reported on the financial statements of the responsible program agencies. For the fiscal years ended September 30, 2003 and September 30, 2002, distributions to the GTFs were as follows (in millions):

Trust Fund:	**2003**	2002
Airport and Airway Trust Fund	**$8,684**	$8,953
Federal Disability Insurance Trust Fund	**78,350**	77,003
Federal Hospital Insurance Trust Fund	**158,157**	160,344
Federal Old Age & Survivors Trust Fund	**468,354**	460,730
Highway and Mass Transit Trust Fund	**33,708**	32,588
Unemployment Trust Fund	**33,209**	27,646
Other	**2,003**	1,893
Total Trust Funds	**$782,465**	$769,157

Social Security Tax Collections

The amounts disclosed above for the Social Security Trust funds (Federal Disability Insurance Trust Fund, Federal Hospital Insurance Trust Fund, and Federal Old Age & Survivors Trust Fund) are based upon estimates provided by the Social Security Administration (SSA). Treasury reviews the estimates for reasonableness. SSA later certifies actual tax collections.

Excise Tax Collections

The Department estimates monthly excise tax collections utilizing various economic models. The Department also confers with the Council of Economic Advisors and the Office of Management and Budget in developing these estimates. The estimated amounts are transferred to GTFs. Estimates are needed because taxpayers are not required by law to identify the specific taxes included in their payments. After taxpayers provide quarterly tax returns with the details of the specific taxes, IRS certifies actual collections. The Department then adjusts the GTFs for the differences between the estimates and collections.

The amounts disclosed above are based on actual collections for two quarters and estimates for the third and fourth quarter for those trust funds which receive excise tax collections (i.e. Highway and Mass Transit Trust Fund, Airport and Airway Trust Fund, and certain other trust funds).

32. Restatement of Prior Year Financial Statements

In the Department's FY 2003 Consolidated Financial Statements, off-budget transfers to the General Fund resulting from circulating coinage collections (i.e., "seigniorage") are treated as a financing source, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7. "Seigniorage" is the face value of newly minted coins less the cost of production, and the Mint distributes the seigniorage it recognizes to the General Fund of the Treasury. The distribution offsets the amount recognized as an "other financing source." In any given year, the amount recognized as seigniorage may differ with the amount distributed by an insignificant amount. Prior year statements treated these transfers as earned revenue.

During FY 2002, the Department adopted new budgetary accounting principles for interest on public debt securities based on guidance from the Office of Management and Budget. The new principles involved switching from the cash basis to the modified accrual basis of accounting for budgetary reporting of the accrued interest. In FY 2002, OMB clarified the application of budgetary accounting principles to interest on the public debt. Essentially, interest accrued on public issues of Treasury debt securities and on certain special issue Government Account Series Issues (GAS) debt securities is to be treated as an outlay when it accrues rather than when payment is made. The change was made to achieve consistency with reporting of interest outlays in the *Budget of United States* (also known as the President's Budget). The Department made a one time adjustment of $114 billion to its budgetary accounts in FY 2002 to affect this change. However, instead of only including the accrued interest on certain special issue GAS securities in the adjustment, as prescribed by OMB Circular A-11, accrued interest on all GAS securities was included. This resulted in a $58 billion over-adjustment in FY 2002. The Department also noted that new Government-wide standard general ledger accounts (SGLs) created in FY 2002 to accommodate this change produced financial statement line balance distortions because the beginning balances for FY 2001 were recorded in different SGLs and on different lines than when preparing the FY 2002 statements.

To achieve consistency in reporting between fiscal years, the Department has restated its FY 2002 financial statements, in accordance with SFFAS No. 21, as follows (in millions):

FY 2002 Financial Statement Line Item	As Previously Reported (Adjusted for Transferred Operations)	Adjustment For Seigniorage	Federal Debt Adjustments	As Restated
Consolidated Statement of Net Cost				
Financial Program Earned Revenue	($5,578)	$896	$0	($4,682)
Financial Program Net Cost	$8,212	$896	$0	$9,108
Total Net Cost of Continuing Operations	$10,673	$896	$0	$11,569
Total Net Cost of Operations	$15,758	$896	$0	$16,654
Total Net Cost	$351,402	$896	$0	$352,298
Consolidated Statement of Changes in Net Position				
Other Financing Sources: Other	($14,040)	$896	$0	($13,144)
Total Financing Sources	$354,929	$896	$0	$355,825
Net Cost	$351,402	$896	$0	$352,298
Consolidated Statement of Financing				
Obligations Incurred	$374,128	$0	$56,447	$430,575
Less: Spending Authority from Offsetting Collections and Recoveries	$105,769	$0	($114,017)	($8,248)
Obligations Net of Offsetting Collections and Recoveries	$479,897	$0	($57,570)	$422,327
Net Obligations	$478,327	$0	($57,570)	$420,757
Other Resources: Other	($14,105)	$896	$0	($13,209)
Net Other Resources Used to Finance Activities	($18,163)	$896	$0	($17,267)
Total Resources Used to Finance Activities	$460,164	$896	(57,570)	$403,490
Adjustment to Accrued Interest & Discount on Debt	$111,094	$0	($57,570)	$53,524
Total Resources Used to Finance Net Cost	$350,766	$896	$0	$351,662
Net Cost of Operations	$351,402	$896	$0	$352,298

FY 2002 Financial Statement Line Item	As Previously Reported.	Federal Debt Adjustments	As Restated
Statement of Budgetary Resources			
Appropriations Received	$486,885	($57,570)	$429,315
Receivable from Federal Sources	($114,015)	$114,016	$1
Spending Authority from Offsetting Collections - Subtotal	($106,216)	$114,016	$7,800
Total Budgetary Resources	$439,716	$56,447	$496,163
Obligations Incurred -Direct	$370,682	$56,447	$427,129
Obligations Incurred - Subtotal	$374,128	$56,447	$430,575
Total Status of Budgetary Resources	$439,716	$56,447	$496,163
Outlays - Disbursements	$488,573	($57,570)	$431,003
Outlays – Subtotal	$480,961	($57,570)	$423,391
Net Outlays	$479,391	($57,570)	$421,821

The Department also restated Appropriations Used and Appropriations Received in the Unexpended Appropriations column of the Consolidated Statement of Changes in Net Position, in accordance with SFFAS No. 21. The Department was not reporting appropriations used and received for interest at the Bureau of Public Debt in the unexpended column. The restatement does not effect ending unexpended appropriations. The FY 2002 Consolidated Statement of Changes in Net Position was restated as follows (in millions):

FY 2002 Financial Statement Line Item	As Previously Reported	Adjustment	As Restated
Consolidated Statement of Changes in Net Position – Unexpended Appropriations			
Appropriations Received	$18,351	$351,497	$369,848
Appropriations Used	($20,190)	($351,497)	($371,687)

33. Effect of the Transfer of Treasury Bureaus on the Department's FY 2003 Financial Statements as a result of the Homeland Security Act

FY 2003 Consolidated Statement of Changes in Net Position, Consolidated Statement of Financing and Combined Statement of Budgetary Resources

The following lines on the Department's FY 2003 Statement of Net Position, Statement of Financing and Statement of Budgetary Resources include the transfer out of the assets, liabilities, net position and budgetary resources of the former bureaus on their respective FY 2003 transfer dates.

Consolidated Statements of Changes in Net Position and Financing (In Millions)

Bureau/Balances	ATF	USCS	FLETC	USSS	Totals
Appropriations Transferred In/ Out (Unexpended Appropriations) - Statement of Changes in Net Position – Only	($803)	($3,226)	($213)	($1,042)	($5,284)
Other Financing Sources (Non-Exchange): Transfers In/Out Without Reimbursement (Cumulative Results) - Both Statements	($61)	($1,071)	($243)	($24)	($1,399)

The balances shown in the chart are Customs' and Secret Service's net position appropriations transfers for divestiture. Note 25 includes Customs' additional $20 million and Secret Service's additional $4.5 million in transfers already reported for FY 2003 prior to divestiture.

The Secret Service balance shown in the chart for Other Financing Sources only displays transfers out for Secret Service related to the divestiture. The amount displayed above includes an intra-Departmental elimination, and will not agree with Note 25.

Combined Statements of Budgetary Resources (In Millions)

Bureau/Balances	ATF	USCS	FLETC	USSS	Totals
Budgetary Resources – Budget Authority – Net Transfers	($605)	($2,081)	($121)	($811)	($3,618)
Budgetary Resources – Unobligated Balance – Net Transfers	($41)	($996)	($39)	($26)	($1,102)
Budgetary Resources – Relationship of Obligations to Outlays – Obligated Balance Transferred, Net	($243)	($889)	($49)	($206)	($1,387)

Consolidated Net Cost of Transferred Operations (In Millions)

	Alcohol, Tobacco & Firearms	U. S. Customs Service	Federal Law Enforcement Training Center	U. S. Secret Service	Combined Total	Eliminations and Adjustments	**9/30/03 Consolidated**
for FYE September 30, 2003							
Costs –Intra-governmental	$70	$388	$8	$145	$611	($27)	$584
Less Earned Revenue – Intra-governmental	(5)	(38)	(23)	(20)	(86)	56	(30)
Net Cost – Intra-governmental	**$65**	**$350**	**($15)**	**$125**	**$525**	**$29**	**$554**
Costs – With the Public	$208	$1,016	$74	$332	$1,630	$1	$1,631
Less Earned Revenue – With the Public	0	(45)	0	0	(45)	(1)	($46)
Net Cost – With the Public	**$208**	**$971**	**$74**	**$332**	**$1,585**	**$0**	**$1,585**
Net Cost of Operations	**$273**	**$1,321**	**$59**	**$457**	**$2,110**	**$29**	**$2,139**

for FYE September 30, 2002	Alcohol, Tobacco, & Firearms	U. S. Customs Service	Federal Law Enforcement Training Center	U. S. Secret Service	Combined Total	Eliminations and Adjustments	9/30/02 Consolidated
Costs –Intra-governmental	$225	$884	$23	$290	$1,422	(118)	$1,304
Less Earned Revenue – Intra-governmental	(22)	(114)	(55)	(44)	(235)	169	(66)
Net Cost – Intra-governmental	$203	$770	($32)	$246	$1,187	$51	$1,238
Costs – With the Public	$619	$2,311	$162	$840	$3,932	0	$3,932
Less Earned Revenue – With the Public	(1)	(83)	(1)	0	(85)	0	(85)
Net Cost – With the Public	$618	$2,228	$161	$840	$3,847	0	$3,847
Net Cost of Operations	$821	$2,998	$129	$1,086	$5,034	$51	$5,085

FY 2002 and FY 2003 Statement of Custodial Activity (In Millions)

FY 2003 Activity	**ATF**	**USCS**	**Totals**
Duties	N/A	$8,334	$8,334
Excise Taxes	$3,785	$910	$4,695
Fines, Penalties, Interest and Other Revenues	$7	$427	$434
Refunds	$104	$667	$771

FY 2002 Activity	**ATF**	**USCS**	**Totals**
Duties	N/A	$19,788	$19,788
Excise Taxes	$14,857	$2,026	$16,883
Fines, Penalties, Interest and Other Revenues	$226	$785	$1,011
Refunds	$374	$1,490	$1,864

ATF administrative and revenue collection functions related to alcohol and tobacco were retained within the Department. The newly created Alcohol and Tobacco Tax & Trade Bureau, established by the Homeland Security Act, performs these revenue and administrative functions. Accordingly, the Department's Statement of Custodial Activity includes collections made by ATF from October 1, 2002 to January 23, 2003, and collections made by TTB from January 24, 2003 to September 30, 2003.

SUPPLEMENTAL INFORMATION

Introduction

This section provides the Required Supplemental Information as prescribed by the OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements. Required Other Accompanying Information on tax burden and Prompt Payment Act compliance are also provided.

Note A. Segment Information

Franchise Fund

The Department of Treasury's Franchise Fund is a fee-for-service organization that is fully reimbursable and competitive. The fund currently consists of eleven business activities – Treasury Agency Services, the Federal Quality Consulting Group, Administrative Resource Center (ARC), and eight former Co-operative Administrative Support Units (CASU) now operating as Treasury Franchise Businesses Activities.

Treasury Agency Services, Federal Quality Consulting Group, and Administrative Resource Center, improve the quality of Government financial management by providing individualized accounting cross-servicing, financial systems consulting, financial management consulting, procurement services, financial education and training services.

Some of the major customers include: Department of Army, Department of Navy, Department of Justice, Department of Air Force, Office of the Secretary of Defense and various other Executive department's and agencies.

	(In Millions) Amounts
Fund Balance with Treasury	$72
Accounts Receivable	66
Property, Plant and Equipment	3
Total Assets	**$141**
Accounts Payable	$18
Other Liabilities	88
Total Liabilities	**$106**
Cumulative Results of Operations	35
Total Liabilities and Net Position	**$141**
Total Costs	**$410**
Exchange Revenue	$414
Other Financing Sources	3
Excess of Revenues and Financing Sources over Costs	**7**

Working Capital Fund

The Departmental Office's Working Capital Fund is a fee-for-service organization that is fully reimbursable.

The fund presently offers the following program services to various Treasury bureaus: telecommunications, payroll/personnel systems, printing and other.

	(In Millions) Amounts
Fund Balance with Treasury	$171
Accounts Receivable	1
Property, Plant and Equipment	17
Other Assets	1
Total Assets	**$190**
Accounts Payable	$8
Other Liabilities	182
Total Liabilities	**$190**
Cumulative Results of Operations	0
Total Liabilities and Net Position	**$190**
Total Costs	$286
Exchange Revenue	$286
Other Financing Sources	0
Excess of Revenues and Financing Sources over Costs	**$0**

Note B. Other Claims for Refunds

The Department has estimated that $14.2 billion may be paid out as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is $6.5 billion and by Appeals is $7.6 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Note C. Unpaid Assessments

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in the Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the Federal government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2003 were as follows (in millions):

Gross Unpaid Assessments	$246,000
Less Compliance Assessments and Write-offs	(157,000)
Net Amount	$89,000

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $13 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Internal Revenue Service (IRS)

Of the $246 billion of unpaid assessments, $126 billion represents write-offs. This unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under Federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered Federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered Federal taxes receivable. Assessments with little or no future collection potential are called write-offs.

Of the $246 billion balance of unpaid assessments, $157 billion represents compliance assessments and write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt or defunct taxpayer's, including many failed financial institutions liquidated by the Federal Deposit Insurance Corporation (FDIC) and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires. In addition, $31 billion of the unpaid assessment balance represents amounts that have not been agreed to by either the taxpayer or a court. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered Federal taxes receivable.

Note D. Heritage/Stewardship Property Plant and Equipment

These assets include the Treasury Department building and the Treasury Annex building.

	Heritage Assets	Land
Beginning Balance	1	1
Additions	0	0
Withdrawals	0	0
Ending Balance	**1**	**1**

No deferred maintenance was reported on these assets. See Note 1.G. to the Department's financial statements "Property, Plant and Equipment."

Note E. Statement of Budgetary Resources Disaggregated by Major Accounts (in millions)

BUDGETARY RESOURCES	Appropriated Funds	Revolving Funds	Trust Funds	Other Funds	**Total**
Budget Authority:					
Appropriations Received	$362,163	$0	$140	$3,241	**$365,544**
Borrowing Authority	0	3	0	0	**3**
Net Transfers (+ or -)	(1,814)	1,703	0	(2,233)	**(2,344)**
Unobligated Balance:					
Beginning of Period	42,094	19,768	2,781	945	**65,588**
Net Transfers (+ or -)	(491)	0	(19)	(640)	**(1,150)**
Spending Authority from Offsetting Collections:					
Earned:					
Collected	635	9,533	480	4	**10,652**
Receivable from Federal Sources	21	7	0	0	**28**
Change in Unfilled Customer Orders:					
Advance Received	3	(5)	0	0	**(2)**
Without Advance From Federal Sources	9	91	0	0	**100**
Transfers from Trust Funds	0	0	0	0	**0**
Subtotal	668	9,626	480	4	**10,778**
Recoveries of Prior Year Obligations	506	69	1	18	**594**
Temporarily Not Available Pursuant to Public Law	0	0	0	(297)	**(297)**
Permanently Not Available	(9,851)	(303)	0	0	**(10,154)**
TOTAL BUDGETARY RESOURCES	**$393,275**	**$30,866**	**$3,383**	**$1,038**	**$428,562**
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred:					
Direct	$346,058	$4,228	$514	$674	**$351,474**
Reimbursable	475	2,310	443	1	**3,229**
Subtotal	346,533	6,538	957	675	**354,703**
Unobligated Balance:					
Apportioned	13,688	1,374	2	216	**15,280**
Exempt from Apportionment	23,137	22,657	2,423	0	**48,217**
Unobligated Balance Not Available	9,914	299	0	149	**10,362**
TOTAL STATUS OF BUDGETARY RESOURCES	**$393,272**	**$30,868**	**$3,382**	**$1,040**	**$428,562**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net, Beginning of Period	$35,690	$774	$177	$204	**$36,845**
Obligated Balance Transferred, Net	(1,333)	0	(43)	(43)	**(1,419)**
Obligated Balance, Net, End of Period:					
Accounts Receivable	(27)	(142)	(5)	0	**(174)**
Unfilled Customer Orders from Federal Sources	(24)	(199)	0	0	**(223)**
Undelivered Orders	33,267	182	34	110	**33,593**
Accounts Payable	1,120	502	126	74	**1,822**
Outlays:					
Disbursements	346,020	6,800	934	633	**354,387**
Collections	(638)	(9,528)	(479)	(3)	**(10,648)**
Subtotal	345,382	(2,728)	455	630	**343,739**
Less: Offsetting Receipts	0	0	(127)	(1,142)	**(1,269)**
NET OUTLAYS	**$345,382**	**($2,728)**	**$328**	**($512)**	**$342,470**

Note F. Deferred Maintenance

In FY 2003, the Department reports no deferred maintenance on general property plant and equipment. This amount represents deferred maintenance on vehicles, vessels, and buildings and structures owned by the Department.

As reported, Treasury bureaus use a specific methodology in determining deferred maintenance. This procedure includes reviewing equipment, building and other structure logistic reports. Upon completion of this step, logistic personnel use a condition assessment survey to determine the status of referenced assets. This procedure is performed in accordance with the Statement of Federal Financial Accounting Standards No. 6 guidelines. A five level rating scale (excellent, good, fair, poor and very poor) is used for assessment purposes. Bureau logistic personnel subsequently identify maintenance not performed as scheduled and establish future performance dates.

Note G. Intra-governmental Assets, Liabilities, Revenues & Costs, and Transfers In/Out

Note G(1) - Intra-governmental Assets (In Millions)

Partner Agency	Due from the General Fund	Loans & Related Interest Receivable	Advance to the Black Lung Trust Fund	Accounts Receivable and Related Interest	Other
9900-General Fund	$6,819,924	$0	$0	$0	$0
0400-Government Printing Office	0	0	0	0	2
1100-Exec. Office of the President	0	1,649	0	0	0
1200-Department of Agriculture	0	75,547	0	41	0
1300-Department of Commerce	0	212	0	0	0
1400-Department of the Interior	0	1,365	0	128	1
1500-Department of Justice	0	20	0	6	6
1600-Department of Labor	0	0	8,243	2	0
1700-Department of the Navy	0	617	0	43	10
1800-United States Postal Service	0	7,282	0	0	5
1900-Department of State	0	0	0	7	0
2100-Department of the Army	0	0	0	99	0
2700-Federal Communications Commission	0	5,066	0	0	0
2800 Social Security Administration	0	0	0	1	0
3300-Smithsonian Institution	0	20	0	0	0
3600-Department of Veterans Affairs	0	2,854	0	25	0
4700-General Services Administration	0	2,272	0	126	2
5000-Securities & Exchange Commission	0	0	0	1	0
5700-Department of the Air Force	0	0	0	169	0
6000-Railroad Retirement Board	0	3,025	0	0	0
6800-Environmental Protection Agency	0	21	0	0	0
6900-Department of Transportation	0	921	0	2	1
7000 Department of Homeland Security	0	8	0	1	0
7100-Overseas Private Investment Corp	0	196	0	0	0
7200-Agency for International Development	0	1	0	1	0
7300-Small Business Administration	0	6,706	0	0	0
7500-Dept of Health & Human Services	0	0	0	16	0
8300-Export-Import Bank of the United States	0	7,281	0	0	0
8600-Dept of Housing & Urban Development	0	12,813	0	0	0
8900-Department of Energy	0	2,724	0	100	0
9100-Department of Education	0	92,019	0	0	0
9500-Independent Agencies Inc. NTSB	0	50	0	0	0
9600-U.S. Army Corps of Engineers	0	17	0	46	0
9700-Office of the Sec of Defense Agencies	0	1,777	0	11	0
Totals	**$6,819,924**	**$224,463**	**$8,243**	**$825**	**$ 27**

On the Department's Balance Sheet, "Due to the General Fund" is netted against "Due from the General Fund." See Note G(2) and Financial Statements Note 5.

See the Department's Balance Sheet for "Fund Balance with Treasury."

Note G(2) - Intra-governmental Liabilities (In Millions)

Partner Agency	Due to the General Fund	Federal Debt & Related Interest (BPD only)	Loans Payable & Related Interest	Other
9900-General Fund	$308,509	$0	$0	$168
0000-Unknown	0	27	0	29
0300-Library of Congress	0	838	0	0
0900-Other Legislative Branch	0	85	0	0
1000-The Judiciary	0	639	0	0
1100-Exec. Office of the President	0	0	0	7
1200-Department of Agriculture	0	46	0	57
1400-Department of the Interior	0	5,570	0	0
1500-Department of Justice	0	930	0	14
1600-Department of Labor	0	65,044	0	125
1700-Department of the Navy	0	10	0	2
1800-United States Postal Service	0	2,650	0	2
1900-Department of State	0	12,484	0	6
2100-Department of the Army	0	1	0	5
2300-United States Tax Court	0	8	0	0
2400-Office of Personnel Management	0	646,514	0	29
2500-National Credit Union Administration	0	5,936	0	0
2800-Social Security Administration	0	1,505,152	0	1
3600-Department of Veterans Affairs	0	13,940	0	1
4800-Independent Agencies inc. Navajo-Hopi Relocation	0	0	0	4
5100-Federal Deposit Insurance Corporation	0	47,336	0	0
5700-Department of the Air Force	0	1	0	1
5900-National Foundation on the Arts	0	1	0	0
6000-Railroad Retirement Board	0	1,181	0	0
6800-Environmental Protection Agency	0	4,631	0	0
6900-Department of Transportation	0	25,402	0	5
7000-Department of Homeland Security	0	582	0	40
7100-Overseas Private Investment Corporation	0	3,801	0	0
7400-American Battle Monuments Commission	0	58	0	0
7500-Department of Health & Human Services	0	282,352	0	16
7600-Independent Agencies Inc. National Park Service	0	3	0	0
7800-Farm Credit Administration	0	1,927	0	0
8000-National Aeronautics & Space Admin.	0	17	0	0
8400-Armed Forces Retirement Home	0	92	0	0
8600-Department of Housing & Urban Development	0	31,260	0	0
8800-National Archives & Records Administration	0	14	0	4
8900-Department of Energy	0	19,521	0	0
9100-Department of Education	0	0	0	7
9500-Independent Agencies Inc. NTSB	0	604	0	1
9600-U.S. Army Corps of Engineers	0	2,479	0	0
9700-Office of the Secretary of Defense Agencies	0	202,879	0	3
Totals	**$308,509**	**$2,884,015**	**$0**	**$527**

On the Department's Balance Sheet, "Due to the General Fund" is netted against "Due from the General Fund." See Note G (1) and Financial Statements Note 5.

Note G(3) - Intra-governmental Amount
Non-Exchange Revenues (In Millions)
(Transfers IN/ OUT)

Partner Agency	**IN**	**OUT**
1500-Department of Justice	$18	$75
4800-Independent Agencies Inc.	21	1,918
7000- Department of Homeland Security	0	1,353
9600-U.S. Army Corps of Engineers	0	0
Totals	**$39**	**$3,346**

The above does not include distributions of income to the General Fund of the Treasury included on the Department's Statement of Changes in Net Position as "Other" (recorded in SGL 7500).

Note G(4) - Intra-governmental Earned Revenues from Trade Transactions (In Millions)

Partner Agency	Earned Revenue
1000-The Judiciary	$1
1100-Exec. Office of the President	3
1200-Department of Agriculture	12
1300-Department of Commerce	5
1400-Department of the Interior	16
1500-Department of Justice	42
1600-Department of Labor	2
1700-Department of the Navy	51
1800-United States Postal Service	38
1900-Department of State	17
2100-Department of the Army	68
2400-Office of Personnel Management	1
2800-Social Security Administration	89
3600-Department of Veterans Affairs	17
4700-General Services Administration	12
5000-Securities & Exchange Commission	1
5100-Federal Deposit Insurance Corporation	3
5700-Department of the Air Force	18
5800-Federal Emergency Management Agency	(6)
6000-Railroad Retirement Board	1
6800-Environmental Protection Agency	2
6900-Department of Transportation	11
7000-Department of Homeland Security	61
7200-Agency for International Development	10
7500 Department of Health & Human Services	9
7600-Independent Agencies Inc. National Park Service	(1)
8000-National Aeronautics & Space Admin.	1
8400-Armed Forces Retirement Home	1
8600-Department of Housing & Urban Development	8
8900-Department of Energy	2
9100-Department of Education	2
9500-Independent Agencies Inc. NTSB	3
9600-U.S. Army Corps of Engineers	7
9700-Office of the Secretary of Defense Agencies	123
Totals	**$630**

Note: Total intra-governmental revenue from trade transactions is a component of intra-governmental earned revenue displayed on the Consolidated Statement of Net Cost. Accordingly, intra-governmental earned revenue displayed in this table will not equal total earned revenue displayed on the Consolidated Statement of Net Cost.

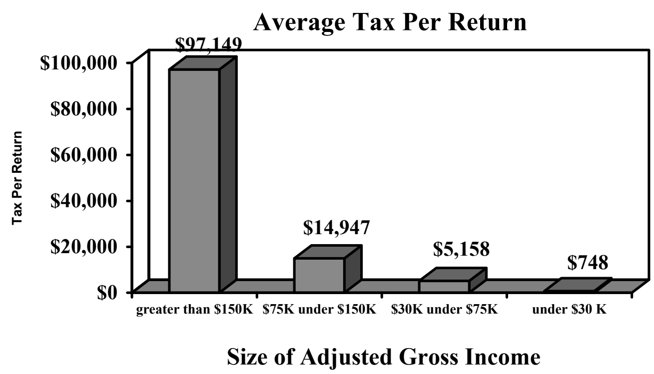
Note G(5) – Cost to Generate Intra-governmental Earned Revenues from Trade Transactions by Budget Functional Classification (In Millions)

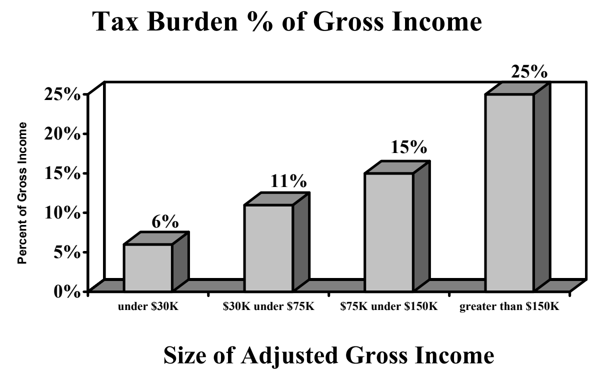
Budget Functional Classification	Gross Cost to Generate
Commerce & Housing	$4
International Affairs	9
Administration of Justice	31
General Government	586
Total	**$630**

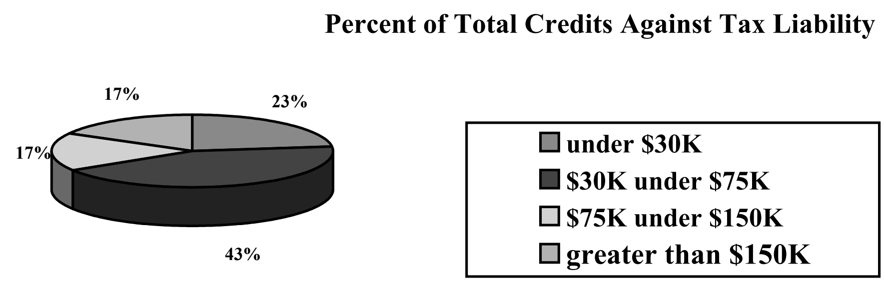
Other Accompanying Information – Tax Burden

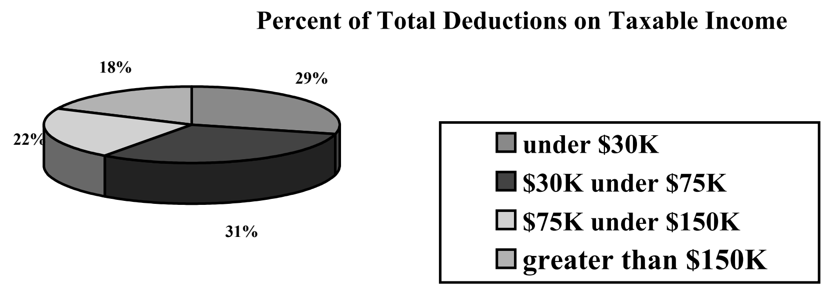
(All figures are estimates based on samples provided by the Statistics of Income office)

Individual Income Tax Returns (Tax Year 2001 Data)



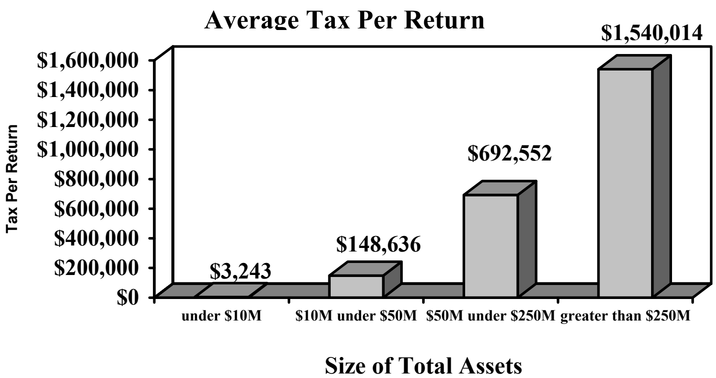


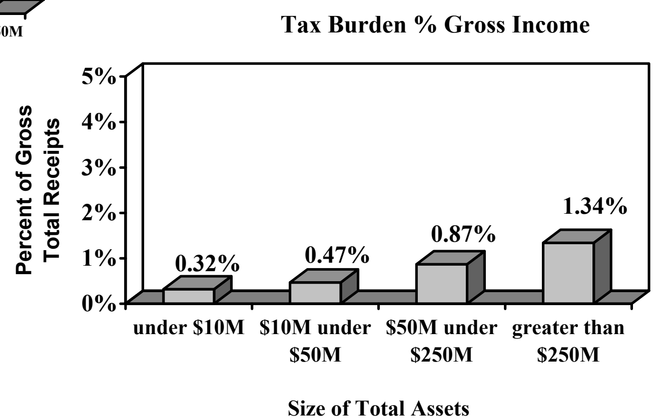


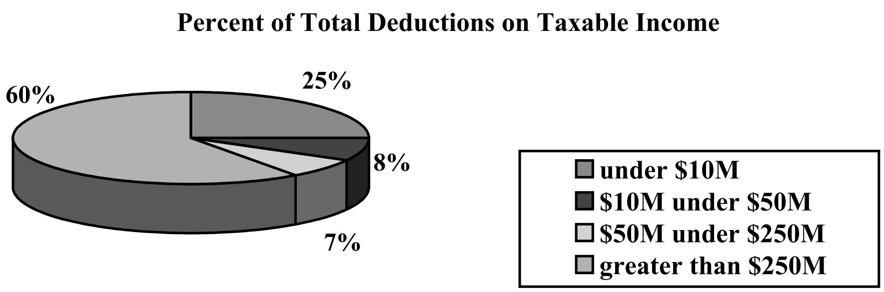


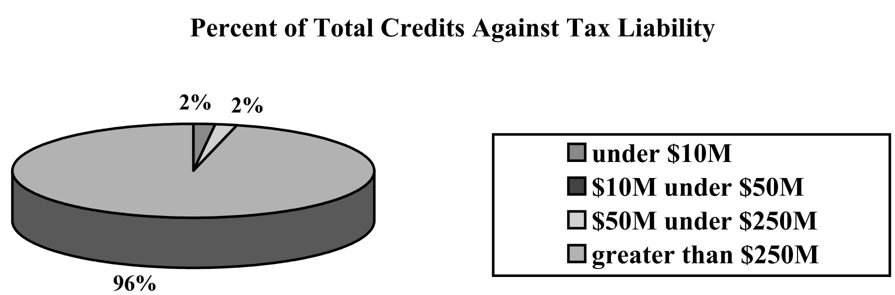
(All figures are estimates based on samples provided by the Statistics of Income office)

Corporation Income Tax Returns (Tax Year 2000 Data)





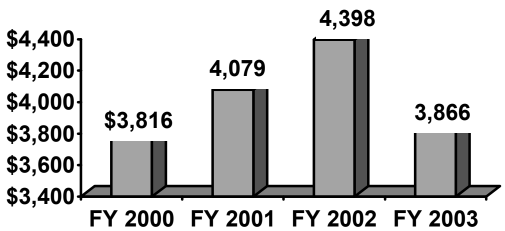




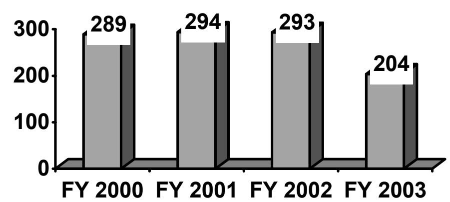
Other Accompanying Information – Prompt Payment

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a quarterly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems.

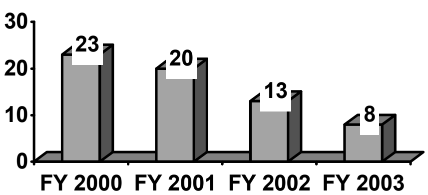
Total Invoices Paid
Dollar Amount (in Millions)



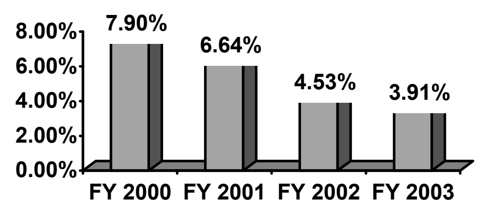
Total Invoices Paid
Number (in Thousands)



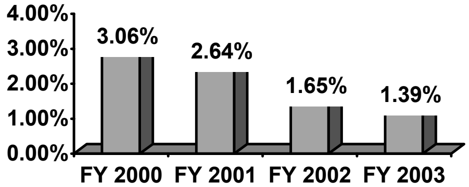
Total Invoices Paid Late
Number (in Thousands)



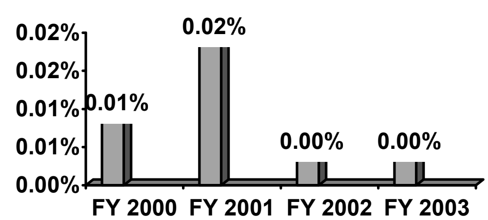
Percentage of
Invoices Paid Late



Percentage of Number of
Interest Penalties Paid



Percentage of Dollar Amount
of Interest Penalties Paid



Other Accompanying Information – Improper Payments Information Act

Fiscal Year 2003 Reporting for The Earned Income Tax Credit

The Improper Payments Information Act of 2002 (IPIA) requires agencies to report an annual estimate of erroneous payments based on the most recent data available beginning in fiscal year 2004. The Office of Management and Budget (OMB) circular A-11, Section 57 requires reporting in this year's Performance and Accountability Report one Treasury program, the Earned Income Tax Credit (EITC). Treasury will continue to estimate and reduce erroneous payments in the EITC in future reports in accordance with the requirements of the IPIA and OMB guidance.

Program Description:

The Internal Revenue Service (IRS) administers the earned income tax credit (EITC), a refundable federal income tax credit for low-income working individuals and families. The credit reduces the amount of federal tax owed and can result in a refund. There are significant compliance problems associated with the credit. A 1999 compliance study found the IRS had erroneously paid $8-10 billion – between 27and 32 percent of total program payments. The Secretary of the Treasury has expressed his commitment to reducing improper payments as contained in his message to readers of the Department's Performance and Accountability Report.

Error table:

EITC Erroneous Payments Estimates
($ in billions)

	2002		2003		2004 Target		2005 Target		2006 Target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
Total Payments 1/	33.3		38.1		39.4		40.5		41.5	
Under Payments	NA		NA		NA		NA		NA	
Over payments	NA		NA		NA		NA		NA	
Total Erroeneous Payments 2/										
Upper Bound Estimate	10.6	32%	11.5	30%	10.7	27%	10.5	26%	10.0	24%
Lower Bound Esimate	9.0	27%	9.5	25%	8.6	22%	8.5	21%	7.9	19%

1/ Following the methodology used in EITC compliance studies, the amount shown is total EITC claimed.
2/ These estimates are based on the most recent EITC compliance study (1999) which provided a range for erroneous payments. This table adopts the same approach.

Discussion of Causes of Erroneous Payments and Status of Efforts to Reduce:

A number of factors contribute to the high erroneous payment rate in the EITC program. First, the credit is very complicated and difficult to calculate – even for many tax practitioners. Second, studies indicate some incidence of fraud. Third, a significant portion of the eligible population does not claim the credit. Fourth, IRS processing systems currently lack the capacity to detect some of the potential errors before the EITC claim is paid. Finally, IRS business processes are not designed to adequately administer the credit.

The EITC has been the subject of numerous administrative and legislative changes designed to reduce the program's error rate. In 2002, the Economic Growth and Tax Relief Reconciliation Act (EGTTRA) introduced a number of modifications that are estimated to significantly reduce overpayments when fully phased in. The estimates in this table are derived from Administration baseline projections for the EITC program and information gleaned from the 1999 EITC compliance study. To obtain more accurate figures on erroneous EITC payments for any year after 1999 would require another compliance study.

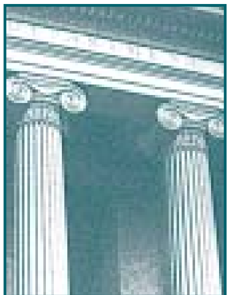
The 2003 erroneous payment projections shown in this table were computed by using the baseline estimate for total EITC payments and incorporating estimates of phased-in EGGTRA savings. The table shows a declining erroneous payment estimate from 2002 to 2004 -- reflecting the phase-in period. There are no other assumptions about legislative changes. It is important to note that there is a great deal of variability around these estimates and even with a more recent compliance study it will be difficult to be more precise. For this reason, the table shows a range of potential erroneous payment rates.

More recently, a Treasury task force developed a series of recommended changes that will be tested in the 2004 filing season. Among the strategies – a pilot project that will test the concept of having certain EITC claimants certify their residency status, more attention to filing status errors and an improved approach to detect income underreporting.

In addition, the IRS will continue to utilize checks on electronically filed returns, the use of math error authority, and pre and post refund examinations to identify and address erroneous claims. In instances where fraudulent EITC activities are identified, the IRS Criminal Investigation division will continue efforts to pursue prosecution of perpetrators. Further, the IRS is pursuing additional partnerships with state and federal agencies to assist in data gathering and exchange of information to prevent erroneous payments.

Discussion of Application of Recovery Auditing:

Recovery audit does not appear to apply to EITC as defined in Public Law 107-107, Subchapter VI-Recovery Audits, §3561. However, consideration will be given to determine the feasibility of initiating a recovery audit program for EITC.



PART IV

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

The Secretary's Letter of Assurance

In accordance with the provisions of the Reports Consolidation Act of 2000 and Office of Management and Budget Circular A-11, the Department of the Treasury has consolidated several statutorily-required reports into this Performance and Accountability Report. Reporting requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) for the period ending September 30, 2003 are included in this section of the report.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the Department, except as noted below, can provide reasonable assurance that the objectives of Section 2 (internal controls) and Section 4 (financial management systems) of FMFIA have been achieved. However, because of our financial management systems weaknesses, Treasury cannot assert that we are in substantial compliance with FFMIA.

Departmentwide, there are nine material weaknesses as of September 30, 2003. These are in the Internal Revenue Service (6), Financial Management Service (2), and Departmental Offices (1). Summary information on each material weakness is provided by bureau within this section of the Performance and Accountability Report.

The Department began FY 2003 having twenty material weaknesses, and this was reduced to fourteen with the divestiture of law enforcement bureaus and responsibilities to the Department of the Homeland Security. The further net reduction to nine material weaknesses was realized through closing, downgrading, or consolidating five existing weaknesses during the Fiscal Year. These positive results were achieved through: (1) a continued emphasis on management control program responsibilities throughout the Department; (2) the increased level of senior management attention given to these issues; and (3) the focused efforts by the bureaus to develop responsible plans for resolving weaknesses in a timely manner. The Department has been forthcoming in identifying its weaknesses and conscientious in developing corrective actions to resolve its new and existing challenges. I am confident that Treasury's progress will continue in FY 2004.

Sincerely,

John W Snow

John W. Snow

Federal Managers' Financial Integrity Act and Federal Financial Management Improvement Act Compliance

Overall Results

For the readers' benefit, the management control objectives under FMFIA are to reasonably ensure that: i) programs achieve their intended results; ii) resources are used consistent with overall mission; iii) programs and resources are free from waste, fraud and mismanagement; iv) laws and regulations are followed; v) controls are sufficient to minimize any improper or erroneous payments; vi) performance information is reliable; vii) system security is in substantial compliance with all relevant requirements; and viii) continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels. During FY 2003, Treasury had a net decrease of eleven material weaknesses. That is, the Department closed, downgraded, or consolidated five material weaknesses during the year, and six material weaknesses associated with divested bureaus were transferred to the Department of Homeland Security. Nine material weaknesses are outstanding as of September 30, 2003.

FMFIA Section 2, Management Controls

Section 2 deficiencies deal with weaknesses in management controls within the agency. During FY 2003, no new material weaknesses were identified, five material weaknesses were transferred to the Department of Homeland Security; and three material weaknesses were closed/ downgraded, leaving seven unresolved weaknesses at the end of FY 2003. Of the seven remaining, two are projected to be closed in FY 2004, leaving a balance of five. The remaining five are complex systems weaknesses, and will require a more protracted timeframe to resolve.

FMFIA Section 4, Financial Management Systems

Section 4 deficiencies deal with weaknesses in the agency's financial management systems. During FY 2003, no new material weaknesses were identified, one was closed, one was consolidated into a similar existing weakness, and one was transferred to the Department of Homeland Security, leaving two open at the end of the fiscal year.

Federal Financial Management Improvement Act (FFMIA)

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

As of September 30, 2003, the Department is not in substantial compliance with these requirements due to the financial system weaknesses at the Internal Revenue Service and the Financial Management Service. IRS received approval from OMB in 2001 to extend the 3-year statutory time frame addressing the weakness, which is scheduled to be corrected by May 2007. Despite some slippage, IRS continues to make progress with the implementation of their remediation plans. The FMS weakness is scheduled for resolution in September 2004.

Summary of Open FMFIA Material Weaknesses and FFMIA Compliance As of September 30, 2003

Bureau/ Reporting Entities	Number of Material Weaknesses For FMFIA Section 2			Number of Material Instances of Non-Conformance For FMFIA Section 4			Grand Total (Sec 2 & Sec 4)	Substantial Compliance with FFMIA?	
	Carry over from Prior Years	New This Year	Total	Carry over from Prior Years	New This Year	Total			
Bureau of Engraving and Printing	0	0	0	0	0	0	**0**	Yes	
Bureau of the Public Debt	0	0	0	0	0	0	**0**	Yes	
Community Development Financial Institutions Fund	0	0	0	0	0	0	**0**	Yes	
Departmental Offices	1	0	1	0	0	0	**1**	Yes	
DC Pension Fund	0	0	0	0	0	0	**0**	Yes	
Exchange Stabilization Fund	0	0	0	0	0	0	**0**	Yes	
Executive Office of Asset Forfeiture	0	0	0	0	0	0	**0**	Yes	
Financial Crimes Enforcement Network	0	0	0	0	0	0	**0**	Yes	
Financial Management Service	1	0	1	1	0	1	**2**		No
Treasury Franchise Fund	0	0	0	0	0	0	**0**	Yes	
Internal Revenue Service	5	0	5	1	0	1	**6**		No
U.S. Mint	0	0	0	0	0	0	**0**	Yes	
Office of the Comptroller of the Currency	0	0	0	0	0	0	**0**	Yes	
Office of Thrift Supervision	0	0	0	0	0	0	**0**	Yes	
Alcohol and Tobacco Tax and Trade Bureau (TTB)	NA	0	0	NA	0	0	**0**	Yes	
Total	**7**	**0**	**7**	**2**	**0**	**2**	**9**	**13**	**2**

Recapitulation of Material Weaknesses (MWs):	Section 2	Section 4	Total
Balance at the Beginning of FY03:	15	5	20
Transferred to DHS during FY03:	-5	-1	- 6
Sub Total	10	4	14
Closures/downgrades during FY03:	- 3	- 1	- 4
Consolidated during FY03	0	- 1	- 1
New MW declared during FY03	0	0	0
Balance at the End of FY03:	**7**	**2**	**9**

SECTION 2 ***SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2003***		
BUREAU	**DESCRIPTION OF MATERIAL WEAKNESS**	**REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION**
DO-02-01	Lack of Substantial compliance with Federal Information Security Management Act (FISMA), including the Treasury communication system back-up and disaster recovery capability.	DO needs to improve the level of Certifications and Accreditations throughout the Department, complete the establishment of bureau connectivity to the backup site and conduct testing, and improve the entity-wide security program for headquarters operations. Target Date: September 2004
FMS-01-16	The Federal Government did not have adequate systems, controls, and procedures to properly prepare the consolidated financial statements.	FMS needs to implement Intra-Governmental fiduciary confirmation system, establish business rules, accelerate the central reporting cycle, and implement the new financial reports compilation process. Target Date: December 2004
IRS-88-01	IRS needs to resolve IRS' workload of Tax Assessments and prioritizing Collectible Assessments	IRS plans to improve systems support and explore the use of private collection agencies. Target Date: April 2007
IRS-95-03	Improve Modernization Management Controls and Capabilities.	IRS plans to improve Modernization Management Controls and Capabilities to consistently ensure delivery of systems with expected functionality within budget and on time that will dramatically improve both internal operations and services to taxpayers. Target Date: September 2005
IRS-99-01	Earned Income Tax Credit (EITC)	The IRS needs to implement several program enhancements to reduce the high number of overclaims and erroneous payments. Target Date: September 2006
IRS-01-01	Various systems security controls need improvement.	The IRS needs to ensure that access to key computer applications and systems was limited to authorized persons, and to effectively monitor key networks and systems to identify unauthorized activities and inappropriate system configurations. Target Date: March 2004
IRS-01-02	Measuring Taxpayer Compliance. OMB identified Tax Compliance Measurement as a program in need of reform.	IRS needs to complete the development of statistical compliance measures and measure future results. Target Date: March 2005

SECTION 4 ***SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 2003***		
BUREAU	**DESCRIPTION OF MATERIAL NON-CONFORMANCES**	**REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION**
FMS-4A-00-01	There are general computer control weaknesses in the areas of access controls, change controls, and system software.	To Be Determined. Target Date: To Be Determined
IRS-95-01	GAO's audits of the IRS' financial statements have disclosed material weaknesses in financial reporting processes that affect IRS' ability to prepare reliable financial information on an ongoing basis. IRS' financial management systems do not substantially comply with the requirements of the FFMIA of 1996.	1. Implement Custodial Accounting Project (CAP) - A single, integrated data repository of taxpayer account information, integrated with the general ledger and accessible for management analysts and reporting. 2. Provide completed analysis and recommendations concerning feasibility of converting legacy accounts to ATFR system. Determine programming resources needed to implement recommendations and any impact on Phase III schedule completion date and ATRR rewrite completion date. 3. Implement the Integrated Financial System (IFS) to replace IRS' legacy administrative financial system. Phase I scheduled for implementation in Spring 2004. Target Date: May 2007

The following provides a recapitulation of the Material Weaknesses transferred to the Department of the Homeland Security during FY 2003.

Bureau/ Control Numbers	Brief Description of the Material Weaknesses
Customs - 94-02	Lack of Disaster Recovery Plan
Customs - 02-01	Controls Over the Entry Process: Due to event tied to 9/11/2001, CS suspended the Compliance Measurement Program in FY 2002.
Customs - 02-02	Controls Over Drawback Claims: Because Customs Automated Commercial System (ACS) cannot compare entry and export information electronically, Customs relies.
Customs - 02-03	Logical Access and Software Maintenance Security Controls: Network and host-based system configuration vulnerabilities exist that can potentially be used to compromise system security.
DO - 02-02	The Department needs to exercise closer oversight and supervision of Enforcement bureaus.
Customs - 93-01	Core Financial Systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements.
Total Transferred To Department of Homeland Security	**6**

The following is the recapitulation of the Material Weaknesses closed/downgraded/consolidated during FY 2003.

Bureau/ Control Numbers	Brief Description of the Material Weaknesses	Closed/ Downgraded/ Consolidated
Section 2		
FMS-02-01	The Reconciliation Procedures do not include procedure to reconcile cumulative balance of outstanding checks in STAR with the balance of checks reported in CP&R	Closed
IRS-83-01	Property management procedures and controls over the use and accountability of capitalized property need improvement.	Downgraded
IRS-94-03	A material weakness exists in the internal controls over telecommunications Costs.	Downgraded
Section 4		
IRS-4A-99-01	IRS needs to improve the administrative annual financial statement preparation and audit process. Consolidated into IRS 95-01, which also addresses financial statement preparation.	Consolidated
Mint-4A-02-01	Mint's various information systems controls need improvement.	Closed

SUMMARY OF MANAGEMENT REPORT ON FINAL ACTIONS ON AUDIT RECOMMENDATIONS

Introduction

The Inspector General Act Amendments of 1988 (the Act), Public Law 101-504, require that the Inspectors General and the Secretaries of Executive Agencies and Departments submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential benefits. The Department now consolidates and annualizes all relevant information for inclusion in the Performance and Accountability Report (PAR). The information contained in this section of the PAR represents a consolidation of information provided separately by the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), and Treasury management. During FY 2003, pursuant to the Homeland Security Act of 2002, the Department transferred the U.S. Customs Service, the Federal Law Enforcement Training Center, and the U.S. Secret Service to the Department of the Homeland Security, and the law enforcement functions of the Bureau of Alcohol, Tobacco and Firearms to the Department of the Justice. The divestiture also resulted in the transfer of a significant number of Treasury headquarters personnel to DHS.

Department-wide Management Control Program Activities

During FY 2003, the Department continued its efforts to improve both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the OIG and the TIGTA organizations. During the year, the Department implemented the new tracking system called the "Joint Audit Management Enterprise System" (JAMES) to replace the antiquated Inventory Tracking and Closure System (ITCS). JAMES is a Department-wide, interactive, on-line, real-time system accessible to the OIG, TIGTA, Bureau Management, Departmental Management, and others. The system contains tracking information on audit reports from issuance through completion of all actions required to address all findings and recommendations contained in a report.

In addition, Departmental oversight of bureau management control program activities, as well as communication and coordination with the bureaus in general, was strengthened through a combination of: (1) on-site visits/reviews with bureau control personnel; (2) periodic management control program forums involving key persons from the OIG, TIGTA, all bureaus and program areas, and the Department; and (3) the issuance of Management Control Program Quarterly Reports which focus on significant control issues throughout the organization and which are distributed to the Secretary, bureau heads, bureau CFOs and other key personnel.

Finally, with respect to the resolution of recommendations in audit reports that identify monetary benefits, the Department regularly reviews progress made by the bureaus in realizing those benefits, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations being tracked. Included in the summary figures which follow are a number of monetary factors that are generally grouped into three categories: Disallowed Costs, Better Used Funds, and Revenue Enhancements.

Disallowed Costs – A questioned contract cost that management has sustained, or has agreed would not be charged to the Government by a contractor.

Better Used Funds – Amounts cited in an audit report recommendations which could, according to the audit report, be used more efficiently if management were to take actions to implement and complete the recommendations. Possible planned corrective actions which may be used to reallocate these funds more efficiently might involve: reducing outlays to contractors; avoiding unnecessary expenditures noted in pre-award reviews of contract agreements, or avoiding costs with the implementation of recommended operational improvements. De-obligating funds from programs or operations that are not as efficient or productive as they once were or were planned to be, as well as implementing any other savings which are specifically identified, can also be classified as "Better Used Funds."

Revenue Enhancements – An action recommended in an audit report which would, if implemented, increase the General Fund receipts of the Federal government.

Report Summary and Highlights

The statistical data in the following summary table and charts represents the Department's audit report activity for the period from October 1, 2002 through September 30, 2003. The data reflects information on reports that identified potential monetary benefits that were issued by the OIG, as well as those issued by TIGTA.

AUDIT REPORT ACTIVITY WITH POTENTIAL MONETARY BENEFITS
FOR WHICH MANAGEMENT HAS IDENTIFIED CORRECTIVE ACTIONS
(OIG and TIGTA)
October 1, 2002 through September 30, 2003
(Dollars in Millions)

	Disallowed Costs		Better Used Funds		Revenue Enhancements		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Reports	Dollars
Beginning Balance*	9	$3.2	17	$104.5	11	$580.8	37	$688.5
New Reports	4	5.0	19	5,557.5	13	7,220.9	36	12,783.4
Total	13	8.2	36	5,662.0	24	7,801.7	73	13,471.9
Reports Closed	(3)	(0.1)	(17)	(96.9)	(6)	(258.5)	(26)	(355.5)
a. Realized or Actual	*(0)*	*(0)*	*(13)*	*(69.6)*	*(0)*	*(0.0)*	*(13)*	*(69.6)*
b. Unrealized - Written off	*(3)*	*(.1[1])*	*(4)*	*(27.3[2])*	*(6)*	*(258.5[3])*	*(13)*	*(285.9)*
Ending Balance	**10**	**$8.1**	**19**	**$5,565.1**	**18**	**$7,543.2**	**47**	**$13,116.4**

∗ The beginning balance row was revised to reflect the divestiture of 4 Treasury bureaus as well as certain retroactive corrections of the beginning balances.

[1] This category includes one report with $66,375 written off, for which TIGTA does not agree with the IRS.
[2] "This category includes three reports, one with $1.190 million written off for which TIGTA does not agree with IRS management that no benefit was realized, and two with $26 million written off for which IRS management did not concur with TIGTA's projected benefit."
[3] This category includes 5 reports with $258.5 million written off, for which TIGTA does not agree with IRS management that no monetary benefit was realized.

The following graphs present the summary results for FY 2003 of how much of the projected monetary benefits have been realized and how much have not been realized and, therefore, written off. IRS' data are separately depicted.

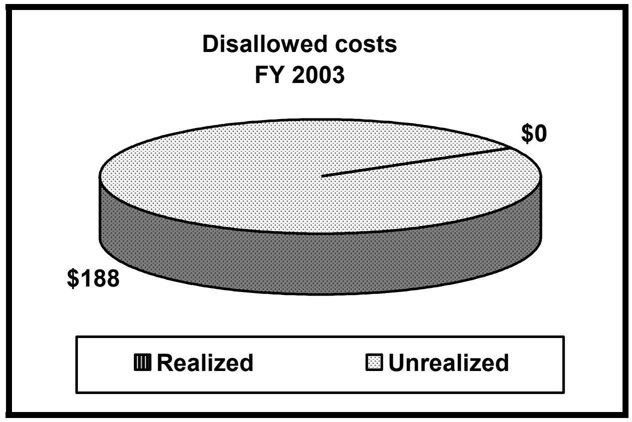
For All Bureaus except IRS ($ Amounts in Thousands)	For IRS only ($ Amounts in Thousands)

For All Bureaus except IRS ($ Amounts in Thousands)

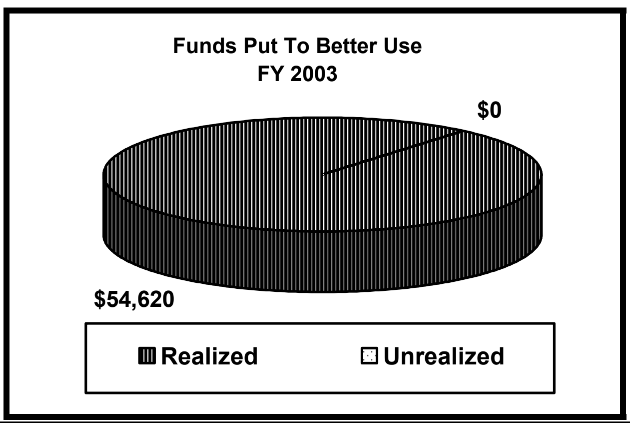
Disallowed Costs
(FY 2003)

Nothing to Report

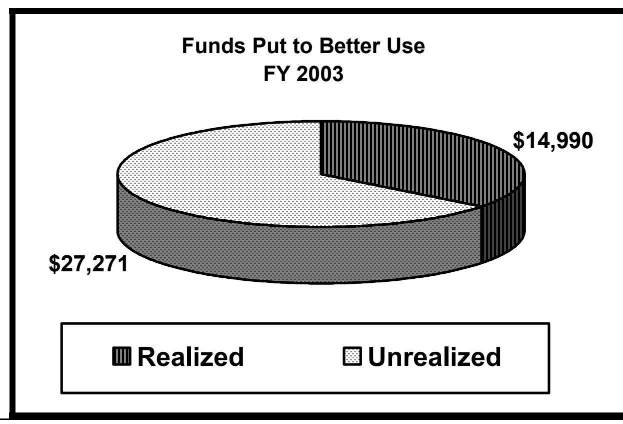
For IRS only ($ Amounts in Thousands)



For All Bureaus except IRS



For IRS only

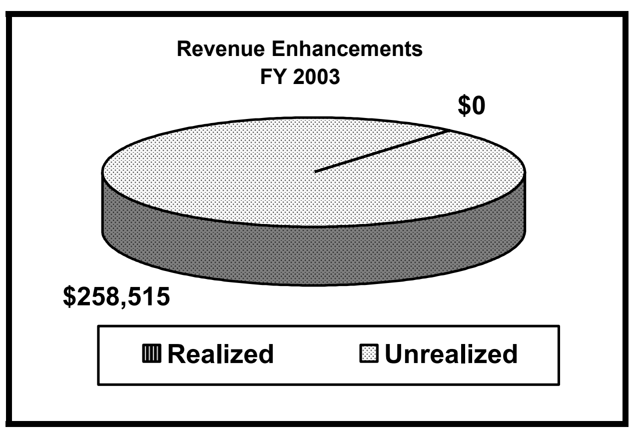


For All Bureaus except IRS

Revenue Enhancements
FY 2003

Nothing to Report

For IRS only

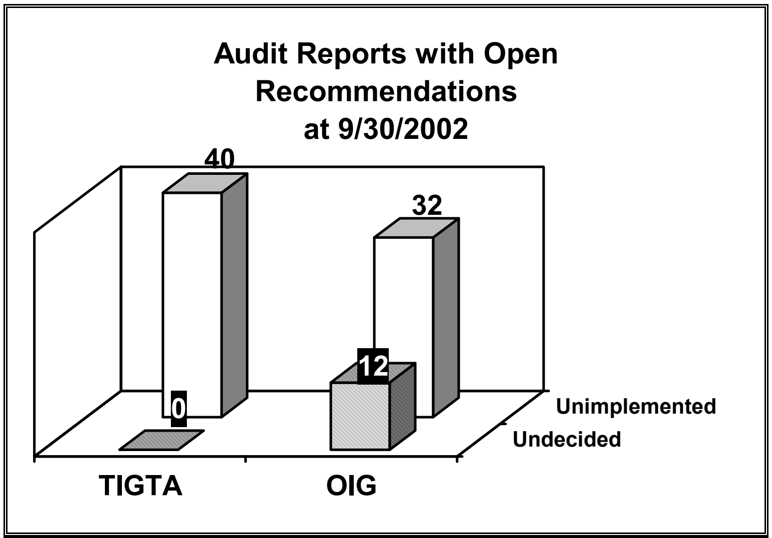


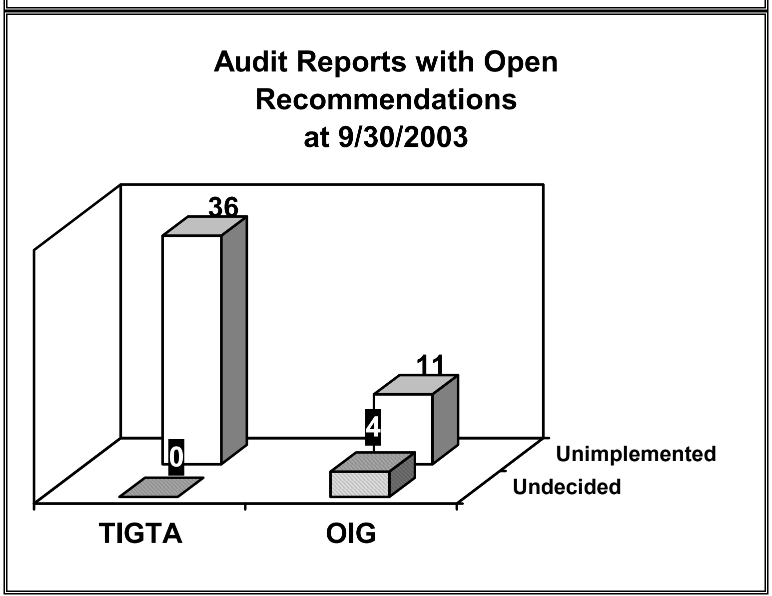
Ending Balance – Supplemental Information

There are 4 OIG reports identifying $1.4 million in potential benefits which have remained undecided by bureau management for more than six months as of September 30, 2003. There were no TIGTA undecided reports. The Department is actively working with both the bureaus and the OIG to verify the continuing validity of the original recommendations and to ensure that, where appropriate, the bureaus remove the items from the undecided category and develop implementation action plans.

Undecided Audit Recommendations and Significant Unimplemented Recommendations

The following charts provide a snap shot of the audit reports with open monetary recommendations for OIG and TIGTA at September 30, 2002 and September 30, 2003, respectively.





Status of the Alcohol and Tobacco Tax and Trade Bureau's Tax Audit Division

Regulatory Audit Considerations

The Department continues to maintain a program of procedural oversight for the regulatory audit program at the Alcohol and Tobacco Tax and Trade Bureau (formerly part of ATF). Its responsibility for a similar program at Customs ceased following the creation of the Department of Homeland Security during FY 2003 and the transfer of Customs to it.

The organizational mission of the Tax and Trade Bureau's Tax Audit Division is to carry out a regulatory audit program to enhance and safeguard the $14 billion in annual revenue collected. At its inception in late FY 2001, the Division had developed a 4-year implementation plan to staff the entire 10-office Division. This plan was accelerated following the restructuring of ATF and the creation of a separate Tax and Trade Bureau within the Treasury Department. Expectations were to staff the entire Division by September 30, 2003. To date, all 10 field offices have been established, and 88 of the 95 projected auditor positions are either filled or are in the selection process.

In FY 2003, the Tax Audit Division started seven excise tax audits of major taxpayers, i.e., taxpayers owing more than $250,000 in annual taxes. As a result of these audits, the Division was able to identify an additional $107,000 in taxes owed. The National Revenue Center was requested to issue "Notices of Proposed Assessment" in order to collect the delinquent taxes.

Appendix A
Audits Pending Final Action on Which Management Decisions Were Made Prior to October 01, 2002

Appendix A presents summary information on audit reports with potential monetary benefits on which management decisions were made prior to October 1, 2002, but on which final action was still pending on September 30, 2003. (It does not include other open audit reports without monetary benefits with pending final action.) The Department had one report which was included in the FY 2002 Accountability Report and is still included in the ending balance as of September 30, 2003. The reports are listed by bureau, report number, and issue date. The following information is provided for each of the eight reports:

- the bureau name;
- the audit report number;
- the audit report title;
- the audit report issue date;
- the potential monetary benefits;
- the audit report recommendations pending final action;
- the schedule completion date for implementation of the recommendation; and
- a status update for pending recommendation.

…………………………..

1. **Bureaus:** Internal Revenue Service
Report Number: **TIGTA** 2000-30-154
Report title: Significant Improvements are needed in processing Gift Tax payments and associated extensions to file.
Issue Date: September 22, 2000
Potential Benefit: $8,327,162 (Better Used Funds)
Recommendation: The Assistant Commissioner (Forms and Submission Processing) should require that all balance due notices generated for gift tax accounts be reviewed.
Scheduled Completion Date: January 01, 2003
Status: Due to the complexity for both Individual Master File and Business Master File, programming cannot be completed until January 1, 2003.
Potential Benefit: $237,489,033 (Revenue Enhancement)
Recommendation: The Assistant Commissioner (Forms and Submission Processing) should require that all balance due notices generated for gift tax accounts be reviewed.
Scheduled Completion Date: January 01, 2004
Status: A tickler file will be created, notices will be stopped, and gift tax modules will be frozen when there is an underpayment and an approved extension posted (TC-460). The income tax tickler files will be run against all gift tax accounts/income tax accounts being processed. The corresponding income tax and gift tax accounts will be routed to tax examiners to see if the overpayment should be moved to the appropriate accounts.

…………………………..

2. **Bureau:** IRS
Report Number: 2002-30-050
Report Title: Significant Efforts Have Been Made to Combat Abusive Trusts, but Additional Improvements Are Needed to Ensure Fairness and Compliance Objectives Are Achieved
Issue Date: 02/27/2002

Potential Rev. Enhancement: $138,200,000
Recommendation: Ensure the Abusive Trust Program consistently applies the accuracy-related penalty in accordance with IRS policy, in order to help ensure fair and equitable taxpayer treatment.
Scheduled Completion Date: 03/15/2004
Status: In 2002, assessment of the penalty has increased while abatements declined. Additional time is needed to gather data for 2003 and to analyze data for 2002 and 2003.

…………………………..

3. **Bureau:** IRS
Report Number: 2002-30-062
Report Title: The Internal Revenue Service Continues to Owe Millions of Dollars in Interest to Taxpayers with Frozen Refunds
Issue Date: 03/12/2002
Potential Better Use: $12,900,000
Recommendation: Modify the IRS' computer system to systemically release the newly established Million Dollar Freeze for credit balances that fall below the $10 million threshold.
Scheduled Completion Date: 01/01/2004
Status: On schedule.

………………………..

4. **Bureau:** IRS
Report Number: 2002-30-125
Report Title: The Internal Revenue Service Does Not Always Address Subchapter S Corporation Officer Compensation During Examinations
Issue Date: 07/05/2002
Potential Rev. Enhancement: $648,065
Recommendation: Provide technical guidance and resources (such as software) to field personnel to aid in determining reasonable officer compensation.
Scheduled Completion Date: 06/15/2003
Status: Officer's Compensation Valuation Assessor is available at: http://abusiveshelter.web.irs.gov/S-Corp/S-Corps.htm. Based on our response, we did not intend to report on the $648,065 in monetary benefits. We are rescheduling so we may obtain TIGTA's concurrence.

…………………………..

5. **Bureau:** IRS
Report Number: 2002-10-187
Report Title: The New Suspension of Interest Provision Is Not Always Calculated Correctly
Issue Date: 09/27/2002
Potential Rev. Enhancement: $120,585
Recommendation: The SB/SE Division should coordinate with MITS Services to create a systemic reminder when tax audits are completed that would prompt employees and managers to consider whether the suspension of interest provision applies. IRS management should consider this for two possible computer systems, the Report Generating System and the Examination Reporting Control System.
Scheduled Completion Date: 02/15/2004
Status: RGS will attempt to add the systemic reminder in the next anticipated release of RGS program updates.

Potential Rev. Enhancement: $17,947
Recommendation: Submit a request for information services that will change the Master File computer programming for this 1-day discrepancy when calculating suspension of interest.
Scheduled Completion Date: 01/01/2004
Status: On schedule.

…………………………..

6. **Bureau:** IRS
Report Number: 2003-20-035
Report Title: Additional Cost Savings and Increased Productivity In the Print Operation and Computer Support Function Can be Achieved at the Campus Locations
Issue Date: 12/30/2002
Potential Better Use: $2,240,000
Recommendation: Increased coordination should be required with users to discontinue printing reports that are currently available in both printed and electronic format and convert additional reports to the Electronic On-Line/Output Network System.
Scheduled Completion Date: 03/15/2004
Status: On Schedule

……….

7. **Bureau:** IRS
Report Number: 2003-20-049
Report Title: Employee Background Investigations Were Normally Completed; However, The Contractor Employee Background Investigation Program Needs Improvement
Issue Date: 02/28/2003
Potential Revenue Enhancement: $688,842
Recommendation: Ensure that all contractor employees have properly paid their tax obligations.
Potential Better Use: $30,000
Recommendation: Ensure that a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges, incorporating the needs of all stakeholders and eliminating the use of stand-alone systems such as the Security Entry Tracking System and the Procurement Background Investigation Program.
Scheduled Completion Dates: 02/15/2004
Status: This revision is based on the fact that these audits and corrective actions will transfer to the newly created Mission Assurance Office. The new office officially stands up on October 5, 2003; however more time is needed to complete these actions based on post stand up implementation and the merging of three stand alone offices.

……….

8. **Bureau:** IRS
Report Number: 2003-10-076
Report Title: Improved Oversight Of The Guard Services Contract Is Needed To Ensure Compliance With Contract Terms And Conditions
Issue Date: 03/14/2003
Questioned Cost: $18,750

Recommendation: Consider changing the award fee plan to make compliance with all contract terms and conditions a prerequisite for the contractor's award fee eligibility.
Scheduled Completion Date: 10/15/2003
Status: On schedule.

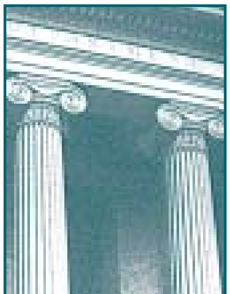
Questioned Cost: $4,700,000
Recommendation: Coordinate all remedies with the United States Attorney's Office and the Office of Investigations regarding all appropriate legal actions.
Scheduled Completion Date: 02/18/2005
Status: On schedule.

……….

9. Bureau: IRS
Report Number: 2003-10-094
Report Title: Improvements Are Needed in the Monitoring of Criminal Investigation Controls Placed on Taxpayer's Accounts When Refund Fraud is Suspected
Issue Date: 03/31/2003
Potential Revenue Enhancement: $1,343,049
Recommendation: Consider providing future report listings to the Fraud Detection Center (FDCs) in an electronic media format and consider changing the frequency of the report from quarterly to twice a year, during non-peak processing periods, to allow the FDCs to focus their resources on taking necessary actions to resolve accounts.
Scheduled Completion Date: 10/15/2003
Status: **T**he findings, recommendations, and corrective actions accurately reflect the information as stated in the audit report. However, owing to statutes and the legal process at the Department of Justice, the recovery of the stated potential monetary benefit of $1,343,049 cannot be presented within any stated timeframe with any degree of assurance. TIGTA's Senior Auditor for this report concurs. Other aspects of the corrective action can be achieved, as stated.

…….

10. Bureau: DO
Report Number: OIG-02-105
Report Title: Federal Efforts to Recover Unclaimed State-Held Assets Face Many Challenges and Obstacles
Issue Date: 07/18/2002
Potential Better Use: $4,904,275
Recommendation: To mitigate the risk of fraudulent claims of federal assets, establish procedures to review internal controls regarding unclaimed federal assets held by states, cities, and counties. Scheduled
Completion Date: 10/31/2003
Status: Action in process. The Office of Accounting and Internal Control will be meeting in early October 2003 to discuss possible funding resources to continue the program or to transfer the program to another agency.



PART V

MANAGEMENT AND PERFORMANCE CHALLENGES

MANAGEMENT AND PERFORMANCE CHALLENGES

DEPARTMENT OF THE TREASURY
WASHINGTON

Inspector General

November 12, 2003

MEMORANDUM FOR SECRETARY SNOW

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Department of the Treasury, for inclusion in the Department's annual performance and accountability report. Although this memorandum is due on December 31, 2003, I am providing it to you now in recognition of the Department's accelerated reporting initiative.

Last year we identified six challenges that we believe seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. We have dropped one challenge from last year, Treasury's divestiture of resources to the Departments of Homeland Security and Justice. Treasury appears to have effectively executed the divestiture. However, after-effects from the divestiture have contributed to two new challenges, the need to strengthen the Department's anti-money laundering efforts and the need to fill vacancies in a number of significant leadership positions. We also combined last year's challenge of inadequate financial management systems into the challenge of prompt corrective action, which is now focused primarily on longstanding material weaknesses at the Internal Revenue Service (IRS) and the Financial Management Service (FMS). Therefore, this year we have again identified six challenges. The six current challenges are summarized as follows:

Challenge 1 – Linking Resources to Results

The Department has not developed and incorporated managerial cost accounting into its business activities. Thus, financial resources cannot be linked to operating results. This undermines the accuracy, reliability, and usefulness of program performance reporting. Financial management systems need to be integrated with performance measurement and budgetary reporting systems to enable meaningful cost benefit analyses of the Department's programs and operations. Very little progress has been made in this area since the Government Performance and Results Act was passed in 1993.

Page 2

Challenge 2 – Prompt Correction of Material Weaknesses

The Department has not taken sufficient action to address longstanding material weaknesses and other serious deficiencies in programs and operations, particularly at the IRS. The number of material weaknesses reported by the Department decreased from 20 to 9 over the past year, however 6 of this decrease was attributable to the divestiture of the U.S. Customs Service to the Department of Homeland Security. Six of the remaining material weaknesses relate to the IRS and have been outstanding for as long as 15 years. FMS also has two longstanding material weaknesses.

Challenge 3 – Information Security

The Department has not corrected serious information security deficiencies. Most systems have been allowed to operate without a reasonable assurance of secure operations or adequate safeguards. The Department had reported to the Office of Management and Budget that it would have 70 percent of its systems certified and accredited by the end of Fiscal Year (FY) 2003. Based on the Department's FY 2003 Federal Information Security Act (FISMA) report, only 24 percent of the Department's systems were certified and accredited, a decline from 32 percent of the Department's systems certified and accredited in FY 2002. Material weaknesses and other reportable conditions in electronic data processing controls are included in our FY 2003 financial statement audit reports.

Challenge 4 – Duplicated, Wasteful Practices

Treasury has not successfully adapted enterprise solutions to its core business activities. Two efforts, HR Connect and the Corporate Systems Management program, have proven to be expensive and will be the subject of increased audit attention in both FY 2004 and FY 2005. Thus, rather than realize the economy, efficiency, and effectiveness of consolidation and sharing, Treasury bureaus and offices continue to either operate individual costly bureau systems or participate in Treasury wide corporate systems that have evolved into high cost projects. We believe that Treasury management should continue to pursue cost savings by looking for opportunities to eliminate duplicate personnel, payroll, travel, and procurement activities, while also better managing the corporate wide systems they are currently implementing.

Challenge 5 – Anti-Money Laundering/Bank Secrecy Act Enforcement

Recent audits at the Office of Thrift Supervision (OTS) and the Financial Crimes Enforcement Network (FinCEN) disclosed serious weaknesses in the Department's anti-money laundering efforts. We believe the Department needs to address Bank Secrecy Act enforcement efforts by ensuring that banks, thrifts, and other financial institutions improve the accuracy and timeliness of their reports. We also believe that all the supervisory agencies need to devote additional examination attention to this critical law enforcement effort.

Page 3

Challenge 6 - Vacant Senior Leadership Positions

During the past year the Department has operated with key, senior leadership positions remaining vacant for extended periods due to delays in both the appointment and the confirmation process. Most notably, the Deputy Secretary position has been vacant since February 2003. And, as a result of the establishment of the Department of Homeland Security (DHS), the Department has no senior law enforcement officials at a time when it is responsible for leading national anti-terrorist financing and anti-money laundering efforts. The Treasury Inspector General for Tax Administration position has been vacant since August 2002 and other senior officials have either recently left the Department or have announced their intentions to leave. The leadership turnover, compounded by divestiture of Departmental Offices staff and resources to the DHS has reduced the ability of Treasury to achieve its missions and manage its daily business operations.

We would be pleased to discuss our views on these management and performance challenges in more detail.

cc: Teresa Mullett Ressel
Assistant Secretary for Management and Chief Financial Officer

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

October 15, 2003

MEMORANDUM FOR SECRETARY SNOW

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service

SUMMARY

The Reports Consolidation Act of 2000[3] requires that we summarize, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2003,* our perspective on the most serious management and performance challenges currently facing the Internal Revenue Service (IRS).

The Treasury Inspector General for Tax Administration's (TIGTA) assessment of the major IRS management challenge areas for Fiscal Year (FY) 2004 has not changed substantially from the prior year. While the IRS has acted to address each challenge area, the TIGTA was unable to remove any challenge area at this time. The TIGTA has reprioritized the issue entitled Processing Returns and Implementing Tax Law Changes During the Tax Filing Season because other issues appear to be more significant. We have also clarified the issue area previously entitled Erroneous Payments by renaming it Erroneous and Improper Payments.

The TIGTA believes the major management challenges, in order of priority, facing the IRS in FY 2004 are:

- Systems Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
- Security of the Internal Revenue Service
  - The Employees and the Facilities
  - The Information Systems
- Integrating Performance and Financial Management
  - Performance Management
  - Financial Management
- Complexity of the Tax Law
- Providing Quality Customer Service Operations

[3] Pub. L. No. 106-531.

- Erroneous and Improper Payments
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Taxpayer Protection and Rights
- Human Capital

DISCUSSION

Discussion of the major IRS management challenge areas, including examples of relevant TIGTA audit work, follows.

Systems Modernization of the Internal Revenue Service

The latest attempt at the modernization of the IRS' computer systems, mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98)[4] and started in FY 1999, is expected to take 10 to 15 years at a cost of $7 to $10 billion. Thus, modernization will likely remain on the TIGTA's list of major challenges for years to come.

The RRA 98 places a greater emphasis on serving taxpayers and meeting their needs in the IRS' new structure. Dramatic improvements in service to taxpayers are heavily dependent on modernizing the IRS' core computer systems. To achieve its mission, the IRS needs high-quality, efficient, and responsive information systems. The systems must also provide an infrastructure that is sufficiently flexible to adapt to evolving business needs, and one that can be efficiently managed.

FY 2003 was deemed a "critical" year for the modernization efforts; however, few projects were deployed. In fact, overall progress has been slower than expected, costs have increased, and fewer capabilities are being delivered than originally planned. For example, the Customer Account Data Engine (CADE), which is planned for release in five incremental stages, will be the modernized foundation for managing taxpayer accounts and consists of databases plus related applications that will replace the IRS' existing Master File[5] processing systems. Release 1 of the CADE, originally planned for release in January 2002, is substantially behind schedule. The IRS now plans to deploy Release 1 by March 2004. In addition, Releases 2 and 3 have also been rescheduled to July 2005 and July 2006, respectively.

The CADE project delays can be attributed to underestimating the complexity of this effort and difficulties in identifying and managing the project requirements. As a result of delays in deploying the CADE, approximately 35 million taxpayers did not receive the benefits of faster tax return processing, and thus faster refunds, during the 2002 and 2003 Filing Seasons. In addition, other modernization projects that will provide improved customer service and compliance activities will be delayed because they are dependent upon the CADE.

[4] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[5] The Master File is the IRS' database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

The IRS Commissioner has demonstrated considerable concern about the progress of the IRS modernization efforts to date. As of the end of September 2003, the IRS has six special studies to assess various aspects of the IRS' and the PRIME[6] contractor's work on modernization. Until significant changes are made to facilitate better progress on modernization, it will remain a major management challenge for the IRS.

Tax Compliance Initiatives

For some time, the IRS, the Congress, and other interested stakeholders have been concerned because tax compliance has been slowly eroding. Gross accounts receivable continued to rise during the past fiscal year. Therefore, the challenge to IRS management is to establish a tax 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. Thus, the TIGTA continues to list tax compliance as a major challenge facing IRS management.

The number of tax returns filed and the total dollars the IRS has received annually have been increasing with the growing economy. Specifically, in 15 years, the number of returns filed has grown by 22 percent, from 140 million in 1987 to 171 million in 2001. From FYs 1988 to 2002, the amount of revenue received by the IRS grew from $935 billion to $2 trillion. Nevertheless, enforcement actions against individuals and businesses that purposefully concealed tax liabilities or even refused to submit tax returns had fallen dramatically, despite concerns with the high levels of tax cheating. Since FY 2000, however, both enforcement revenues collected and the use of collection enforcement tools, including liens, levies, and seizures, have increased.

With increased budgets and hiring authority, the staffing level of revenue officers in the field collection offices increased. Yet, even with hiring authority, staffing in field examination programs continued to decrease because retirements and other departures exceeded the number of new employees. Furthermore, replacing experienced employees with new hires results in less examination time available because of the need for training and coaching the new people, and the need to work a greater mix of less complex cases until the new employees gain experience. In spite of this, in FY 2002, the Examination and Collection functions both increased the percentage of time categorized as direct time spent examining tax returns or collecting taxes.

Still, collection statistics have not returned to their pre-1998 levels. One Collection program designed to resolve tax liabilities is the Offer in Compromise (OIC)[7] Program. Enactment of the RRA 98 made the OIC Program accessible to more taxpayers by adding "effective tax administration" as a factor in determining whether to accept an offer, and the offer inventory increased by 200 percent. As an inventory reduction strategy, the IRS initiated the Centralized Offer in Compromise (COIC) Program in August 2001. In a recent audit, the TIGTA found that the COIC Program is making progress in reducing the backlog of offers in process; however, it could better monitor the process to ensure prompt, timely acceptance or return of offers. For example, the Automated OIC system could be used to periodically track trends in reasons why

[6] The Prime Systems Integration Services Contractor (PRIME) is the contract under which Computer Sciences Corporation is responsible for designing new systems to meet IRS business needs, developing these systems, integrating them into the IRS, and ultimately transferring operation of these systems to the IRS.

[7] An OIC is an agreement between a taxpayer and the Federal Government that settles a tax liability with payment of less than the full amount owed when certain conditions exist.

offers are returned to taxpayers and then modify or highlight forms, instructions, and outreach information for those issues. Further, the IRS could develop a method to identify the primary sources of not-processable offers and a strategy to address the issues of not-processable and unrealistic or frivolous offers.

In another audit, the TIGTA found that IRS regulations and related operational practices for granting extensions of time to file tax returns might have caused many taxpayers to lose respect for the April 15 deadline for paying income taxes. Extensions of time to file are granted to taxpayers that require more time to file their tax returns; however, it does not extend the time to pay the taxes. The IRS granted extensions of time to file to approximately 6.9 million individual taxpayers in Calendar Year (CY) 1999. Many of these taxpayers subsequently presented the IRS with significant compliance problems – about 2.1 million did not pay their taxes by April 15 as required by the Internal Revenue Code. This noncompliance delayed the collection of taxes totaling $12.7 billion. Further, $1.5 billion of these taxes remained uncollected almost 2.5 years after they were due. At the root of these compliance problems is a decision to grant extensions of time to file to taxpayers who have not paid their taxes by April 15, which generally prevents the IRS from assessing the Delinquency Penalty[8] of 5 percent per month that would otherwise apply to the delinquent taxes of many taxpayers with extensions.

Security of the Internal Revenue Service

Security breaches could be orchestrated by many different types of individuals (e.g., computer hackers, unhappy taxpayers, disgruntled employees, terrorists), or the loss of taxpayer data could result from natural disasters. Recent events, such as the power blackout in the Northeast, the September 11, 2001 terrorist attacks, the anthrax mail threats, and attacks by computer worms and viruses, illustrate all too graphically the vulnerability of the IRS' infrastructure, computer systems and other equipment, taxpayer data, and employees. While attention to strengthening the perimeter has shown good results, security controls of the infrastructure and applications that guard sensitive data, remain weak. For this reason, the security of IRS employees, its facilities, and the information systems continues to be a significant challenge facing IRS management for FY 2004.

Security of the Internal Revenue Service – The Employees and the Facilities

The IRS remains vigilant to prevent attacks from terrorists and destruction of property by natural forces, and has adopted the threat advisory rating implemented by the Department of Homeland Security. Still, the most likely sources of threats to the safety of employees, as well as the security of taxpayer information and computer systems, are employees (or former employees) who are unhappy with their employers or co-workers, taxpayers who are dissatisfied with IRS service, individuals bent on personal profits, computer hackers who break into computer systems for fun or illegal activities, and computer enthusiasts who spread worms and viruses for no apparent reason.

The first line of defense is usually the outer perimeter security. A part of the outer perimeter security is the Guard Services. A recent TIGTA audit of the contract for guard services provided at several IRS locations did not identify any issues related to criminal convictions or immigration violations with the current employment of security guards. However, increased oversight is needed to ensure the contractor's compliance with all contract terms and conditions, particularly those concerning licensing. Because of inadequate oversight, the contractor operated, for periods of time, guard services at two locations without all company

[8] The Delinquency Penalty is also known as the Failure-to-File Penalty, although it could be applied to less than one-third of taxpayers who failed to file timely in CY 1999.

and individual security guard licensing required by the contract and by law, thereby increasing the risk to the safety and security of IRS employees and property.

Security of the Internal Revenue Service – The Information Systems

The IRS has developed adequate security policies and procedures but has not implemented them effectively. As a result, sensitive information remains vulnerable to attacks from a variety of sources. Although the TIGTA recognizes that total security can never be achieved and that there are necessary trade-offs between security and operational needs, the Office of Audit (OA) continues to identify significant weaknesses in infrastructure and applications security.

Wireless networks, for example, are rapidly gaining popularity in the Federal Government and private sectors because they are inexpensive and provide greater flexibility than wired networks. With the advantages, however, come security vulnerabilities, particularly with unauthorized disclosure of sensitive data. Therefore, before a wireless network is implemented, the advantages need to be carefully weighed against the risks. In a recent review, the OA identified several wireless security problems, including an unauthorized wireless application, which was directly connected to the IRS-wide internal network containing sensitive taxpayer information, plus the storage of unencrypted electronic mail messages with sensitive information.

In another TIGTA review, the OA found that the IRS did not adequately protect some systems with sensitive taxpayer data from possible illegal manipulation, destruction, or theft. In addition, fundamental access controls, such as monitoring inactive accounts and user activity, were lax. Moreover, TIGTA audits during the past 3 years identified the main reasons for systems security weaknesses as inadequate accountability, security awareness, and training for key security employees. These underlying causes are management and operational issues, not technical ones. The IRS has focused on the technical solutions but has put little effort into management and operational concerns. Thus, the end result is an organizational culture that does not appear to place strong emphasis on the security and privacy of taxpayer data.

Integrating Performance and Financial Management

The President's Management Agenda[9] includes both Budget and Performance Integration and Improved Financial Performance among the five Government-wide goals. The Administration hopes to put a greater focus on performance by formally integrating it with the budget decisions. The President is also concerned about the financial management of Government agencies and believes that a clean financial audit is a basic prescription for any well-managed organization. Without accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

Performance Management

The Government Performance and Results Act of 1993 (GPRA)[10] is intended to increase agency accountability and improve the quality and delivery of Government services. The GPRA holds Federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement. Federal agencies are required to prepare multi-year

[9] *The President's Management Agenda*, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal government. It focuses on five areas of management weakness across the Government where improvements and the most progress can be made.
[10] Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

strategic plans, annual performance plans, and annual program performance reports. *The President's Management Agenda* requires agencies to produce performance-based budgets and, over time, agencies will be expected to identify high-quality outcome measures, accurately monitor the performance of programs, and begin integrating this presentation with associated costs.

The Office of Management and Budget (OMB) noted, in its 2002 Executive Branch Management Scorecard of the Treasury's progress in improving its performance, that the IRS is developing outcome measures and working to rationalize its budget structure. These efforts, and other improvements in performance measures, will make it easier to manage Treasury's programs to yield maximum results. However, significant barriers remain, particularly in the IRS' collection program for which the OMB assigned a "results not demonstrated" rating.

In reviews of the IRS' Wage and Investment (W&I) Division's Compliance function, the TIGTA found that the function has a comprehensive strategic planning process to help ensure it manages resources and meets its annual goals and performance levels for the Discretionary Examination Program and the Automated Underreporter (AUR) Program. The IRS, however, does not have long-term outcome goals and measures to assess the effectiveness of the Programs. For example, the Discretionary Examination Program will not be able to measure the success of its efforts to improve its goal of service to all taxpayers through the fair and uniform application of the tax law, and the AUR Program will not be able to measure its effect on reducing taxpayer burden and improving voluntary compliance. In addition, the AUR Program currently does not have sufficient data available to establish these long-term goals and measures or baselines.

Financial Management

Financial Management, too, remains a challenge to IRS management, even though for the third consecutive year, the IRS was able to produce financial statements covering its tax revenue and administrative activities that are fairly stated in all material respects. According to a recent General Accounting Office (GAO) report, many of the IRS' longstanding systems and internal control weaknesses continued to exist, necessitating continued reliance on costly compensating processes, statistical projections, external contractors, substantial adjustments, and monumental human efforts to prepare a set of reliable financial statements.[11] The report further noted that one of the largest obstacles facing IRS management today continues to be the agency's lack of a financial management system capable of producing the reliable and timely information its managers need to assist in making day-to-day decisions.

[11] *United States General Accounting Office Report to the Secretary of the Treasury – IRS' Fiscal Years 2002 and 2001 Financial Statements* (GAO-03-243, dated November 2002).

The Integrated Financial System's (IFS) scheduled October 1, 2003, implementation has been postponed to February 2004 at the earliest. This system represents a key element of the corrective actions being taken by the IRS to ensure its accounting system is in compliance with the Joint Financial Management Improvement Program's (JFMIP)[12] Federal Financial Management System Requirements, and provides accurate and timely financial information for management decision-making. The TIGTA's on-line audit of the system showed that the IRS established a framework to identify material administrative accounting requirements for inclusion in the IFS. However, the TIGTA identified 64 JFMIP requirements that were not specifically or fully addressed in the IFS' System Requirements Report. Of these 64 requirements, 36 represented mandatory JFMIP requirements.

Along with financial accountability, the Federal Government has a stewardship obligation to prevent fraud, waste, and abuse and to use tax dollars appropriately. The Office of Procurement, a key partner in delivering the IRS mission, awards and manages obligations that amount to nearly 20 percent of the IRS' budget. Most mission-critical programs rely on contract support. A recent TIGTA audit of the use of four of the nine Enterprise License Agreements (ELA) showed that the IRS is not utilizing the ELAs in a cost-effective manner. Two of the four ELAs included in the review were significantly under-utilized and one was over-utilized.

As a result of concerns of the Senate Finance Committee, the TIGTA also reviewed IRS purchase card transactions for potential fraud/misuse indicators and to identify questionable purchases. The TIGTA identified a small percentage of purchase card transactions that appeared to be intentional misuse of the cards. Additionally, screening of the purchase card data identified transactions that included items purchased from the IRS' Restricted Purchase List as well as transactions that appeared to be split purchases designed to circumvent delegated procurement levels.

Complexity of the Tax Law

The scope and complexity of the U.S. tax code make it virtually certain that taxpayers will face procedural, technical, and bureaucratic obstacles in meeting their tax obligations. Although the IRS has consistently and commendably sought to ease the process for all taxpayers, each tax season brings new problems. Some older problems also stubbornly resist solution. Besides new tax law, other factors that can contribute to the complexity issue include language barriers, interpretations of the laws, and unclear IRS instructions. For this reason, the TIGTA continues to list complexity of the tax law as a major challenge facing IRS management.

For example, the TIGTA found that language for limited English proficient (LEP) taxpayers can be a barrier to accessing important benefits or services, understanding and exercising important rights, complying with tax filing responsibilities, or understanding the information provided by the IRS to the taxpaying public. Although LEP taxpayers have several verbal services to choose from when they need non-English assistance from the IRS, these taxpayers may be requiring this assistance because the IRS' written products (i.e., notices, forms, and publications) in non-English languages are limited.

[12] The JFMIP is a joint undertaking of the Department of the Treasury, the GAO, the OMB, and the Office of Personnel Management, working in cooperation with each other and other agencies to improve financial management practices in the Federal Government.

In another review, the TIGTA estimated that more than 4,200 farmers' tax accounts might have been overpaid by more than $4.4 million. A provision in the Taxpayer Relief Act of 1997[13] allowed farmers to elect to compute their tax liabilities by averaging farm income over a 3-year period. The IRS originally interpreted the farm income averaging provision of the tax law to exclude negative income from the calculations. However, members of the Senate clarified the intent of the Congress and recommended that proposed IRS regulations be amended to show that "taxable income" may be negative for the purpose of farm income averaging. These changes were implemented for Tax Year (TY) 2000 and were made retroactive to TY 1998, but farmers were required to file amended tax returns to claim any refund of tax for TYs 1998 or 1999. However, many farmers did not know about the opportunity to amend their tax returns for refunds.

Another example is the election notification process for small business corporations. In September 2002, the TIGTA issued a report that discussed how this process may be one of the factors that is hampering first-time filers from filing the U.S. Income Tax Return for an S Corporation (Form 1120S), and the TIGTA recommended that the IRS simplify the process of filing election forms and Forms 1120S. A recent TIGTA follow-up review found that the IRS had taken some corrective actions; however, the IRS cannot reasonably ensure that approximately 604,000 taxpayers (over a 5-year period) have been notified of the acceptance or denial of their elections. Unclear instructions regarding the filing of elections and related relief provisions may prevent taxpayers from making elections and obtaining the tax benefits of filing a small business corporate return.

Providing Quality Customer Service Operations

The IRS' mission is to provide top quality service to every taxpayer in every transaction. Customer service is a major concern of the Congress and other stakeholders. In fact, the RRA 98 mandated that the IRS be more responsive to customer needs. There are many ways in which the IRS provides customer service. The most direct include walk-in service, toll-free telephone service, electronic customer service, written communications to taxpayers, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to voluntarily comply with the tax laws. Providing high-quality services can also be a challenge to the IRS.

Because quality service at IRS Taxpayer Assistance Centers (TAC) was a major concern, an amendment to the Treasury spending bill[14] for FY 2002 required the TIGTA to conduct visits to all TACs in CYs 2002 and 2003 and report to the Congress on whether taxpayers are provided correct and prompt answers to their questions. From January through December 2002, TIGTA auditors made 399 anonymous visits to 199 TACs located in the 50 states and Washington, D.C. During these anonymous visits, TIGTA auditors asked 802 questions related to 22 tax law topics that are within the scope of topics that TAC employees should have been trained to answer. Besides receiving incorrect tax law responses, the auditors were sometimes referred to IRS publications or even denied service.

The IRS established an accuracy goal of 80 percent for FY 2003, and plans to use the TIGTA's CY 2002 results as baseline figures to measure improvement during FY 2003. The TIGTA has issued audit reports for three reviews in CY 2003, which show that the IRS continued to improve services, but has not yet met the 80 percent goal. For example, in May and June 2003 TIGTA auditors made 64 anonymous visits to 32 TACs and asked 128 tax law questions. The IRS employees correctly answered 7 percent more questions and referred 94 percent fewer taxpayers to publications than the same period last year.

---

[13] Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of 5 U.S.C., 19 U.S.C., 26 U.S.C., 29 U.S.C., 31 U.S.C., 42 U.S.C., and 46 U.S.C. app.).
[14] Pub. L. No. 107-67.

In addition to the TAC audits, the TIGTA also assessed the IRS' responses to taxpayer questions submitted via the IRS' Internet site (the *Digital Daily*) and toll-free telephone assistance lines. The IRS met its goal of providing an e-mail response within 2 business days for 89 percent of the questions anonymously submitted to the *Digital Daily* by TIGTA auditors and for which the IRS provided a response. However, the IRS does not have an effective system to ensure responses are provided for all the questions submitted. Specifically, auditors did not receive a response for 16 percent of the 90 questions anonymously submitted.

The TIGTA auditors also monitored a judgmental sample of 294 toll-free tax law calls between January 27 and March 13, 2003, and compared the results to records from an IRS statistically valid sample of 6,011 calls monitored during the same period. The 2 samples showed that Customer Service Representative (CSR) performance was professional and timely in 98 percent or more of the total number of calls monitored. Although TIGTA's sample showed a customer accuracy rate of 73 percent as compared to the IRS' measured rate of 81 percent, the need for CSRs to fully probe the taxpayer for information was clearly evident as an ongoing issue requiring improvement in both of the samples taken.

As a result of a TIGTA audit of the 2002 Filing Season,[15] the IRS has added new toll-free numbers for specific services (including telephone numbers on notice correspondence for service specific to the type of notice), initiated skill-based routing to direct calls to CSRs with greater precision, and began using screeners for all tax law calls rather than having the callers navigate through a complex menu. The IRS also developed a training strategy for 2003 to address the need for greater flexibility to move CSRs among applications, and the training curriculum for newly hired CSRs was changed to enable them to handle account and balance-due calls. In addition, all CSRs will be trained to have a primary specialty and a back-up application assignment.

Erroneous and Improper Payments

Stewardship responsibility over public funds is a major challenge facing IRS management. Both the President and the Congress have expressed concerns with the large amount of erroneous or improper payments made by Federal agencies. Two recent pieces of legislation – the Improper Payments Information Act of 2002[16] and Section 831 of the National Defense Authorization Act for FY 2002[17] – provide an impetus for all agencies to systematically address improper payment activity annually, and to identify and recover contract overpayments.

Improper and erroneous payments include inadvertent errors, payments for unsupported or inadequately supported claims, payments for services not rendered, payments to ineligible beneficiaries, and payments resulting from outright fraud and abuse by program participants and/or Federal employees. The IRS has identified filing fraud issues and potentially erroneous refunds being generated from misapplications of the Earned Income Tax Credit (EITC) as a material weakness.

The EITC Program, a major Federal effort to assist the working poor, is a refundable credit available to taxpayers who file returns with certain earned income. The EITC was established to offset the impact of Social Security taxes on low-income families and encourage them to seek employment rather than welfare. Historically, the EITC Program has been vulnerable to high rates of noncompliance (overclaims).[18] Based on an IRS report, of the estimated $31.3 billion in EITC claims made by taxpayers for TY 1999, an estimated $8.5 to $9.9 billion (27 to 32 percent) should

[15] The period from January through mid-April when most individual income tax returns are filed.
[16] Pub. L. No. 107-300, 116 Stat. 2350.
[17] Pub. L. No. 107-107, 115 Stat. 1012, 1186.
[18] An EITC overclaim is the amount of the EITC claimed by taxpayers above the amount to which they are entitled.

not have been paid. The GAO has listed the IRS' administration of the EITC Program among the high-risk areas for the Federal Government.

IRS efforts to improve the administration of the EITC Program are ongoing. The IRS reports that it has denied approximately $2.25 billion in erroneous claims since September 2000, and it has implemented a number of initiatives targeting outreach, education, and compliance efforts. The IRS also participated in a joint Treasury-IRS task force to study EITC overclaims. This resulted in the IRS initiating a significant change to the way it will address EITC noncompliance, for example, by requiring EITC applicants who meet certain criteria to pre-certify and requiring new information on EITC returns.

The IRS also recently reorganized the EITC Program Office to capitalize on the strategic planning and research resources in the W&I Division's Office of Strategy and Finance. It also created an Executive Advisory Council made up of IRS executives involved in the administration of the EITC Program to help provide better oversight and coordination of the Program. The Program Office has drafted new annual performance measures for the EITC Program for FYs 2003 and 2004.

In addition to the EITC Program, potential improper payments to contractors and vendors are a major concern. The TIGTA is focusing more attention on payments to contractors and vendors, via audits of invoices. Additionally, the TIGTA's Procurement Fraud Section investigates allegations of fraud, waste, and abuse involving IRS procurements and misconduct by IRS employees and persons outside of the agency. For example, a judgment was recently entered against a Virginia couple in a Government contracting fraud case. The lawsuit centered on a 1995 contract between the IRS and a laptop computer repair company. The IRS contract called for the company to repair laptop computers and bill the IRS for its actual costs, plus a fixed markup. This repair company entered into an agreement with another company to do the actual repairs, and created a third corporation to act as a "middleman" between the two companies. By running invoices through this shell corporation, the repair company was able to fraudulently alter the invoices. The Government's suit alleges that from March 1996 through November 1997, the IRS paid $428,902 under this contract as a direct result of the fraudulently inflated invoices.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

The tax return filing season impacts every American taxpayer and is, therefore, always a highly critical program for the IRS. In addition to providing customer service to American taxpayers, the IRS must coordinate tax law changes, programs, activities, and resources to effectively plan and manage each filing season. Often, the Congress passes these tax changes late in the year and the IRS must implement the changes before the tax filing season begins. Consequently, this issue remains on the TIGTA's list of major challenges facing IRS management.

Overall, the 2003 Filing Season went well. The computer programming requests initiated by the IRS to implement the new tax law provisions were timely and generally accurate. In addition, most of the 122 million individual income tax returns received through the end of May 2003, were timely and accurately processed. Some 52 million of these returns were processed electronically, an increase of 12 percent over the 2002 Filing Season. The biggest increase in alternative ways of filing was seen in the volume of on-line filing from home computers. In May 2003, the IRS reported that nearly 12 million taxpayers had used this filing method, which is a 27 percent increase over last year.

Even though the computer programming requests were timely and generally accurate, some errors and omissions were identified. For example, computer programming requests to implement the new retirement savings contribution credit and to change the IRA deduction contained errors or omissions that could have denied credits or deductions to some taxpayers or may have resulted in the loss of tax revenue by allowing certain taxpayers to receive larger credits or deductions than they were eligible to receive. The TIGTA also identified some areas of the tax laws that were not correctly implemented and could have resulted in loss of taxpayer entitlements or erroneous tax assessments. For example, taxpayers with potentially unclaimed Additional Child Tax Credits were not notified of the possible eligibility, taxpayers were allowed retirement savings contributions credits and student loan interest deductions in excess of the amounts allowed by the new tax law changes, and taxpayers were allowed a “dual benefit” for the tuition and fees deduction and the education credit.

The IRS, in a move towards a paperless tax filing system, initiated the TeleFile Program on a limited basis in 1992. During the 1996 Filing Season, the TeleFile Program was offered on a nationwide basis to taxpayers who filed their tax returns using the single status, and was further expanded during the 1997 Filing Season to include those taxpayers who filed their tax returns with the married filing jointly status. The number of taxpayers using the TeleFile System each year decreased from the 1998 to 2002 Filing Seasons. Since the expansion of the TeleFile Program in 1997, the IRS has not identified any additional opportunities to expand taxpayer TeleFile Program eligibility. To provide measurable benefits to both the taxpayer and the IRS, and to enable the IRS to continue to move towards its goal of having 80 percent of all tax returns e-filed by 2007, the TIGTA recommended that the IRS develop a strategy outlining steps to be taken to offer the TeleFile Program to those taxpayers who file an Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ) and are currently ineligible to use the TeleFile system. The TeleFile Program would then be an excellent way for the IRS to promote free e-filing to a segment of taxpayers who may be seeking an alternative to using the Internet.

Taxpayer Protection and Rights

The RRA 98 included fundamental changes to tax law procedures and 71 provisions that increase or further protect taxpayers’ rights. Due to the comprehensive nature of the RRA 98, the IRS has dedicated significant attention and resources toward implementing the provisions. The IRS has taken several actions to improve compliance with these provisions. For example, in some instances, the IRS added a higher level of managerial review, implemented new computer controls to prevent certain violations from occurring, and provided additional training and guidance to help employees and managers understand the provisions’ requirements.

The TIGTA has reported that the IRS has fully implemented three taxpayer rights provisions – *Mitigation of Failure to Deposit Penalty, Seizure of Property, and Taxpayer Advocate-Hardships.* In addition, the IRS is generally compliant with two other provisions – *Illegal Tax Protestor Designation* and *Collection Due Process for Liens and Levies.*

The RRA 98 requires the TIGTA to review 10 of the 71 taxpayer rights provisions, as well as 2 other taxpayer rights provisions in prior legislation. The TIGTA's FY 2003 audits are the fifth cycle of reviews assessing the mandatory RRA 98 provisions. The TIGTA's most recent audit results on these taxpayer rights provisions are:

- *Notice of Levy* – Though managers review and approve manual levies issued by Automated Collection System employees, managers are not required to review or approve manual levies issued by revenue officers. Thus, these taxpayers are at risk of not having their appeal rights properly protected.
- *Restrictions on the Use of Enforcement Statistics to Evaluate Employees* – A review of enforcement employees' performance and related supervisory documentation revealed no instances of the use of tax enforcement results, production quotas, or goals to evaluate employee performance.
- *Notice of Lien* – Lien notifications were not always mailed within 5 business days after the day of the filing of the liens. The number of days late ranged from 1 to 17 days. Thus, taxpayers could have less than the 30-day period allowed by the law to request a hearing.
- *Seizures* – The TIGTA determined that the IRS complied with legal provisions and internal procedures when seizing taxpayers' property for payment of delinquent taxes.
- *Illegal Tax Protestor Designations* – The IRS has not reintroduced past Illegal Tax Protestor (ITP) codes on the Master File, and formerly coded ITP taxpayer accounts have not been reassigned to a similar ITP designation. In addition, the IRS does not have any current publications with ITP references. However, IRS employees continue to make references to taxpayers as ITPs and other similar designations in case histories.
- *Assessment Statute of Limitations* – Employees properly advised taxpayers of their right to refuse or restrict the scope of the statute extension in 74 percent of the tax returns sampled.
- *Denials of Requests for Information* – The TIGTA again identified some responses to the Freedom of Information Act[19] or the Privacy Act of 1974[20] requests where information was improperly withheld; however, the number of denials had decreased since the prior year.
- *Collection Due Process* – The IRS substantially complied with the requirements of the law and ensured taxpayers' appeal rights were protected in 98 percent of the appeal cases reviewed.

Neither the TIGTA nor the IRS could evaluate the IRS' compliance with the following four provisions since IRS management information systems do not track the specific cases:

- *Restrictions on directly contacting taxpayers instead of authorized representatives*.
- *Taxpayer complaints*.
- *Separated or divorced joint filer requests.*
- *Fair Debt Collection Practices Act Violations.*

<u>Human Capital</u>

Like many other Federal agencies, the IRS has been experiencing workforce issues over the past several years ranging from recruiting, training, and retaining employees to problems associated with the IRS' recent reorganization and modernization efforts. The GAO has identified human capital issues as a major challenge facing many agencies, and in 2001, *The President's Management Agenda* proposed an aggressive strategy for improving the management of the Federal Government, including human capital issues. Some projections estimate that 19 percent of the Federal workforce will retire by FY 2005. While the IRS has taken some steps to resolve its human

[19] 5 U.S.C. § 552.
[20] 5 U.S.C. § 552a.

capital problems, many problems still exist. Therefore, the TIGTA continues to include human capital issues in its list of major management challenges facing the IRS.

To address many of its human resource concerns, the IRS created the Human Resource Policy Council (HRPC) to ensure a coordinated approach to agency-wide issues, policies, and strategies. The Council is composed of the Chief Human Capital Officer and representatives from each of the IRS' major organizations. The HRPC decided, for example, to eliminate agency-wide restrictions regarding fast-track promotion of IRS managers.

The new IRS is a flatter organization with more challenging roles for employees and managers. Technical training requirements are increasing for its employees, while managers also need training designed and delivered to meet their specific needs. Moreover, the IRS workforce has large numbers of individuals in key job series at or near retirement and forecasted retirement losses of managers only increases the demand for training and development needed for future IRS leaders.

The IRS, for example, estimates that, by FY 2006, 44 percent of the Large and Mid-Size Business Division revenue agent population will be eligible to retire. In addition, approximately 35 percent of all Small Business/Self-Employed Division non-seasonal employees will become eligible for retirement by 2006. The Tax Exempt and Government Entities (TE/GE) Division also projects that it will experience significant attrition over the next few years. Nearly 10 percent of TE/GE Division employees have more than 30 years of service and another 22 percent have more than 25 years of service.

Thus, the IRS may not only be faced with replacing many technical and managerial positions but will also face training this new workforce. This comes at a time when the IRS can hardly afford to lose its experienced workforce since it is now first showing signs of increasing its productivity in both examination and collection areas. Moreover, the IRS does not have adequate data to assess its training program. For example, the IRS Oversight Board requested training data from the IRS in order to perform an assessment and develop a baseline of training in the IRS. However, the data provided by the IRS did not contain basic information to show how training funds and resources were used or reflect any measure of their effectiveness.

TREASURY FY 2003 ACTIVITIES TO ADDRESS MANAGEMENT CHALLENGES AND HIGH-RISK AREAS

The following table lists the major management challenges and high-risk areas facing the Department of Treasury and its bureaus as identified by the sources listed below. Included in the table are actions taken by the respective policy office and/or bureau during FY 2003 to address the particular challenge. Also included in each section are those actions the policy offices and/or bureaus expect to accomplish in the next fiscal year.

- General Accounting Office (GAO): "Major Management Challenges and Programs Risks: Department of the Treasury," GAO-03-109, dated January 2003.
- Office of the Inspector General (OIG): Memorandum for Secretary O'Neill from Treasury Inspector General Jeffrey Rush, Jr., dated November 5, 2002.
- Treasury Inspector General for Tax Administration (TIGTA): E-mail issued June 26, 2003.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	F4. Collect Revenue Due to the Federal Government
Internal Revenue Service Modernization – Managing the Business Systems Modernization Program: (GAO and TIGTA)	Successful completion of the modernization efforts will enable the IRS to balance the goals of helping taxpayers meet their tax responsibility and improving overall compliance with tax laws. Modernization of technology is crucial to implementing the new business vision of providing world-class service to taxpayers. While the development of new technology evolves, existing operations must continue, and improvements must be made to meet the needs of tax administration and demonstrate IRS' commitment to improve service to taxpayers. The IRS continues to make significant progress in improving its systems modernization and have demonstrated capability to manage replacement of Tax Processing and Business Systems but work remains before expected results are achieved. **FY 2003 Accomplishments** • IRS continued to improve efforts in Business System and Tax Processing by modifying the Internet Refund/Fact of Filing (IRFoF) application to include the Advance Child Tax Credit, • Initiated application for Internet Employer Identification Number (IEIN) which permits a new small business to apply for and receive an Employer Identification Number over the Internet. • Conducted a study to benchmark IRS application development efforts allowing comparison of IRS performance to private industry systems modernization efforts. Achieved Software Acquisition Capability Maturity Model (SACMM) Level 2 for Business System Modernization Office (BSMO) -- the first civilian agency of the U.S. Federal Government and the first multi-project organization to achieve that rating. • Our prime support contractor consortium achieved SACMM Level 3, the first organization in the world to achieve that rating (The prime contractor's role is to design, build, and implement the program's information technology systems).

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	• Deployed Human Resources (HR) Connect. • Established a new Deputy Commissioner for Operations to give attention to human capital practices, continued strong governance and rigid adherence to Enterprise Life Cycle (incorporates aspects of realizing a new business vision, from strategy development through system deployment and operation). **Actions Planned or Underway** • IRS will continue to respond to this challenge through institutionalizing configuration management procedures for BSMO, delivering electronic account resolution transcript delivery, secure e-mail, disclosure authorization, and bulk Tax ID Number matching functionality via the e-Services project. • Releasing the first segment of the Customer Account Data Engine (CADE) by providing key information supporting individual taxpayer account and return data. • Deploying the first release of the Integrated Financial System to replace multiple IRS "Core" financial systems (including expenditure controls, accounts payable, accounts receivable, general ledger, budget formulation, and purchasing controls) with a single comprehensive modernized system. • Implementing the first release of the Custodial Accounting Project that will provide detailed tracking information on tax receipts from individual filers. • Deploying the Modernized e-File system. • Implementing effective procedures for validating contractor-developed cost and schedule estimates by working with the prime contractor to develop and deploy best practice estimating capabilities consistent with Carnegie Mellon University's Software Engineering Institute (SEI). • Initiating a review of the CADE project by SEI to improve project management and delivery. • Continuing benchmarking efforts allowing comparison of IRS performance to that of similar efforts in private industry and • Implementing analysis of program management by an independent contractor.
Internal Revenue Service Modernization - Collection of Unpaid Taxes (HR): (GAO)	Collecting taxes due the government has always been a challenge for IRS, but in recent years the challenge has grown. Between 1996 and 2001, the compliance and collection programs experienced larger workloads, less staffing, and fewer numbers of cases closed per employee. By the end of fiscal year 2001, IRS was deferring collection action on about one out of every three tax delinquencies assigned to the collection program. To counter this trend, the IRS intends to improve the productivity of IRS's existing compliance and collections staff and better target noncompliance. IRS' new effort to review compliance, the National Research Program (NRP), will provide IRS with information on compliance rates and sources of noncompliance. **FY 2003 Accomplishments** IRS developed a comprehensive strategy and approach to modernize technology and collection processes. Included are efforts to develop and analyze payment and compliance data for both strategic and operational purposes, establish baseline measures for payment compliance, facilitate better decision making and gauge program effectiveness, and to develop support tools that allow IRS to improve its

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	resource allocation processes. The NRP is currently implementing a reporting compliance study for individual income tax filers. In addition, a Strategic Compliance Planning Model (SCPM) has been developed to study the effect of optimizing the Service's expected budgets for compliance activities across Operating Divisions, programs, activities, and geographic locations. This model is intended for use as part of the strategic planning process to perform "what-if" analyses of different budget allocations and other key assumptions. **Actions Planned or Underway** • Provide ACS Collection Representatives with better tools to improve efficiency, effectiveness, and quality and case resolution. • Pursue using Private Collection Agencies (PCAs) to support IRS collection efforts and allow IRS to focus limited resources on more complex cases and issues. • Implement Collection Tax Delinquent Account (TDA) Reengineering to better identify cases with a high or low propensity to pay or to be unproductive in order to optimize efforts. • Develop and analyze payment and compliance data to set baselines, targets and develop strategies annually. • Develop and implement the filing and payment compliance modernization project. • Develop risk-based compliance approaches for both collection and examination activities, including Installment Agreements with taxpayers. Ensure that proposed long term-solutions are aligned and technically compatible. Develop and implement multiple treatment alternatives with the tone, treatment and timing of interaction proportional to the risk of the taxpayer. • Analyze results of the National Research Program to identify pockets of noncompliance and to develop pre-filing, filing and post-filing strategies to address the findings. • Develop a TeleFile/Internet electronic funds withdrawal application for notice payments and Direct Debit application for Installment Agreements to facilitate payments • Develop a comprehensive strategy to address the growing inventory of accounts receivable and maximize the effectiveness of resources targeted to identifying and collecting unpaid tax liabilities. • Develop a legislative proposal and initiative for collection contract support. • Develop proof-of-concept applications using advanced technologies to improve workload selection processes, including tax shelter activity, high-income taxpayer noncompliance, and detection of tax shelters using relational data mining techniques.
Internal Revenue Service Modernization - Taxpayer Service (GAO and TIGTA)	Providing top quality service to every taxpayer in every transaction is an integral part of IRS' modernization plans. IRS provides customer service in many ways, including toll-free telephone service, electronic customer service, written communications to taxpayers, walk-in service, and accurate and timely tax refunds.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	Each of these services affects taxpayers' inclination and ability to comply voluntarily with the tax laws on which the U.S. tax system is so heavily reliant (taxpayers making payments and filing tax returns without IRS audit and collection activity). Effective taxpayer service helps maximize voluntary compliance and not only increases taxpayer confidence in government in general, but also has the added benefit of reducing the need for intrusive and costly enforcement services. A large part of what makes improving such services such a challenge is the sheer volume of requests for taxpayer assistance. In 2002, taxpayers called IRS about 100 million times, with about 30 million of those calls going to the 10,000 assistors IRS had on board. This volume of requests for assistance will expand in the coming years. **FY 2003 Accomplishments** The EZ Tax Filing Initiative was implemented to meet the e-government objective of enabling on-line tax return entry and submission at no cost to the taxpayer. In addition, IRS provides multilingual services to Limited English Proficient taxpayers through an increased number of bilingual employees. In addition, an "Abusive Tax Shelter Hot Line" is being used to provide interactive outreach for taxpayers who have pre-filing concerns regarding tax shelter promotions. IRS continued to improve the availability of on-line services such as Internet Employer Identification Number (EIN), Centralized Authorization File (CAF), and Practitioner Priority Services (PPS), as well as e-Services for practitioners. Electronic interactions such as e-filing and e-paying were enhanced through marketing strategies to select taxpayer and preparer segments. Communications with taxpayers were improved as part of a new toll-free strategy to improve customer service by targeting customer segments. The "IRS Toll-Free Vision and Marketing Strategy" involves six new dialed numbers to improve the customer experience and ensure that callers are directed to the appropriate resource through the use of scripts associated with each number. **Actions Planned or Underway** IRS will continue to respond to the challenges of improving the range of taxpayer service activities. IRS is working with the Service-wide Taxpayer Burden Reduction Council to identify improvements, including the ongoing redesign and simplification of forms, schedules, publications, and notices. In addition, expansion of the e-Services capabilities will involve working with private industry to increase low-cost or no-cost Internet filing options, as well as allowing added customer access to get information or resolve their tax account issues on-line. Additional electronic transaction capability enhancements will expand taxpayer options for making electronic payments, including payments for installment agreements and notice payments. Implementation of the Taxpayer Assistance Center (TAC) Model will ensure adequate space and technology for handling walk-in taxpayer service issues, as well as enhancing security and privacy for taxpayers.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
Internal Revenue Service Modernization - Tax Compliance Initiatives (TIGTA)	IRS' goal of providing world-class service to taxpayers hinges on the theory that if IRS provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase. The compliance program (examining tax returns and collecting tax liabilities) addresses taxpayers who do not voluntarily comply. During the last decade, the number of tax returns selected for examination by IRS has decreased while the number of tax returns filed has increased. The challenge to IRS management is to establish a tax compliance program that identifies those citizens who do not meet their tax obligation, either by not paying the correct amount of tax or not filing proper tax returns, and effectively bring them into compliance. **FY 2003 Accomplishments** Efforts in FY 2003 addressed compliance areas through better education of the public; systematic identification of promoters of tax shelters and participants; improvement in the efficiency of exam and collection efforts through reengineering; and reinvigoration of enforcement actions such as summons enforcement, injunctions and criminal investigation of promoters. IRS developed a comprehensive strategy that includes the Offshore Credit Card Project and Offshore Voluntary Compliance Initiative, which allows the IRS to identify and refocus our resources on the areas that offer the greatest compliance risk to the tax system. IRS continued to make significant progress in collecting better compliance and non-compliance data. **Actions Planned or Underway** • Continue to develop and refine methodologies to identify, prioritize and monitor Reporting Compliance Risks, specifically addressing key areas of noncompliance with the tax laws including the promotion of abusive tax schemes, the misuse of devices such as offshore accounts to hide or improperly reduce income, Special Purpose Entities, the use of abusive corporate tax avoidance transactions, the non-filing and underreporting of income by higher-income individuals, flow-through entities and other strategies used to mask questionable structured transactions by high-income taxpayers. Address those engaging in abusive tax practices through enforcement, full implementation of K-1 matching, education and research. • Enhance Published Guidance regarding Abusive Tax Transactions (ATAT) by developing and implementing a process for early identification of ATAT transactions. • Expand the use of limited issue focused examination processes; explore remote audit alternatives and audit team composition /placement practices. • Improve issue management process including resolution and settlement strategies by applying alternative dispute resolution procedures and other issue resolution programs such as Pre-filing Agreements, Industry Issue Resolutions and Fast Track to resolve tax shelter issues in timely and consistent manner. • Focus pre-filing efforts on abusive trusts, e-commerce, flow-through entities, voluntary agreements and burden reduction. • Implement the Curb Egregious Noncompliance initiative to balance compliance efforts, support tax law enforcement, and provide the necessary

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	increase in resources across all major compliance programs while leveraging new workload selection systems and case building approaches developed through re-engineering. • Develop Potentially Collectible Inventory performance measures that give insight into new causes of growth in accounts receivable. • Focus on reducing pyramiding of trust fund taxes among in-business taxpayers to address employment tax noncompliance to decrease the accounts receivable inventory. • Develop and implement a multifunctional non-filer strategy that will target outreach and compliance efforts. Based upon research results, develop alternative treatments to influence non-filing taxpayer behavior and promote compliance.
Processing Returns and Implementing Tax Law Changes During the Tax Filing Season (TIGTA)	The filing season impacts every American taxpayer. Many programs, activities and resources have to be planned and managed effectively for the filing season to be successful. Critical programming changes for the filing season must receive priority over other programming requests. Although the FY 2003 filing season was a great success, the IRS still needs to address some problems in processing tax returns, specifically in the areas of the Rate Reduction Credit, Additional Child Tax Credit, undelivered refund checks and processing of small business corporate returns. **FY 2003 Accomplishments** IRS continued the transition of its Campus locations into specialized processing sites for Business Master File (BMF) and Individual Master File (IMF) returns. This transition allows the IRS to focus BMF and IMF processing expertise and will result in greater consistency in taxpayer treatment. With the growth in electronic filing, Submission Processing sites are being reduced and efforts to place the impacted employees are being coordinated among the remaining operations at the site. Efforts were made to ensure that the required number of employees are available for each telephone tax law and account area based on forecasted workload Emphasis was also placed on continuing to improve the IRS web site usability and managing the web site throughout the filing season. **Actions Planned or Underway** • Expand e-filing options by adding additional business forms 1120, 1120s, 943, and 945, converting existing business forms to Extensible Markup Language and eliminating other barriers to BMF e-file. • Implement initiatives to revise BMF forms including simplifying the Form 941 to reduce taxpayer burden and bar-coding Forms 1065 and 1120 to improve processing accuracy and quality. • Continue to enhance the functionality of the web site by providing new features such as enhanced search capabilities and presentation of results, tax applications and/or calculators of various types, and enhanced globalization to present web content in various languages. • Develop secure access for taxpayers who file electronically to enable them to review their account electronically as required by the IRS Restructuring and Reform Act of 1998 (RRA98).

Management Challenge/ High-Risk Area	FY 2003 Actions
	• Identify the appropriate configuration of states to Submission Processing sites for future IMF paper processing. (Multi-Year Initiative). • Conduct a pilot of the Remittance Transaction Research system to enhance payment processing and provide payment information on-line. • Ensure specialized procedures related to Disaster Relief, i.e. Killed In Terrorist Action are used in processing identified returns. (Ongoing)
Providing Quality Customer Service Operations (TIGTA)	Providing top quality service to every taxpayer in every transaction is an integral part of IRS' modernization plans. IRS provides customer service in many ways, including toll-free telephone service, electronic customer service, written communication to taxpayers, walk-in service, and accurate and timely tax refunds. Each of these services affects taxpayers' ability and desire to voluntarily comply with the tax laws. **FY 2003 Accomplishments** The EZ Tax Filing initiative was implemented to meet the e-government objective of enabling on-line tax return entry and submission at no cost to the taxpayer. In addition, IRS provides multilingual services to Limited English Proficient taxpayers through increased bilingual employees and continued use of Over-the-Phone Interpreter service that provides interpreter services in over 150 languages. IRS has expanded pre-filing efforts for corporate taxpayers to assist taxpayers in filing correct, complete and compliant returns through pre-filing agreements and Industry Issue Resolutions. IRS has emphasized increased use of published guidance through the Published Guidance Program and is moving away from the more limited Private Letter Ruling program. An expedited clearance process, recently agreed to by IRS and Treasury, has increased the timeliness of published guidance. In addition, an Abusive Tax Shelter Hot Line is being used to provide interactive outreach for taxpayers who have pre-filing concerns regarding tax shelter promotions. IRS continued to improve the availability of on-line services such as Internet Employer Identification Number, Centralized Authorization File, and Practitioner Priority Services as well as e-services for practitioners. Electronic interactions such as e-filing and e-paying were enhanced, communication with taxpayers was augmented through the development of e-government operations and employers were provided with access to on-line employment tax and wage information. **Actions Planned or Underway** • IRS will continue redesigning and simplifying notices, forms and publications. Expansion of electronic payment options will continue with the development of a TeleFile/Internet electronic funds withdrawal application for notice payments and an electronic funds withdrawal (Direct Debit) application for installment agreements. • IRS will continue working with private industry to expand low-cost Internet filing options. • IRS will expand the work done on e-Services to include additional customer access to electronic transcript delivery, disclosure authorization, and electronic account resolution.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
Integrating Performance and Financial Management - Performance Management; Performance Measures and Cost-Based Performance Information (TIGTA and GAO)	The IRS Strategic Planning and Budget process, which includes the Annual Performance Plan and Annual Performance Report, satisfies a major requirement of the GPRA. However, IRS' critical performance measures do not address all of the strategies listed in the IRS Strategic Plan and do not support a significant portion of the IRS' budget request. The General Accounting Office (GAO) cited that IRS could do a better job of designing and implementing performance measures and program evaluations practices that support its on-going business operations, modernization efforts and budget requests. Further, IRS could make additional progress in linking its budget request to intended results so that Congress could make more informed budget decisions and better assess IRS' use of resources. GAO also noted that IRS still lacks a centralized and integrated cost accounting system capable of providing timely and reliable cost information related to its activities and programs. Without such a system, managers may lack ready information to manage costs and make decisions. **FY 2003 Accomplishments** All business units have approved balanced measures composed of business results quantity and quality, customer satisfaction and employee satisfaction. Divisions used balanced measures to report to the Commissioner on executing their workplans, and also as the cornerstones for building their strategic plans. Divisions are still in the process of deploying and setting targets for their balanced measures down to the Area office (or equivalent) level. IRS is continuing to implement Embedded Quality (EQ), which revamps the way quality is measured, calculated, and reported in the sites. EQ creates accountability by connecting employee evaluations directly to the corporate balanced measures in a fair and meaningful way. IRS began updating its strategic plan for FY 2003-2008. The new plan will link the strategic goals and objectives to the performance goals in the Annual Performance Plan and to the Budget. Performance data is collected, collated and reported through the Data, Mart and Business Performance Management System (BPMS) for most of the IRS critical measures. IRS is also continuing to expand use of OMB's Program Assessment Rating Tool (PART). A five year-PART plan has been developed with new programs being added each year to reach the goal of 100% of IRS programs being reviewed in five years. **Actions Planned or Underway** IRS will continue to respond to this challenge through the following actions: • Review current performance measures to transition from a largely output based system, to one focusing on evaluating the outcomes for all major processes. • Complete update and publish IRS strategic Plan for FY 2003-2008, linking strategic goals and objectives to performance goals in the Annual Performance Plan and the Budget. • Continue to automate data collection and reporting through Data Mart and BPMS. • Develop the linkage between IRS' operational critical measures and its relevant strategic measures to better align resource decisions to achieving strategic outcomes.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	• Develop strategic measures for all major operating divisions. • Deploy the Integrated Financial System (IFS) provide the IRS timely and easier access to accurate and consistent financial data resulting in improved decision-making and management of the organization. IFS is being designed to be compliant with JFMIP, with a goal of eventually being FFMIA compliant. Once the IFS is implemented in 2004, IRS will continue to respond to this challenge through the following actions: ➢ Begin capturing the full cost of IRS's resources in FY 2004. ➢ Allocate overhead costs based on proven business methodologies, that are consistently applied, easy to maintain and will support internal and external audits. ➢ Track the receipt and distribution status of funds by appropriation in compliance with federal appropriation laws through the IFS Funds Management module. ➢ Track and control resources to a specific organizational unit and level of responsibility. ➢ Provide both direct and indirect cost data, this will help the move the Service forward in transitioning to a Performance-Based Organization through the Cost module. ➢ Produce integrated and reliable financial statements and reports with minimal reliance on data from legacy systems.
Security of the IRS – Employees and Facilities (GAO and TIGTA)	Recent terrorist attacks highlighted vulnerabilities in many businesses and government agencies. This terrorist activity within the United States demonstrated very graphically that the physical security of IRS employees, equipment, and structures should be of utmost concern to IRS management. The IRS must remain vigilant to all opportunities to enhance the safety of employees. **FY 2003 Accomplishments** National Physical Security Standards were developed to establish security enhancements for areas such as guard services, blast mitigation, and the infrastructure of all IRS offices. IRS conducted an assessment of all IRS buildings and facilities based upon current and proposed security standards and began a security risk assessments of all Level 1, 2, and 3 buildings. IRS participated in government-wide programs that plan for and minimize the risk of catastrophic events on mission achievement. Headquarters' continuity of operations (COOP) capabilities and enterprise situation awareness management capabilities (SAMC) were enhanced. **Actions Planned or Underway** IRS will continue to respond to this challenge through the following planned actions: • Continue to work with GSA and law enforcement agencies to safeguard personnel and assets. • Closely monitor procedures regarding the inspection of incoming mail and packages. • Continue implementation of security enhancements.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	• Continue to participate in government-wide programs that plan for disaster response. • Continue to enhance and maintain COOP and SAMC initiatives. • Complete security risk assessments of Level 1, 2, and 3 buildings. Implement appropriate corrective measures and/or upgrades, subject to funds availability and consistent with comparable GSA scheduling for Level 4 buildings. • Develop an incident command structure, using the Senior Commissioner Representatives as the Command Manager. • Identify appropriate protective measures for all IRS facilities in accordance with the National Physical Security Standards.
Taxpayer Protection and Rights (TIGTA)	IRS effected an independent review to determine its compliance with the Restructuring and Reform Act of 1998 (RRA 98) Section 1204, which prohibits the use of enforcement statistics to evaluate IRS employees or to impose or suggest production quotas or goals. In addition, all IRS Appropriate Supervisors certify each quarter that they have not improperly used enforcement statistics in evaluating employees. Separately, the National Taxpayer Advocate began several national initiatives to identify areas for improving Taxpayer Advocate Services processes and procedures to improve performance in offices with low scores. A study was also performed of the Federal Case Registry of Child Support Orders (FCR) to evaluate the accuracy and timeliness of the data contained in the FCR/Dependent Database. Correspondence audits were conducted for the sample of Earned Income Tax Credit taxpayers selected in the study. **FY 2003 Accomplishments** An independent review was conducted to determine IRS' compliance with RRA 98 Section 1204, which prohibits the use of enforcement statistics to evaluate IRS employees or to impose or suggest production quotas or goals. In addition, all IRS Appropriate Supervisors certify each quarter that they have not improperly used enforcement statistics in evaluating employees. The National Taxpayer Advocate (NTA) began several national initiatives to identify areas for improving Taxpayer Advocate Services (TAS) processed and procedures to improve performance in offices with low scores. A study of the Federal Case Registry of Child Support Orders (FCR) was initiated to evaluate the accuracy and timeliness of the data contained in the FCR/Dependent Database (DDb). Correspondence audits were conducted for the sample of Earned Income Tax Credit (EITC) taxpayers selected in the study. **Actions Planned or Underway** In FY 2004, IRS will focus on taxpayer groups that are at higher risk of non-compliance to maintain confidence in the integrity of our tax administration program; fully implement the K-1 matching program, reconciling partnership income reporting documents to the beneficiaries of this income on federal income tax returns; partner with state taxing agencies to implement programs that compare state tax information with federal income and/or employment tax return information; and, refine procedures to certify compliance with the requirements of Title VI of the Civil Rights Act of 1964 to provide equal access and non-discriminatory services to all eligible taxpayers.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
Complexity of the Tax Law (TIGTA)	**FY 2003 Accomplishments** H.R 1528, the Taxpayer Protection and IRS Accountability Act of 2003 passed by the House of representatives on June 19, 2003 contained several legislative recommendations from the 2001/02 National Taxpayer Advocate Annual Report to Congress. Highlights of this Act include the reform of penalty and interest provisions; improvement to the fairness of IRS collection procedures; improvement to the efficiency of tax administration; a temporary adjustment to The Trade Adjustment Act Health Insurance Tax Credit; enhancements to taxpayer information confidentiality; and authorization of low-income taxpayer clinics. The National Taxpayer Advocate will also continue to work with members of Congress and their staff to increase understanding and support of future legislative recommendations. **Actions Planned or Underway** The NTA has identified potential legislative issues to be developed for the 2003 Annual Report to Congress and continues to work with members of Congress and their staff to increase understanding and support of the key legislative recommendations contained in the 2002 report. These legislative recommendations taken as a whole represent proposals that the NTA believes will either reduce complexity of the Code, reduce taxpayer burden in complying with the tax requirements, and protect taxpayer rights.
Erroneous Payments (TIGTA)	Both the President and the Congress have expressed concerns with the large amount of erroneous payments made by Federal agencies each year. The risk of improper payments increases in programs with complex criteria for computing payments, a significant volume of transactions or emphasis on expediting payments. Although many IRS programs are susceptible to erroneous payments, the Earned Income Tax Credit (EITC) Program is particularly vulnerable. Each year the IRS spends over $100 million to help ensure that eligible taxpayers claim the EITC and to reduce over-claims and fraud, waste and abuse. However, IRS does not have a process to identify and stop refunds on many tax returns using tax processing identification numbers, such as Individual Tax Identification numbers (ITIN) and erroneously claiming the EITC. IRS also faces erroneous payment issues in other program areas such as vendor over payments and specious tax claims. IRS administers the earned income credit, a refundable federal income tax credit for low-income working individuals and families. The credit reduces the amount of federal tax owed and can result in a refund. There are significant compliance problems associated with the credit. Non-compliance among IRS estimates that billions of dollars in credits claimed by taxpayers should not have been paid. Because IRS has struggled to reduce overclaims and because of the magnitude of the financial risk, this continues to be high-risk. IRS will use compliance study data and risk analysis to determine which EITC filers claiming children are most likely to meet the residency requirements. We are addressing potentially erroneous claims before they are accepted for processing and before any EITC benefits are paid.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	FY 2003 Accomplishments IRS closed more than 262,000 examinations, exceeding the FY 2003 target by 3.3%, and as a result, EITC dollars recovered were almost 20% ahead of FY 2002. Processing year 2002 audit results were analyzed to refine existing Dependent Data base (DDb) business rules. **Actions Planned or Underway** • Commence EITC research efforts to identify ways to reduce EITC erroneous payments as well as identify trends in the diverse EITC taxpayer population. Use the results of these studies for strategic planning of the EITC program. • Continue participation in a government-wide task force on erroneous payments. • Finalize work on the EITC preparer cases already being actively investigated and prepared for prosecution. • Develop a procedure that will allow IRS to obtain the National Directory of New Hires from Health and Human Services to provide quarterly employee wage information by employer and information on newly hired employees. • Pilot a qualifying child residency certification program. • Develop cross-divisional examination strategies that quickly react to changing EITC compliance trends. • Establish a specific EITC threshold in the Underreporter Program. • Explore new data sources to enhance Dependent Database usability. • Evaluate public comments from Announcement 2003-40 regarding EITC pre-certification activities and determine follow-up actions for Tax Year 2004. • Identify states with EITC Programs and explore partnership opportunities.
Debt Collection Improvement Act (DCIA) – Financial Management Service (GAO)	Since the passage of the DCIA in 1996, FMS has been extremely successful in developing and executing plans to lay a strong foundation for the debt management program. FMS' debt management program has provided exceptional leadership across the Federal Government and has significantly increased the collection of delinquent debt. Based on the success of the program, the continuous improvements and enhancements, and the fact that FMS continues to meet, if not exceed, its performance goals in this area, this program is no longer considered a management challenge.
M1. Support the Achievement of Business Results	
Internal Revenue Service Modernization - Earned Income Credit Noncompliance (HR): (GAO)	IRS administers the earned income tax credit, a refundable federal income tax credit for low-income working individuals and families. The credit reduces the amount of federal tax owed and can result in a refund. However, there is a significant amount of compliance problems associated with the credit. IRS estimates that billions of dollars in credits claimed by taxpayers should not have been paid. Because IRS has struggled to reduce overclaims and because of the magnitude of the financial risk, this continues to be a high-risk area. A draft corrective action plan has been developed. The targeted closure date is currently scheduled for the end of FY 2005.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
Information Security (GAO, OIG and TIGTA)	**Treasury CIO**: It is anticipated that the systems security material weaknesses at the Mint will place it in substantial compliance with year-end reporting for FY 2003. This will leave the IRS and FMS with a carry-over material weakness tied to this issue. **IRS** has made steady progress in improving systems security on all fronts during the year; significantly, this has included expanding the entity-wide security program to encompass greater participation by user offices, thus improving the overall security environment. The IRS also was conscientious both in identifying systems and applications eligible for certification and accreditation and in completing Certification and Accreditations (C&As) on legacy and new systems/applications. The IRS surpassed the number of C&As it originally had projected for completion during FY 2003, and it anticipates being able to propose a downgrading of the entire systems security material weakness during FY 2004. On a Department-wide basis, offices of the Department's Chief Information Officer provided effective oversight of all bureaus throughout the year, and this contributed to the Department's significantly improved level of compliance with the Federal Information Security Management Act of 2002. Related challenges in Departmental Offices also are being addressed. **FMS** has taken the following actions to address computer security controls and strengthen its entity-wide Information Technology (IT) Security Program: • Revised and published information technology security policies and standards and trained employees on the new policies and standards. • Appointed a senior executive to oversee audit findings, evaluate its entity-wide IT security program using the Federal IT Security Self-Assessment Framework, and implement a program plan of actions and milestones to achieve a security program effectiveness of Level 5 by FY 2004. • Addressed the resolution of most IT audit findings and recommendations through the implementation of comprehensive corrective actions many of which were FMS-wide in scope. • Completed the certification and accreditation of 49 of 50 systems and/or platforms. The remaining system in under interim authority to operate, with plans for final certification and accreditation targeted for December 31, 2003. • Conducted three major disaster recovery tests including our enterprise infrastructure and major applications running on this infrastructure. • Implemented a new product to centrally manage access control across our enterprise platforms. As a result of these actions, FMS well-positioned to fully resolve its IT security weaknesses in FY 2004. **IRS** has made considerable progress toward improving computer security controls. Despite this progress, more work remains to achieve an acceptable level of assurance that automated systems and taxpayer data are not placed at risk from both internal and external threats. As the primary revenue collector for the United States, IRS is a target for both terrorists and hackers. This threat has increased over the last few years as a result of both internal factors (such as increased connectivity of systems) and external factors (such as the volatile threat environment resulting from increased terrorist activity). While many steps have

Management Challenge/ High-Risk Area	FY 2003 Actions
	been taken to limit risk, IRS systems and taxpayer information remain vulnerable to threats impacting the confidentiality, integrity, and availability of data and information systems. The IRS addressed this challenge through the following actions. • Completed the development and documentation of improved IRS-wide security policies, guidelines, standards and procedures for access controls, configuration management, and audit trails. • Implemented, assessed and analyzed security controls for border, domain and other routers and switches. • Completed development of day-to-day guidelines, rollout schedules, and training programs relating to the implementation of access controls, configuration management, and audit trails controls. • Completed the deployment of rollout schedules and training program related to security roles and responsibilities, including implementing Federal Information Security Management Act of 2002 (FISMA) training. • Completed development, implementation, and monitoring of the security curriculum for key IT security personnel. • Made substantial progress toward certification of IRS sensitive systems. • Implemented improved disaster recovery capability for IRS critical information systems. • Expanded business continuity exercises to include larger enterprise functions and all response capabilities. • Provided Incident Command System training to key personnel. • Conducted annual security control reviews of IRS systems in compliance with the FISMA, using National Institute of Standards and Technology Special Publication 800-26. • Refined IRS' intrusion detection and response capability and further integrated this capability with emergency preparedness plans and procedures. • Initiated backup capability for IRS Computer Systems Incident Response Center. • Provided improved assurance for IRS networks and began the final phase of physical security upgrades to increase the control level of critical IRS information processing facilities to Department of Justice, Level V. **The Mint's** FY 2003 review of internal controls, the Independent Public Accountant, concluded that there is a need to aggressively strengthen its information technology general and application controls. In order to continue efforts to implement the appropriate information systems controls with respect to network architecture and systems processes, and improve internal processes for monitoring compliance with all Federal laws and guidelines, the Mint established a process for ongoing identification of potentially anomalous activity by the development of high-risk indicators that would trigger a review. In addition, the Mint established processes, including enhanced audit logging as part of our ongoing efforts to identify potentially anomalous activity. This audit logging process is also used to develop key indicators for potential reviews. The Mint also conducted an internal review of financial transactions in our enterprise resource planning system to identify suspect transactions. None were identified.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	Further certification and accreditation on nine of the Mint's ten systems and major applications was completed. To improve software system controls for change management across the Mint, the Office of Enterprise Information Services (OEIS) realigned its functional divisions (Configuration Management) to enhance segregation of duties. Also, a Chief has been assigned to head the change management group, which no longer reports to OEIS, but rather reports directly to the Deputy Chief Information Officer. Existing procedures have been updated to reflect these changes. Also, all systems under the Mint's Certification and Accreditation (C&A) framework have a defined configuration management plan. Further, the Mint revised their systems development life cycle (SDLC) to include a more comprehensive change management process that includes procedures and templates to manage and control configuration items. Other actions taken to improve information systems controls include documenting the Mint's current demarcation for enterprise-wide security administration and developing a strategic plan for implementation of an identity management process.
Linking Resources to Results (OIG)	**Treasury DCFO:** The DCFO and Office of Performance Budgeting are working with contractors to integrate the financial management and performance measurement systems. Treasury is identifying opportunities and assessing requirements needed to technologically link the financial management system that houses all Treasury budgetary information with the performance measurement system that houses the performance metrics used to measure the ongoing progress of Treasury's programs. The new system will collect timely and accurate information, perform meaningful data analysis and disseminate the results. **DAS for Management and Budget:** Improved alignment of bureau resources with new strategic goals and objectives. A Strategic Management System was established and used in Treasury's FY 2005 budget submission, which will link bureau programs, resources, and performance to Treasury's strategic goals and objectives. The budget justifications will demonstrate the need for resources based on performance improvement.
Compliance with Federal Financial Management Improvement Act (FFMIA) of 1996 (GAO)	**Treasury DCFO:** The year-end closure of systems security material weakness at the Mint placed it in substantial compliance with all FFMIA requirements, leaving the IRS and FMS as sources of substantial non-compliance. Although the IRS will not achieve full compliance until all related financial systems development efforts are completed in FY 2007, significant progress was achieved during FY 2003. Throughout the year, IRS consistently met the Department's 3-day close requirements tied to the production of timely and accurate financial information on a monthly basis. This in turn enabled the IRS and the Department to receive unqualified opinions on their FY 2003 audited financial statements for a fourth consecutive year. Moreover, the continued improvement at the IRS has led GAO to agree to a downgrade of the IRS material weakness on administrative financial statement preparation. The longstanding property management material weakness was also downgraded at the end of FY 2003.

<table>
<tr><th>Management Challenge/ High-Risk Area</th><th>FY 2003 Actions</th></tr>
<tr><td></td><td>
FMS: The continuing material weaknesses in computer security prevents FMS from being in substantial compliance with FFMIA. It is anticipated that this weakness, and the corresponding FFMIA non-compliance, will be resolved during FY 2004.
IRS: The IRS' financial management systems remain a challenge to the IRS management, despite producing, for the second consecutive year, combined financial statements covering the IRS' tax custodial and administrative activities, and achieving an unqualified audit opinion from the General Accounting Office (GAO). IRS' current financial systems alone cannot produce reliable information necessary to prepare financial statements in accordance with federal accounting standards. The data produced from the current financial system has to be reconciled with other subsidiary systems to produce reliable financial statements. The IRS lacks the timely, accurate, and useful information needed to make informed management decisions on an ongoing basis.
FY 2003 Accomplishments
To improve overall financial management, IRS is implementing two major systems: the Custodial Accounting Project (CAP) and the Integrated Financial System (IFS). The CAP project will improve IRS' compliance with FFMIA and other financial management laws and standard, as well as support GAO financial audits. CAP will be built in a series of incremental releases with release 1 including Individual Master File data, Financial Management Service goals, General Ledger Data and an interface with IFS. The Systems Development phase was completed and development of the project began with progress being made towards achieving a February 2004, implementation date of Release 1.
The IFS project will deploy a new management system to the IRS that will give the IRS timely and easier access to accurate and consistent financial data resulting in improved decision-making and management of the organization. Significant progress was made on IFS in FY 2003, including identifying key process flows, systems configuration, system functionality testing, performance and technical testing, data conversion from current financial system historical data, coordination and creation of interfaces and user training.
Actions Planned or Underway
IRS will continue to respond to this challenge through the following actions:

CAP Release 1 will provide detailed tracking information on tax receipts from individual filers based on IMF data, FMS goals, General Ledger Data and IFS Interfaces.
The first release of IFS is scheduled for deployment and will include the Core Financial System as defined by the Joint Financial Management Improvement Program including, General Ledger, Accounts Payable, Accounts Receivable, Funds and Cost Management, and Financial Reporting.

Mint. The OIG considered non-compliance with FFMIA a management challenge in 2002. The Mint in 2003 no longer considers this to be a management challenge/high-risk area because it aggressively strengthened its information technology general and application controls.
</td></tr>
</table>

Management Challenge/ High-Risk Area	*FY 2003 Actions*
Preparation of Government-wide Financial Statements – Financial Management Service (GAO)	FMS continues its multi-year effort to rebuild the processes it uses to prepare the *Financial Report of the U.S. Government*. FMS also worked closely with OMB in developing intra-governmental business rules. In FY 2003, FMS finalized requirements and obtained contractual assistance in its effort to rebuild the processes it uses to prepare the *Financial Report of the U.S. Government*. The new process will be used in preparing the FY 2004 financial statements, scheduled for publication in December 2004. This process will compile, with a few exceptions, the Financial Report directly from agencies' financial statements. When implemented, the new process and business rules will mitigate the material weakness in the current process.
Prompt Correction Action (OIG)	**Treasury DCFO:** By the end of FY 2002, the Department had reduced its 1998 baseline of 60 material weaknesses to 20 weaknesses. This number was further reduced to 9 weaknesses for FY 2003 reporting. This reduction includes the transfer of 6 weaknesses to the new Department of Homeland Security. The Department's success has been achieved through ongoing management attention in the form of quarterly progress reports to executive management on the status of material weaknesses, the inclusion of material weaknesses as an agenda topic for Bureau Heads meetings, and similar vehicles which help focus attention on Treasury's major challenges. During FY 2003, the Department also completed the development of and implemented a new audit tracking system for use by all bureaus and both Inspectors General. The system improves management's ability to track progress on material weaknesses and major management challenges, as well as routine audit findings and recommendations. Although certain long-standing challenges will remain problematic for the foreseeable future, reasonable progress toward closure on many similar challenges continues to be achieved.
Duplicated, Wasteful Practices (OIG)	**Treasury DCFO:** During FY 2003, Treasury continued its efforts to identify and implement enterprise solutions to improve the economy, efficiency and effectiveness of activities throughout the Department and its bureaus. Enhancements were made to several existing enterprise systems, including three major components of the Financial Analysis and Reporting System (FARS). These were: 1) the Treasury Inventory Executive Repository (TIER), supporting centralized financial reporting and the preparation of consolidated financial statements; 2) the Joint Audit Management Enterprise System (JAMES), supporting the entity-wide tracking of audit issues and material weaknesses; and 3) the Performance Reporting System (PRS), supporting all Treasury reporting tied to GPRA. Treasury also actively participates in two E-Gov initiatives being led by the General Services Administration. These include E-Travel and the Business Partners Network (BPN). Among other things, the BPN initiative encompasses inter-agency elimination entries, and therefore will help facilitate the resolution of this significant challenge to the preparation of Government-wide financial statements. **DAS for Workforce Management:** Treasury continues to improve workforce management through its enterprise-wide human resources management system, HR Connect, which will lead to significant cost savings and a dramatic transformation of HR service delivery. Efforts include reengineering of bureau HR business practices and a move to an Internet-based service delivery platform.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	The HR Connect program has been deployed in every Treasury bureau except the Office of Thrift Supervision, which will deploy in Spring 2004. As of September 2003, 99,000 employee records are in HR Connect. In addition, two former Treasury bureaus, US Secret Service and the Bureau of Alcohol, Tobacco, and Firearms continue to use HR Connect. Employee and manager self service functionality is in production in four Treasury bureaus with several more scheduled to begin using these features in FY 2004. Treasury is also partnering with OPM on an E-Gov initiative, Enterprise HR Integration (EHRI).
Human Capital Management (TIGTA)	**Treasury DAS for HR:** Treasury recognizes and acknowledges the importance of human capital planning and management. To accomplish this, Treasury has developed and implemented a Human Capital Action Plan that serves as the framework for human capital strategy and is designed to assist management in creating an environment where the entire workforce is valued and can excel to the greatest extent possible. The Plan will ensure that workforce planning strategies are in place and that they address skill imbalances in mission critical occupations, and that the workforce is aligned to meet the agency mission and that services are provided to the public in the most efficient manner. The Plan will also ensure that bureaus fully utilize HR flexibilities and enterprise-wide technological solutions and data to support HR service delivery; that effective performance management is emphasized and linked to accomplishment of the agency mission; and that bureaus have development and succession plans in place to ensure continuity of leadership. Treasury is also incorporating actions into the Plan that will address under representation and ensure that we can recruit and retain a high-quality and diverse workforce. The success of our efforts will be gauged though human capital accountability standards and through a set of challenging measures. Treasury's Chief Human Capital Officer has broad responsibility for providing leadership and managing Treasury's human capital strategies and initiatives. However, Treasury also recognizes as an organization that all managers are responsible and accountable for the effective management of human capital. To that end, Treasury will continue to monitor progress, refine the Human Capital Action Plan, and work to mitigate any areas that are at risk. Treasury will also continue to partner with our bureaus to identify and share innovative methods and "best practices". **IRS:** Like many other government agencies, IRS continues to face a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with IRS' recent reorganization and modernization efforts. Although IRS initiated actions to incorporate a workforce planning process into its strategic planning process, IRS management has not established a project plan that assigns responsibilities and includes milestones for each step in the process. **FY 2003 Accomplishments** The IRS is implementing a comprehensive Human Capital Strategy that is based upon six human capital standards for success: strategic alignment, workforce planning and deployment, leadership and knowledge management, performance culture, talent, accountability. IRS developed a phased retirement program for

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	potential use as incentives for employees in critical job series to extend their association with the IRS. IRS also received the authority for waivers to annuity offsets in order to benefit from the vast experience of annuitants. A robust succession-planning model was developed and the use of executive search assistance in filling critical executive positions has been implemented. A new, competency-based, transformational leadership development program was introduced to equip current and future leaders for increased service to both IRS employees and taxpayers. All 70,000 front-line employees were trained on customer satisfaction strategies, to reinforce IRS' mission and improve performance. Balanced measures training was provided for all managers to reinforce the importance of individual accountability for organizational performance. Training has been decentralized to give the operating divisions responsibility for technical training so it can be tailored to meet the needs of their specific taxpayers. **Actions Planned or Underway** IRS will continue to respond to this challenge through the following planned actions: • Evaluate each human capital initiative for workforce impact and determine effective and appropriate mitigation strategies to address the results. • Determine and approve bargaining strategies for each human capital initiative to reach agreement with National Treasury Employees Union. • Build managerial capacity to implement complex organizational change with minimal productivity loss during the transition to the new and more efficient structure. • Implement a multi-year recruitment/marketing strategy that includes the expansion of the internet employment website, a complete print media advertising campaign, market research, and an extensive internet media advertising campaign. • Develop a Competency Models/Occupational Analysis for all positions within the IRS to identify competencies necessary for successful performance in all of our frontline occupations, target recruitment based on skill gaps, and to target individual/employee training opportunities based on skill gaps. • Develop a Career-Pathing process that focuses on training, application, assessment and feedback to provide opportunities to develop technical expertise needed for senior professional (SP) positions. • Extend partnerships with key colleges and universities. • Improve recruiting performance through such initiatives as expansion of category ratings and the increased use of simulations in assessing job applicants—particularly in the areas of Customer Service Representatives and Revenue Agents. • Expand use of the internet for recruiting. • Implement QuickHire, an Internet-based tool that automates the hiring process and allows for web-based submission of job applications. • Use the personnel flexibilities granted under Restructuring and Reform Act of 1998 (RRA '98) and will push for new flexibilities that help with workforce renewal.

Management Challenge/ High-Risk Area	*FY 2003 Actions*
	• Ensure that the IT infrastructure is robust enough to handle comprehensive e-learning systems. • Design refresher training for managers to use tailored case studies and simulations in training, providing hands on experience to realize the "stepping stone" approach.
Homeland Security Divestiture (OIG)	**AS Management and CFO:** Management has taken many responsible actions to ensure a smooth transition of the Department's enforcement activities to the Departments of Homeland Security and Justice, respectively. In addition to coordinating the preparation of comprehensive determination orders, management has maintained on-going involvement with both the divested bureaus and the receiving agencies relative to current and future budgets, accounting support and administrative support. The Department is supporting DHS in the compilation of financial reporting data for FY 2003, and will expand the automated aspect of this support to all DHS reporting entities for FY 2004.

FUTURE EFFECTS ON EXISTING, CURRENTLY-KNOWN DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS AND TRENDS

Financial Management Service (FMS)

In support of its efforts to provide central payment services to Federal program agencies, operate the Federal government's collections and deposit systems, provide Government-wide accounting and reporting services, and manage the collection of delinquent debt, FMS will look to improve efficiencies and services to its customers and stakeholders. FMS will accomplish this by continuing to move to electronic-based processing and information and by reducing the number of touch points for agencies.

FMS will continue to develop and document its Business Enterprise Architecture. The ultimate objective is to reduce the amount of duplicate and redundant data maintained in our various automated systems and to eliminate the development of "stove-pipe" applications in FMS. The result of this project should be fewer automated systems in the future which will reduce development, operations and maintenance costs, reduce reporting burdens on agencies and simplify and streamline customer access to FMS data. The development of the FMS Business Enterprise Architecture will also map to the Federal Enterprise Architecture.

FMS will also continue to place increased emphasis on program activities related to strengthening Government-wide accounting operations, preparing the Government's consolidated financial statements, and providing increased guidance, direction and leadership to program agencies on Government-wide accounting issues. As such, FMS will continue the development and rollout of the Government-wide Accounting Redesign System, which will improve the exchange of financial information between Treasury, Federal Program Agencies, Office of Management and Budget, and the banking community. This redesign will eliminate redundant reporting and burdensome reconciliations and provide agencies a near real-time Account Statement. This will enable agencies to balance their Fund Balance with Treasury Accounts daily. FMS will also ensure that the accelerated timeframes for submission of agencies' Financial Statements and the issuance of the Financial Report (established for FY 2004) are met and assistance and improvements needed to meet these timeframes are in place.

For FY 2004, the Department of the Treasury proposed legislation to establish a permanent and indefinite appropriation to reimburse financial institutions for the services they provide as depositaries and financial agents of the Federal 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. The services are in support of numerous FMS programs and are vital to FMS' Strategic Goals, the Government's critical infrastructure, and the President's emphasis on expanding E-Government. This legislation is also expected to be at least deficit neutral, with the interest saved on lower borrowing being as much or more than the outlays to pay for the services.

Internal Revenue Service (IRS)

IRS is influenced by two groups of external auditors (the General Accounting Office and the Treasury Inspector General for Tax Administration) who, through their reviews, identify Management Challenges and High Risk Areas that the IRS will face over the next several years (discussed in the next sub-section). As the IRS begins FY 2004, it is faced with challenges, both from within and outside of its organization. The following discussion will identify some of the challenges, briefly discuss their nature, as well as the activities surrounding them.

Abusive Tax Shelters. By their nature, abusive tax shelters are varied, complex, and difficult to detect and measure. Abusive shelters may manipulate parts of the tax code or regulations and may involve steps to hide the transaction within a tax return. For example, preliminary profiling efforts by the IRS using data to determine characteristics of noncompliant taxpayer populations have identified over 227,000 business entities with almost $64 billion in income for tax year 2000 that potentially did not file tax returns. The IRS is using a broad-based strategy for addressing abusive tax shelters including: targeting promoters to head off the proliferation of shelters; making efforts to deter, detect, and resolve abuse; and offering inducements to individuals and businesses to disclose their use of questionable tax practices.

Technology Modernization Projects. After careful consideration and expert input from such prestigious groups as Carnegie Mellon, Acquisition Solutions, Bain & Co., and the Gardner Group, the IRS has determined the need to realign its priorities – that is, to select the key projects it must implement and focus on getting those up and running. To this end, the IRS is expected to announce before the end of 2003 that it will reorganize the structure for managing its massive $8 billion modernization effort.

Private Collection Agencies. The IRS faces a significant and growing backlog of cases involving individual taxpayers who are aware of their tax liabilities but have not paid them. The IRS believes that many of these taxpayers have simply chosen not to pay, even though they have the means to do so. The Administration's FY 2004 budget proposes to support the IRS collection efforts with private collection agencies (PCAs) that will engage in carefully defined and limited collection activities.

PCAs can be an effective supplement to the IRS's collection efforts but cannot totally replace IRS collection resources. IRS employees have expanded knowledge and possess a number of enforcement powers and tools, such as the ability to levy and file liens on property, which could not properly be given to a PCA.

Taxpayer Attitudes. The IRS Oversight Board annually commissions an independent survey (Roper) to assess taxpayers' attitudes. The results of this latest survey show overall tax compliance levels are still high but have declined slightly, taxpayers are showing some softening in attitudinal support for compliance, fewer taxpayers agree that it is everyone's duty to pay their fair share of taxes, and feel that everyone who cheats should be held accountable. Other results from the Roper Survey disclosed that taxpayers continue to want the IRS to focus on America's rich when going after tax evaders, but compliance is increasingly expected of all. Personal integrity remains the strongest deterrent to noncompliance; however, fear of being audited is on the rise. Taxpayers also feel that most IRS customer service offerings are important, but receptivity to these offerings varies. And finally, the majority of the public is satisfied with their interaction with the IRS.

Treasury Forfeiture Fund (TFF)

There are two separate issues to report in this regard for the Treasury Forfeiture Fund: the first issue is the effect on current year operations and likely that of FY 2004 of the Homeland Security Act; the second issue pertains to a Presidential initiative proposed in the FY 2004 Office of Management and Budget (OMB) passback.

1. Passage of the Homeland Security Act of 2002. The Homeland Security Act of 2002 results in realignments between the two national asset forfeiture programs of the Treasury and Justice Departments that basically involves the loss and gain of one bureau to each Fund. The former Bureau of Alcohol, Tobacco and Firearms (ATF), Department of the Treasury, was reorganized to the Department of Justice as the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATFE) effective January 24, 2003. The former Immigration and Naturalization Service (INS) was reorganized from the Department of Justice to the Department of Homeland Security (DHS) and merged with legacy Customs operations, the largest participating bureau of the Treasury Forfeiture Fund. The seizures and forfeitures of the respective bureaus are subject either to terms of a formal Memorandum of Understanding signed by all parties to the transaction, before and after divestiture, including both Treasury and Justice officials, as in the case of ATF; or are subject to written policy regarding the handling of seizures and forfeitures after divesture as in he case of the legacy Immigration and Naturalization Service now part of the Customs and Border Protection (CBP) and Immigration and Customs Enforcement(ICE) components of DHS. Available estimates of revenue and expense indicate that the seizure and forfeiture activity of these two bureaus are similar to each other resulting in roughly a breakeven impact on the respective forfeiture funds of Treasury and Justice after the reorganization. The Department of Justice Assets Forfeiture Management Staff (AFMS), which manages the Justice Assets Forfeiture Fund financial statement audit, states that full year legacy INS seizures and forfeitures will be presented on the 2003 financial statements of the Justice Assets Forfeiture Fund, versus the financial statements of the TFF.

2. 2004 President's Budget Initiative – Unified Federal Forfeiture Fund. Included in the Office of Management Budget's 2004 allowance for the Department of the Treasury is the provision that, commencing in fiscal year 2004, the Treasury Forfeiture Fund would be consolidated with the Justice Assets Forfeiture Fund under the auspices of the Department of Justice. The "term of art" evolving with reference to the initiative is the "Unified Fund." The initiative requires legislation to be enacted before the terms of the Presidential initiative can be made effective. The most recent version of the proposed legislation provides for transfer of TFF property as defined in the legislation, as well as EOAF personnel, to the Department of Justice within a year of enactment of the legislation. However, to date, the legislation has not been introduced in the Congress for consideration. It appears likely, given the Presidential initiative, that the legislation will be introduced for unification of the funds, but the timing is uncertain.

Of course, if enacted, there would be a Unified Forfeiture Fund under the auspices of the Department of Justice. Although each Department with forfeiture authority would play a key role in the policy making for the Unified Fund, nevertheless, there is risk and change associated with the initiative.

- ***Risk***: The change holds risk that some categories of funding provided to the Internal Revenue Service (IRS) by the Treasury Forfeiture Fund currently may not be funded by the Unified Fund as differences exist in the payment of expenses by the Treasury and Justice Funds, respectively.

- ***Change***: The largest change associated with the proposed legislation is that Treasury would lose its Forfeiture Fund to the Justice Department along with the command and control that Treasury now has over forfeiture revenue totaling about $250 million annually.

Treasury Franchise Fund

The Treasury Franchise Fund currently operates under temporary authority and is continuing to seek permanent legislation through various channels. Permanent legislation will provide our employees with a more stable work environment. It will also provide our customers with the sense that they can count on us being around for the long-term. This is one of the factors they consider when choosing a service provider.

PART VI

APPENDICES

APPENDICES

FULL REPORT OF TREASURY'S FY 2003 PERFORMANCE MEASURES BY FOCUS AND STRATEGIC GOAL

This section presents all Treasury's performance measures by focus and strategic goal, and further by bureau or organization, for which targets were set in the FY 2003 Performance Plan (as presented in Treasury's FY 2004 Justification for Appropriations and Performance Plans). Each performance measure includes a definition for the measure, performance levels for three previous fiscal years (where available), the performance target and actual for the report year, and proposed performance target for next fiscal year (where available). The report examines unrealized performance targets and presents actions for improvement.

FY 2003 PERFORMANCE SUMMARY

The purpose of Treasury's strategic management effort is to establish effective performance measures that assess our effectiveness in meeting our goals and objectives, and effectively change activities that will improve *results* delivered to the American public. Overall, Treasury established 208 performance targets in FY 2003. Of these, 18 are baseline and 9 have no data available until the President's budget. Of the remaining 181 measures, Treasury met or exceeded 132 targets, did not meet 49 of its targets, and maintained peak performance or improved performance over FY 2002 for 39 measures.

FY 2003 Treasury-wide Performance Summary					
Total Measures	**Targets Met**	**Targets Not Met**	**Other (Baseline & Not Available)**	**Maximum or Improved Performance**	**Estimated Performance**
208	**132 (63%)**	**49 (24%)**	**27 (13%)**	**39 (21%)**	**13(7%)**

Definitions and Other Important Information:

Actuals. Final actual data presented is in **bold**. Some of the actual numbers for FY 2003 are estimates at the time of publication, which are indicated in *italics*. Actual data for these estimated measures will be presented in the FY 2005 President's Justification for Appropriations and the FY 2004 Performance and Accountability Report. The data reflected in the charts are the most current and may not reflect previous editions of the Performance and Accountability Report and the Congressional Justification.

FY 2004 Targets. Projected targets for FY 2004 will be presented from the proposed FY 2005 President's Justification for Appropriations. These measures are also shown in italics.

Unmet Targets. Targets which were not met are explained and include action for improvement.

Not Available Targets. Actual data for these 9 measures will be reported in the FY 2004 Performance and Accountability Report.

Baselined Measures. Seventeen new FY 2003 measures were baselined (actuals determined) this year. Baselines facilitate target-setting in the future.

Discontinued Measures. Unless otherwise noted, measures which are being discontinued after FY 2003 have been replaced with more outcome-oriented measures to better gauge program success.

Measures Used in Target-Setting. Bureaus may have revised their performance measures and targets for their FY 2004 performance plans due to the refocusing of the mission of Treasury and/or to establish outcome-oriented performance measures that will better assess progress against Treasury's new strategic goals and objectives.

Additional Information. Information relating to the definitions and data validation for each measure can be found in the Department of the Treasury's FY 2004 Justification for Appropriations and Performance Plans and the Treasury Performance Budgeting Internet site at http://www.treas.gov/offices/management/budget/planningdocs/index.html.

Transfer of Law Enforcement Bureaus and Measures. The U.S. Customs Service (USCS), the Federal Law Enforcement Training Center (FLETC) and the United States Secret Service (USSS) were transferred to the Department of Homeland Security in March 2003. Their performance data will be reported in the Department of Homeland Security report. The alcohol, tobacco, firearms and explosives portion of the Bureau of Alcohol, Tobacco and Firearms (ATF), was transferred to the Department of Justice and will report their performance data in the Department of Justice report.

The following is a listing of performance measures that were reported last year for the transferred bureaus:

Bureau Name	***Performance Measure***
ATF	Number of corrections made to unsafe conditions and product deficiencies reported to ATF or discovered during ATF inspections
	Number of industry seminars held on ATF-regulated commodities
	Taxes/fees collected from alcohol, tobacco, firearms and explosives industries ($ in billions)
	Percent of entities filing electronically
	Taxes and fees collected per dollar of collection expense
	Crimes related costs avoided ($ in billions)
	Number of future crimes avoided
	Number of firearms trace requests
	Number of persons trained in IVRS
	NRT customer satisfaction rating
	Average trace response time (in calendar days)
USCS	Trade Compliance level
	Number of seizures for outbound licensing violations
	Outbound enforcement targeting effectiveness
	Counterterrorism Qualitative Assessment
	Total monetary instrument seizures ($ in millions)
	Value of property seized ($ in millions)
	Narcotics seizures - cocaine (number of seizures)
	Narcotics seizures - cocaine (thousands of pounds)
	Narcotics seizures - cocaine (pounds per seizure)
	Narcotics seizures - heroin (number of seizures)
	Narcotics seizures - heroin (thousands of pounds)
	Narcotics seizures - heroin (pounds per seizure)
	Narcotics seizures - marijuana (number of seizures)
	Narcotics seizures - marijuana (thousands of pounds)
	Narcotics Seizures - marijuana (pounds per seizures)
	Targeting efficiency: air travel
	Targeting efficiency: vehicles
	Compliance rate: air travel
	Compliance rate: vehicles
	APIS rate

	Number of short landings
	Number of no launches
FLETC	Percentage of requested training classes held within 15 days of the requested start date
	Percentage of students that express satisfactory or higher ratings on the Student Quality of Training Survey
	Percentage of Partner Organizations (PO) that express satisfactory or higher ratings on the PO Satisfaction Survey
	Percentage of students that express satisfactory or higher ratings on the Student Quality of Services Survey
	Cost of a student week of basic training ($)
	Percentage of employees that express satisfactory or higher ratings on the Employee Satisfaction Survey
USSS	Percent of cases accepted for Federal prosecution
	Potential Financial Crime Loss ($ in billions)
	Counterfeit notes passed on to the public - U.S. ($ in millions)
	Actual financial crime loss ($ in millions)
	Counterfeit passed per million dollars of genuine U.S. currency (in dollars)
	Counterfeit notes passed on to the public - overseas ($ in millions)
	Percent Financial Crime with Foreign Nexus
	Percent of Counterfeit Notes passed on the Public with Foreign Nexus
	U.S. Attorneys' Assessments
	Industry Response Survey
	Percentage of instances protectees arrive and depart safely
	Technology Support Index
	Special agent non-retirement attrition rates
	Uniformed officers non-retirement attrition rates
	Support personnel non-retirement attrition rates

E1: Promote Domestic Economic Growth

Community Development and Financial Institutions (CDFI)

Performance Measure: ***Number of accounts opened at insured depository institutions***

Definition: New accounts are an important measure that demonstrates that individuals are being brought into the financial mainstream that are CDFI Program awardees or BEA Program applicants in underserved communities.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	304,350	**37,997**	*155,959*

Explanation of Shortfall and Future Plan: The baseline data for the CDFI Program was incorrect which caused an inflated target. The targets established assumed that the FY 2003 BEA applicants would report all FY 2003 performance during FY 2003. However, the BEA Program modifications allowed applicants to report six months of FY 2003 performance in FY 2004. This change was not factored into the model. The Fund estimates that more than half of the anticipated number of BEA applications opted to report in FY 2004. Accordingly, new accounts opened during FY 2003 for BEA applicants will be significantly less than projected. The Fund will correct its baseline data for the CDFI Program. The Fund will adjust its future BEA Program projection assumptions based on actual FY 2003 data, which is the first year of actual data under the modified BEA Program requirements. The Fund has established procedures that ensure that the BEA Program does not have overlapping performance reporting periods, beginning in FY 2005.

Performance Measure: ***Number of full-time equivalent jobs in underserved communities created or maintained***

Definition: Jobs created and maintained serve as an important indicator of the economic vitality of underserved areas by businesses financed by CDFI Program awardees, BEA Program applicants, and NMTC Program allocatees.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	33,830	**7,602**	*35,015*

Explanation of Shortfall and Future Plan: Actual performance will be significantly lower because the projection model did not take into account the high level of unemployment experienced throughout the U.S. during 2002. The projections are based on actual jobs reported in 1999 – 2001, when the unemployment rate was significantly lower. The CDFI Fund is redesigning the model to account for changes in the level of unemployment.

Performance Measure: ***Number of commercial real estate properties financed by CDFI Program awardees, BEA Program applicants, and NMTC Program allocatees***

Definition: Measure of economic condition that may generate profits, expand the tax base, provide employment, and provide needed services such as health care and child care to the community.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	455	**619**	*discontinued*

Explanation of Discontinuance: This measure is being changed to "Square footage of commercial real estate properties financed by CDFI program awardees, BEA program applicants and NMTC program allocates." The reason for the change is that it is a better indicator in regards to measuring the success of the program.

Performance Measure: ***Number of affordable housing units (including rental units) in underserved communities developed or rehabilitated***

Definition: The availability of affordable housing is a critical to healthy communities is financed by CDFI Program awardees, BEA Program applicants, or NMTC Program allocatees.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	35,010	**34,009**	*59,114*

Explanation of Shortfall and Future Plan: The performance goal was set at an approximate target level, and the deviation from that level is slight (2.9 percent). There was no effect on overall program or activity performance.

Performance Measure: ***Number of businesses financed***					
Definition: Businesses financed by CDFI Program awardees, BEA Program applicants, and NMTC Program allocatees that provide services or employment to underserved markets are an important indicator of the economic health of a community because businesses generate employment and taxes, and may provide community services.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	7,340	**13,282**	*5,990*
Explanation of Increase and Future Plan: Both the BEA and CDFI Program awardees exceeded the projected amounts by more than 100 percent. The reason is that these institutions used their available capital to make a larger number of smaller loans than in the past, benefiting more businesses. This may have been due to the poor economy, where more businesses needed small amounts of capital to survive the downturn. The CDFI Fund is redesigning the model to account for projected changes in the level of economic growth.					
Performance Measure: ***Number of homebuyers***					
Definition: Loan is made in underserved markets to purchase a home that does not meet the standards required for sale on the secondary market (to such government-sponsored entities as Fannie Mae and Freddie Mac) who obtain non-conforming purchase money mortgages, including subordinated financing, or financing that leverages conforming mortgages.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	4,851	**4,554**	*5,858*
Explanation of Shortfall and Future Plan: The performance goal was set at an approximate target level, and the deviation from that level is slight (6.1 percent). There was no effect on overall program or activity performance.					
Performance Measure: ***Dollars of private and non-CDFI Fund investments that CDFI Fund awardees were able to leverage because of their CDFI Fund assistance ($ millions)***					
Definition: For BEA applicants, leverage is defined as the value of qualified activities.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	1,015	**1,623**	*245.5*
Performance Measure: ***Number of CDFIs serving underserved communities that have accessed the Fund's institution-building technical assistance or training***					
Definition: The measure counts the number of CDFIs that have participated in these training courses.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	418	**356**	*318*
Explanation of Shortfall and Future Plan: The actual reported is 15% lower than the target. FY 2003 was the first year in which the Fund introduced a rolling application for the TA Program. This resulted in the number of applications in FY 2003 being lower than in previous years, when the Fund had a single application deadline each year. The Fund will update the projection model to base it on actual TA applications received in FY 2003.					

Performance Measure: ***Number of individuals provided financial literacy, home ownership, business and other training or technical assistance that counters predatory lending***					
Definition: Training and technical assistance measures the improvement of the capacity of individuals to manage finances and build wealth.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	472,600	**139,491**	*36,680*
Explanation of Shortfall and Future Plan: A formula in the projection model was incorrect, causing an overestimation. The targets established assumed that the FY 2003 BEA applicants would report all FY 2003 performance during FY 2003. However, the BEA Program modifications allowed applicants to report six months of FY 2003 performance in FY 2004. This change was not factored into the model. The Fund estimates that more than half of the anticipated number of BEA applications opted to report in FY 2004. Accordingly, new accounts opened during FY 2003 for BEA applicants will be significantly less than projected. The Fund will correct the formula in the projection model. The Fund will adjust its future BEA Program projection assumptions based on actual FY 2003 data, which is the first year of actual data under the modified BEA Program requirements. The Fund has established procedures which ensure that the BEA Program does not have overlapping performance reporting periods, beginning in FY 2005.					

Departmental Offices (DO)

Performance Measure: ***Rate of Domestic Economic Growth (GDP)***					
Definition: Real GDP is the most comprehensive measure of economic activity and is compiled throughout the year to reflect developments in each calendar quarter.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	GDP Growth	**3.3**	GDP Growth

Office of the Comptroller of the Currency (OCC)

Performance Measure: ***Percentage of national banks that are well-capitalized***					
Definition: This measure reflects whether the national banking system is well-capitalized at fiscal year-end. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	98	99	95	*99*	*95*
Performance Measure: ***Percentage of national banks with composite CAMELS rating 1 or 2***					
Definition: This measure reflects the overall condition of the national banking system at fiscal year-end. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for assimilating and evaluating all significant financial, operational and compliance factors inherent in a bank. Evaluations are made on: Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk. The rating scale is 1 through 5 where 1 is the highest rating granted.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	94	95	90	*94*	*90*

Performance Measure: ***Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized***					
Definition: This measure reflects timely resolution of significant problem bank situations that can contribute to the effective maintenance of the Bank Insurance Fund. Bank regulatory agencies adopted regulations to implement prompt corrective action that classify insured depository institutions into five categories based on their relative capital levels. Critically undercapitalized banks are those with tangible equity of 2.0%.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	100	**100**	*100*

Performance Measure: ***Rehabilitated problem national banks as a percentage of the prior fiscal year-end's problem national banks (CAMELS 3, 4 or 5)***					
Definition: This measure reflects the successful rehabilitation of problem national banks during the fiscal year. 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 problem banks.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	44	47	40	*32*	*40*
Explanation of Shortfall and Future Plan: During FY 2003, 38 of the 118 institutions with CAMELS rating of 3, 4 or 5 on September 30, 2002, had improved CAMELS ratings. Sluggish economic conditions influenced the pace of rehabilitation efforts during FY 2003. The OCC will continue to work aggressively with these institutions to bring about sound resolution of the problems affecting their CAMELS ratings.					

Performance Measure: ***Percentage of external legal opinions issued within established timeframes***					
Definition: This measure reflects the extent to which OCC meets it establish timeframes for issuing legal opinions on external requests. Timely consideration of requests for legal opinions from the OCC is critical to supporting a flexible legal and regulatory framework that enables the national banking system to provide a full competitive array of financial services.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	85	**87**	*85*

Performance Measure: ***Percentage of national banks with consumer compliance rating of 1 or 2***					
Definition: This measure reflects the national banking system's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	94	*96*	*94*

Performance Measure: ***Percentage of community banks that are within one year of its first large bank Community Reinvestment Act examination in which the OCC offers to provide consultation on community development opportunities***					
Definition: This measure reflects the level of OCC's proactive outreach to community banks before they become subject to an assessment of their Community Reinvestment Act (CRA) investments under large bank requirements.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	100	**100**	*100*

Performance Measure: ***Percentage of licensing applications completed within established timeframes***					
Definition: This measure reflects the extent to which OCC meets its established timeframes for reaching decisions on licensing applications. The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to engage in corporate transactions and introduce new financial products and services.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
96	96	96	95	**97**	*95*

Office of Thrift Supervision (OTS)

Performance Measure: ***Percent of thrift institutions issued formal or informal enforcement actions within sixty days after receiving an unsatisfactory safety and soundness or compliance examination rating, unless a waiver is appropriate***					
Definition: OTS computes this measure by using a management report, prepared monthly, which tracks institutions that are rated 4 or 5 and also tracks whether these 4 or 5 rated institutions have received an enforcement action or waiver for enforcement action within 60 days of the examination report.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*100*
Performance Measure: ***Percent of OTS-regulated thrift institutions adequately capitalized or operating under an approved Capital Plan or PCA Directive, if capital-deficient unless the thrift has been undercapitalized for less than 150 days, or has received prior approval by the Deputy Director for exceeding this timeframe***					
Definition: This measure addresses both of the objectives of Prompt Corrective Action (PCA): 1) to recapitalize undercapitalized thrifts at the least cost to the deposit insurance fund; and 2) to do it "promptly." The measurement allows 150 days from the thrift becoming "undercapitalized," to issue the PCA Directive. This time frame includes notification, capital plan submission, review, decision on the capital plan, and issuance of the Directive.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*100*
Performance Measure: ***Percent of thrifts with composite CAMELS ratings of 1 or 2***					
Definition: Assess the soundness of financial institutions on a uniform basis using the Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity (CAMELS) rating system that puts increased emphasis on the quality of risk management practices.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	90	**91.8**	*90*
Performance Measure: ***Percent of thrifts that are well capitalized***					
Definition: Capital absorbs losses, promotes public confidence, and provides protection to depositors and the FDIC Insurance funds. An objective of OTS' capital adequacy program is to determine the quality and sufficiency of capital.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	95	**99.5**	*95*

Performance Measure: ***Percent of safety and soundness reports of exam mailed to thrift institutions within targeted timeframes after completion of fieldwork***

Definition: To ensure a timely post-examination process, it is our objective to mail the report of examination within 30 days after completion of fieldwork to institutions rated 1 or 2, and within 45 days for those rated 3, 4 or 5.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80	**90.8**	*80*

Performance Measure: ***Increase assessment rates by no more than the rate of inflation. The target for 2003 and 2004 is that there will be no (or 0%) assessment rate increase***

Definition: OTS management strives to maintain the current assessment rates charged thrift institution.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	0	**0**	*0*

Performance Measure: ***Percent of exams completed as scheduled for compliance***

Definition: OTS performs safety and soundness examinations of its regulated institutions based on the OTS Examination Policy consistent with 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.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	95	**87.8**	95

Explanation of Shortfall and Future Plan: The performance measure fell below the target due to a greater emphasis on higher risk institutions. Managers may extend the start of a compliance examination for a lower risk institution for up to six months beyond the normal scheduled due date. The level of exceptions to the scheduled compliance examination due date will be rectified within one full examination cycle.

Performance Measure: ***Percent of exams completed as scheduled for safety and soundness***

Definition: OTS performs safety and soundness examinations of its regulated institutions based on the OTS Examination Policy consistent with the requirements in the Federal Deposit Insurance Corporation Improvement of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	95	**91.7**	95

Explanation of Shortfall and Future Plan: The performance measure fell below the target due to a greater emphasis on higher risk institutions, and increased off-site monitoring, which assists in scheduling exams based on institution specific risk factors. The majority of examinations that accounted for the shortfall were small, well managed thrifts. This measure will be reevaluated for 2004 and may be adjusted to ensure that it reflects the current risk-based approach to examination scheduling

Performance Measure: ***Percent of applications processed within timeframes***

Definition: OTS will process applications to a decision within 60 days from the date they are deemed complete, except for applications eligible for "expedited treatment." Applications eligible for expedited treatment will be processed to decision within 30 days from the date they are deemed complete.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	95	**98**	95

Performance Measure: ***Frequency of technical assistance or training events provided to industry executives annually regarding community reinvestment responsibilities and opportunities***					
Definition: Frequency of technical assistance or training events provided to industry executive annually regarding community reinvestment responsibilities and opportunities.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	12	**70**	*24*
Explanation of Large Overage: During 2003, OTS embarked on significant industry outreach efforts that resulted in a higher level of technical assistance than was originally anticipated. The target for 2004 will be set at 24 or 36.					

Performance Measure: ***Percent of thrifts with compliance ratings of 1 or 2***					
Definition: A uniform, interagency compliance rating system was first approved by the Fed. Financial Institutions Exam. Council (FFIEC) in 1980. The FFIEC rating system was designed to reflect, the nature and extent of an association's compliance with civil rights and consumer protection statutes/regulations. The OTS' implementation expands that coverage to encompass compliance with a number of other public interest regulations. Among these are the Bank Secrecy Act, Bank Protection Act, economic sanctions, and advertising. The Compliance Rating System is based upon a scale of 1 through 5. A rating of 1 indicates excellence, while a rating of 5 represents the lowest, most critically deficient level of performance and the highest level of supervisory concern.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	90	**93.4**	90

E2: Maintain U.S. Leadership on Global Economic Issues

Departmental Offices (DO)

Performance Measure: ***Economic conditions in developing countries***

Definition: This measures the overall percentage change in Gross Domestic Product (GDP) from the prior calendar year for all developing countries.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
5.7	4.1	4.6	GDP Growth	*5.0*	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Economic conditions in the global economy***

Definition: This measures the percentage change in the Gross Domestic Product (GDP) from the prior year for all countries of the world.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
4.8	2.4	3.0	GDP Growth	*3.2*	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Economic conditions in transitional countries***

Definition: This measures the overall percent change in Gross Domestic Product (GDP) from the prior calendar year for all transitional countries.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
7.1	5.1	4.2	GDP Growth	*4.9*	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Level of U.S. direct investment abroad ($ in billions)***

Definition: Direct investments are those where the U.S. investor owns more than 10% of the equity in a foreign company.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
1,316	1,383	1,520	GDP Growth	**Not Available**	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until July 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***U.S. meets current financing commitments and pays all arrears to multilateral development banks ($ in millions)***

Definition: This measures the amount of unpaid commitments (arrears) the U.S. owes to the multilateral development banks.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
451	499	533	355	**497**	*179*

Performance Measure: ***Dollar value of U.S. exports of goods and services ($ in billions)***

Definition: This measures, in billions, the value of goods and services the U.S. exports to other countries.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
1,064	1,007	974	Growth	**Not Available**	Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Economic conditions in foreign countries that are major U.S. trading partners - European Union (Euro Area)***

Definition: This measures the percent change over the prior year in gross domestic product of the Euro Area - a major U.S. trading partner.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
3.5	1.5	0.9	GDP Growth	*0.5*	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Economic conditions in foreign countries that are major U.S. trading partners - China***

Definition: This measures the percent change over the prior year in gross domestic product of China - a major U.S. trading partner.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
8.0	7.5	8.0	GDP Growth	*7.5*	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Economic conditions in foreign countries that are major U.S. trading partners - United Kingdom***

Definition: This measures the percent change over the prior year in gross domestic product of the United Kingdom – a major U.S. trading partner.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
3.1	2.1	1.9	GDP Growth	*1.7*	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Economic conditions in foreign countries that are major U.S. trading partners - Mexico***

Definition: This measures the percent change over the prior year in gross domestic product of Mexico – a major U.S. trading partner.

CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
6.6	-0.2	0.7	GDP Growth	*1.5*	GDP Growth

Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Economic conditions in foreign countries that are major U.S. trading partners - Japan***					
Definition: This measures the percent change over the prior year in gross domestic product of Japan – a major U.S. trading partner.					
CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
2.8	0.4	0.2	GDP Growth	*2.0*	GDP Growth
Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.					
Performance Measure: ***Economic conditions in foreign countries that are major U.S. trading partners - Canada***					
Definition: This measures the percent change over the prior year in gross domestic product of Canada – a major U.S. trading partner.					
CY 2000 Actual	CY 2001 Actual	CY 2002 Actual	CY 2003		CY 2004 Proposed Plan
			Plan	Actual	
5.3	1.9	3.3	GDP Growth	*1.9*	GDP Growth
Explanation of CY 2003 Actual: Actual data will not be available until February 2004 and will be reported in FY 2004 Performance and Accountability Report.					

F1: Manage the Federal Government's Accounts

Financial Management Service (FMS)

Performance Measure: ***Percentage collected electronically of total dollar amount of Federal Government receipts***

Definition: This measure considers the percentage of government collections that are collected by electronic mechanisms (Electronic Federal Tax Payment System, Plastic Card, FEDWIRE Deposit System, Automated Clearinghouse) compared to total government collections.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
75	75.3	80	80	**81**	*81*

F2: Ensure All Federal Payments Are Accurate and Timely

Financial Management Service (FMS)

Performance Measure: ***Percentage of paper check and EFT payments made on time***

Definition: This measure rates the effectiveness of the payments issuance process. "On time" means that FMS releases checks to the U.S. Postal Service and electronic funds transfer (EFT) payments to the Federal Reserve Bank such that normal delivery by them will result in timely receipt by the payees. Indicator is the percent of time.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	100	100	100	**99.9999**	*100*

Explanation of Shortfall and Future Plan: During the past year, a small number of checks (approximately 400) were not released to the Postal Service on time. This resulted in late delivery to the recipients. In this case, employees who made the preventable errors were disciplined, and procedures were reviewed and reinforced to prevent future occurrences. Ultimately, electronic funds transfer is the solution to potential problems that are inherent in processing and delivering checks. The continued conversion from paper to electronics brings efficiencies and cost savings; however, there are barriers outside of FMS' control to converting certain demographics of the payment to recipients to electronic media. While FMS continues to concentrate efforts on EFT, actions have been and are being taken to strengthen the quality assurance process over paper payments.

Performance Measure: ***Percentage of paper check and EFT payments made accurately***

Definition: The measure is the percentage of check and electronic funds transfer (EFT) payments that FMS makes which are not duplicate or double payments.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	100	100	100	**99.9998**	*100*

Explanation of Shortfall and Future Plan: In February 2003, following a software change at FMS, approximately 50,000 non-recurring SSA checks were issued without complete name and address information. In order to prevent the possibility of future occurrences of a similar nature, software installation procedures and post check-print inspection procedures were examined, reviewed and reinforced by appropriate Regional Financial Center employees. The 50,000 checks are a small fraction of the more than 950 million payments that were made accurately. Ultimately, electronic funds transfer is the solution to potential problems that are inherent in processing and delivering checks. The continued conversion from paper to electronics brings efficiencies and cost savings; however, there are barriers outside of FMS' control to converting certain demographics of the payment to recipients to electronic media. While FMS continues to concentrate efforts on EFT, actions have been and are being taken to strengthen the quality assurance process over paper payments.

Performance Measure: ***FMS will make Treasury payments and associated information electronically***

Definition: This measure shows the portion of the total volume of payments which are made electronically by FMS. Electronic payments include transfers made through the automated clearinghouse and wire transfer payments made through the FEDWIRE system.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
70	72	73	74	**74**	*75*

F3: Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards

Financial Management Service (FMS)

Performance Measure: ***Percentage of government-wide accounting reports issued accurately***

Definition: All government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be 100% accurate.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	100	100	100	**98**	*100*

Explanation of Shortfall and Future Plan: Five errata were issued for the Daily Treasury Statement during FY 2003. None of the errata were material in nature and in all instances, procedures have been implemented to substantially reduce future occurrences.

Performance Measure: ***Percentage of government-wide accounting reports issued timely***

Definition: All Government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be on time 100% of the time.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	100	100	100	**100**	*100*

Performance Measure: ***FMS will receive an unqualified audit opinion on FMS' Schedule of Non-entity Assets, Non-entity Costs, and Non-entity Custodial Revenues, and Schedule of Non-entity Government-wide Cash***

Definition: The management of the Treasury accounts that make up the schedule is critical to obtaining a clean/ unqualified audit opinion on the Department-wide financial statements as well as the *Financial Report of the U.S. Government*. For this reason, FMS established a performance measure for the audit opinion on FMS' financial audit.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	100	100	100	**100**	*100*

F4: Collect Revenue Due to the Federal Government

Financial Management Service (FMS)

Performance Measure: ***Amount of delinquent debt collected using all available collection tools ($ in billions)***

Definition: The Debt Collection Improvement Act of 1996 requires that all Federal program agencies refer (with exceptions) delinquent debt over 180 days old to Treasury for offset and cross-servicing.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
2.60	2.70	2.84	2.80	**3.10**	*2.90*

Performance Measure: ***FMS will increase the annual collection of delinquent debt, not including Federal tax debt, by $120 million above that collected in FY 2001 for a total of $2.8 billion***

Definition: The measure provides information on the total amounts collected through debt collection tools operated by Debt Management Services. The tools include: tax refund offset, administrative offset, private collection agencies, demand letters, and credit bureau reporting. FMS also collects debt through the State debt program and tax levy.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	2.8	**3.0**	*revised*

Explanation of Revision: This performance measure was established for FY 2003 only as part of a Treasury Performance Measure Integration Pilot. It is then being revised in FY 2004.

Performance Measure: ***Dollar amount of lockbox collections transacted through Pay.gov ($ in billions)***

Definition: Pay.gov is an Internet portal which will offer an electronic alternative to paper check payments to lockboxes by offering Automated Clearing House debit authorization over the Internet, thereby increasing Electronic Funds Transfer options to remitters.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	2	5	**3.77**	*10*

Explanation of Shortfall and Future Plan: During FY 2003, FMS switched the primary software developer for Pay.gov because best practices were not exercised, commercially available product features were not utilized and there were scalability and maintenance issues. This switch led to some scheduling impacts and subsequently affected collections. While the collections goal will not be met, the dollar volume is up 8% over FY 2002 and the transaction volume has increased by 67%. FMS will bring the Mint, the largest Internet user of plastic card transactions, into production in FY 2004. This, along with future enhancements and multiple agency deployments, will significantly increase the collections for FY 2004.

Performance Measure: ***Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral***

Definition: The Debt Collection Improvement Act of 1996 requires that all Federal program agencies refer (with exceptions) delinquent debt over 180 days old to Treasury for offset and cross-servicing. The measure tracks the percentage of the dollar volume of debt referred to the total dollar volume that is eligible for referral.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
83	89	93	85	**91**	*90*

Internal Revenue Service (IRS)

Performance Measure: ***Percentage of AUR Quality***

Definition: Quality of all Automated Underreporter (AUR) account actions as a result of taxpayer inquiries or internal requests (paper only - post review) expressed as a percent. The AUR system identifies reporting discrepancies on filed returns.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
93	95	95	95	**90**	95

Explanation of Shortfall and Future Plan: Deficiencies are timeliness in meeting interim contact requirements and the format of correspondence sent to taxpayers. The Embedded Quality initiative will capture new data and plans are to replace this measure. In FY 2004, IRS will continue to refine the process of identifying and selecting workload using data analyses and additional business rule development with the ultimate goal of removing the screen out cases (cases closed without sending notice to the taxpayer).

Performance Measure: ***Appeals cases closed***

Definition: This measures Appeals production and output.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
54,986	54,748	68,015	77,000	**84,677**	*77,341*

Performance Measure: ***ACS closures - Taxpayer Delinquent Accounts***

Definition: Number of entity closures produced in the Automated Collection System (ACS) (minus systemic reductions).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
1,052,221	1,006,600	950,696	1,050,000	**1,155,697**	*1,142,900*

Performance Measure: ***Payment received electronically (thousands)***

Definition: Total number of electronic payments processed through the Electronic Federal Tax Payment System.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
63,380	64,366	66,029	66,200	**66,289**	*70,440*

Performance Measure: ***Employee Plans and Exempt Organization determination letters***

Definition: Cases established on the TE/GE Determination System (EDS) and closed on that system regardless of type of case or type of closing.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
109,461	109,326	129,680	189,000	**171,812**	*141,000*

Explanation of Shortfall and Future Plan: The goal was missed because fewer receipts were received in IRS than expected, and were made up primarily of more complex cases (individually designed retirement plans) that take longer to process. In FY2004 IRS will continue to respond to inventory complexity challenges through the following improvement projects: roll out Agent Work Center/2002 to Examination agents; migrate the Returns Inventory & Classification System (RICS) to a DB2 Platform; redesign the EP/EO Determination Letter System; refine controls for Government Entity cases; provide access to Form 5500 pension plan returns filed with Department of Labor (DOL); and integrate stand-alone information systems into the modernized Agent Work center.

Performance Measure: ***Toll-free tax law quality***

Definition: Percent of customers receiving accurate responses to their Tax Law inquiries.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
73	75	81	86	**80**	*88*

Explanation of Shortfall and Future Plan: The goals for FY 2003 were set based on FY 2002 performance and anticipated score increases due to the implementation of the new Embedded Quality (EQ) process. The expected improvement from EQ was not realized, and IRS is conducting a root-cause analysis to determine the reasons why the outcomes were not achieved. The following actions will be taken to improve the accuracy percentage for FY 2004: delivery of application-specific training and subsequent proficiency certification; ongoing research and analysis of quality data to identify improvement opportunities and initiatives; implementation of Contact Recording to enhance the ability of management to gauge and improve individual performance.

Performance Measure: ***Percentage of individual returns filed electronically***

Definition: Number of electronically filed individual tax returns divided by the total individual returns filed. Includes all returns where electronic filing is permitted (practitioner e-file, Telefile, VITA [Volunteer Income Tax Assistance], On - Line Filing, Federal/State returns, etc.).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
28	31	36	41	**40**	*45*

Explanation of Shortfall and Future Plan: The percentage comparison is a ratio of electronically filed returns to total filed returns. Since total volumes are lower for each category and since paper receipts are closer to initial plan than electronically filed returns have been, the percentage mathematically is lower than the initial plan. For FY 2004, Electronic Tax Administration (ETA) has developed a number of recommendations for the Free File Alliance to consider for improving next year's release of the Free File Program. ETA is researching the availability of Free File products in Spanish and also reviewing opportunities to ensure Section 508 compliance issues (accessibility) are met. Targeted marketing programs designed to increase the percentage of IMF e-filed returns will continue in FY 2004, and will include a tiered marketing campaign of direct outreach visits, phone calls, and direct mail.

Performance Measure: ***Field Collection - Number of cases closed - Tax Delinquent Investigations***

Definition: This measure reflects actual taxpayer delinquent investigation removed from the active inventory.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
144,764	119,451	140,737	113,000	**150,190**	*146,000*

Performance Measure: ***Toll-free level of service***

Definition: This measures the relative success rate of taxpayers who are calling for our toll-free services and intend to speak with a live assistor (percent of calls to toll-free telephone assistance lines answered by customer assistor personnel).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
59	56.4	68	72	**80**	*73*

Performance Measure: ***AUR Closures***

Definition: Total number of closures of Automated Underreporter (AUR) cases. The AUR system identifies reporting discrepancies on filed returns.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
2,888,900	2,511,424	2,922,182	2,900,000	**2,905,478**	*3,098,442*

Performance Measure: ***Field Collection quality***

Definition: This measures the average overall quality rating of Field Collection cases reviewed by the percentage score awarded to a reviewed Collection case by third-party reviewer using the IRS Collection Quality Measurement System quality standards.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
83	84	84	87	**84**	*87*

Explanation of Shortfall and Future Plan: Quality scores remained at levels below target despite improved scores in the following areas: clear action dates, no activity lapses over 75 days and timely follow-ups. In addition, FY 2003 scores improved (over FY 2002 levels) due to increased engagement between managers and revenue officers to facilitate timeliness and quality of case resolution. In FY 2004 and beyond, IRS will continue to develop and implement recommendations to improve case quality.

Performance Measure: ***ACS level of service***

Definition: The percentage of calls attempted (demand) compared to number of calls answered (calls which are abandoned after having been answered but while in queue for the next available assistor are not included in the count of calls answered) in Automated Collection System (ACS).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
79	78	69	74	**71**	*75*

Explanation of Shortfall and Future Plan: The target was missed due to an increasing number of calls not related to a collection matter and therefore, not belonging to this specialized area. In addition, during the filing season, service was further impacted by the re-assignment of collection specialized representatives to assist in the customer service areas of tax law and accounts. In FY 2004, a small increase in resources and enhancements to the scheduling process should contribute to an improved service level. In addition, a team has been established to look at what drives telephone traffic and is expected to develop recommendations related to call forecasting and suggest upgrades to the management tools designed to match resources to call demand.

Performance Measure: ***ACS closures - TDI***

Definition: Number of Taxpayer Delinquent Investigations (TDI) entity closures produced in the Automated Collection System (ACS).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
412,150	297,791	190,411	202,000	**197,517**	*192,100*

Explanation of Shortfall and Future Plan: There has been a decrease in planned time spent on the program, due to primary emphasis being placed on resolving Balance Due accounts. Representatives were reassigned to answer telephones which decreased their availability to work inventory. The ACS Reengineering Team is currently identifying ways to improve performance and productivity. In FY 2004 more emphasis will be placed on working TDIs which will be among our high priorities.

Performance Measure: ***Field Collection - Number of cases closed - Tax Delinquent Accounts***

Definition: This measure reflects actual taxpayer delinquent account dispositions (removed from active inventory).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
771,455	757,392	724,430	714,000	**880,939**	*877,000*

Performance Measure: ***TAS casework quality index***

Definition: This measures the average percent quality rating of Taxpayer Advocate Service (TAS) cases reviewed. A tool to measure effectiveness in meeting customer expectations based on a random sample of cases reviewed and scored against customer service standards of timeliness, accuracy, and communication.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
65.3	72.0	78.5	90	**84**	*90*

Explanation of Shortfall and Future Plan: Despite an improvement of 10 percentage points over the FY 2001/2002 level the goals was not met due to inconsistency in addressing taxpayer issues and customer education. FY 2004 activities include validation of TAS' ability to take consistent and appropriate efforts to address related taxpayer issues and effectively educate its customers and a re-evaluation of quality standards to ensures they match customer service standards developed using customer satisfaction survey data.

Performance Measure: ***Individual Return Examinations greater than $100,000***

Definition: Number of Individual (Form 1040) returns closed through a time period from the beginning of the fiscal year with a total positive income or total gross receipts greater than $100,000.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
63,217	55,761	64,911	62,000	**67,459**	*67,032*

Performance Measure: ***Individual return examinations less than $100,000***

Definition: Number of individual (Form 1040) returns closed through a time period from the beginning of the fiscal year with a total positive income or total gross receipts less than $100,000.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
187,891	146,790	140,350	121,000	**138,933**	*135,309*

Performance Measure: ***Employee Plans/Exempt Organizations examination cases closed***

Definition: The number of Employee Plan and Exempt Organization return examinations of all types closed.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
19,080	15,988	13,549	15,000	**13,029**	*18,200*

Explanation of Shortfall and Future Plan: The target was missed in the Employee Plan component with the redirection of large numbers of employees to work incoming determination receipts instead of their planned examinations, necessary due to an unanticipated number of receipts. In FY2004 IRS will continue to address examination challenges with improvements in the Exempt Organization determination process and implementation of electronic filing of Form 990 returns.

Performance Measure: ***Employee Plans/Exempt Organizations examination quality***

Definition: The percentage level of quality in IRS Exempt Organization Examination services using the Tax Exempt Quality Measurement System.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
83	73	75	79	**82**	*82*

Performance Measure: ***Total published guidance items***					
Definition: Published Guidance consists of the regulations and other guidance issued by IRS and Treasury to interpret and explain the Internal Revenue Code. These items include Actions on Decisions; Notices/Announcements; Published Guidance Proposals and Studies; Technical Advice Memoranda; Regulations; Revenue Procedures; and Revenue Rulings published.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	225	242	330	**332**	*350*

Performance Measure: ***Payment Compliance***					
Definition: The percentage of required individual returns that are filed timely for a given tax year.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**99**	*99*

Performance Measure: ***Filing Compliance***					
Definition: The percentage of required individual returns that are filed timely for a given tax year.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**88.9**	*90.0*

Performance Measure: ***Reporting Compliance***					
Definition: The percentage of individual income tax liability that is voluntarily reported on timely-filed returns for a given tax year.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**Not Met**	*baseline*
Explanation of Shortfall and Future Plan: In FY 2004, IRS will continue data baselining to identify appropriate components of Reporting Compliance.					

Performance Measure: ***Potentially Collectable Inventory***					
Definition: Modules and dollars in notice inventory, the three components of the Taxpayer Delinquent Account (TDA) inventory, and currently not collectible (CNC) with a closing code 39 (workload balancing.) Reflects the inventories that the IRS can have the most impact using intervention techniques and applying our collection resources. The amounts in PCI do not include modules and balances that meet the financial definition of a Write-off or a Memo.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**79.2**	*85.7*

Performance Measure: ***Customer accounts correspondence quality***					
Definition: How often the customer received the correct answer to their inquiry and/or had their case resolved correctly based upon all available information and IRM required actions.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
78	79	75	79	**76**	*88*
Explanation of Shortfall and Future Plan: The following factors contributed to the missed target: incorrect input of tax adjustments, incomplete research of account related systems, incorrect closing actions, failure to meet correspondence requirements, and failing to address all IRS issues. In FY 2004 the following initiatives are expected to improve quality: revised IRM requirements on closing letter procedures; standardized managerial employee performance review requirements; uniform and consistent program guidance in the form of a Program Letter; operational performance reviews at each campus and remote site; establishment of best practices and standardization on the Service-wide Electronic Research Program. In addition, ongoing research and analysis of Embedded Quality data will identify improvement opportunities and identify new initiatives.					
Performance Measure: ***Correspondence returns examined (EITC)***					
Definition: The number of EITC audit closures produced in service center examination.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	479,983	367,799	349,000	**418,237**	*363,819*
Performance Measure: ***Corporate cases examined (large cases)***					
Definition: The number of regular Coordinated Industry cases closed during the period ("R1" cases; i.e. - not including claim cases, cases returned from Appeals, or non-examined closures). A Coordinated Industry case consists of one or more tax years of the primary taxpayer (usually a large corporate return) plus all related returns examined in conjunction with the primary taxpayer.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
369	417	528	486	**470**	*486*
Explanation of Shortfall and Future Plan: The achievement against target rate was 97% despite case closure delays resulting from the increased complexity of issues being worked. The inventory of large cases is made up of significant numbers of Tax Shelter and Joint Committee cases that have complex issues that take longer for the agent to research and address. In FY 2004 plans are to decrease cycle times using new recommendations that establish strict guidelines on the actions to be taken on cases of this type.					
Performance Measure: ***Criminal investigations completed***					
Definition: This measure includes all subject criminal investigations completed by Criminal Investigation during the fiscal year. This includes investigations that resulted in a criminal prosecution recommendation to the Department of Justice as well as investigations that were discontinued due to a lack of evidence or to a finding that the original allegation was false.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
3,499	3,340	3,201	3,250	**3,766**	*3,400*
Performance Measure: ***Taxpayer Advocate closure to receipt ratio***					
Definition: This is the ratio of the number of regular TAS criteria closures to the number of regular TAS criteria receipts for the same period (i.e., month, FY cum, etc.).					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	97.6	108	105	**105**	*100*

Performance Measure: ***Assistor calls answered (thousands)***

Definition: The count of all customer calls answered by assistors at telephone sites for Toll-Free product lines (Forms 1040, 8815 and 4262).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
32,300	32,091	30,525	33,700	**32,968**	*32,477*

Explanation of Shortfall and Future Plan: The target was not met even though there were some increases in receipts as a result of back-end notice response changes, additional amended returns due to state remapping, rebate transcripts, carry back legislation, and improved productivity. This was not enough to offset the reduction in residual business receipts early in the fiscal year. In FY 2004 we will continue efforts to improve processes by streamlining procedures and providing improved tools. The expected delivery of the Transcript Delivery System (TDS) will provide an improved method of delivering transcripts to employees and taxpayers, and the Remittance Transaction Research (RTR) project will reduce missing and misapplied payment research time by providing on-line payments information.

Performance Measure: ***Toll-free tax law accuracy***

Definition: Accuracy is defined as a live assistor giving the correct answer with the correct resolution. How often the customer received the correct answer to their inquiry and/or had their case resolved correctly based upon all available information and IRM required actions.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	87	**82**	*85*

Explanation of Shortfall and Future Plan: The goals for FY 2003 were set based on FY 2002 performance and anticipated score increases due to the implementation of the new Embedded Quality (EQ) process. The expected improvements from EQ were not realized, and IRS is conducting a root-cause analysis to determine the reasons why the outcomes were not achieved. The following actions will be taken to improve the accuracy percentage for FY 2004: delivery of application-specific training and subsequent proficiency certification; ongoing research and analysis of quality data to identify improvement opportunities and initiatives; implementation of Contact Recording to enhance the ability of management to gauge and improve individual performance.

Performance Measure: ***Toll-free accounts quality***

Definition: Percent of customers receiving accurate responses to their Tax Law inquiries.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
60.0	69.2	74.0	77.0	**67.0**	*revised*

Explanation of Shortfall and Future Plan: The goals for FY 2003 were set based on FY 2002 performance and an anticipated score increases due to the implementation of the new Embedded Quality (EQ) process. The expected improvements from EQ were not realized, and IRS is conducting a root-cause analysis to determine the reasons why the outcomes were not achieved.
Explanation of Revision: The following actions will be taken to improve the accuracy percentage for FY 2004: delivery of application-specific training and subsequent proficiency certification; ongoing research and analysis of quality data to identify improvement opportunities and initiatives; implementation of Contact Recording to enhance the ability of management to gauge and improve individual performance.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Plan	FY 2003 Actual	FY 2004 Proposed Plan
Performance Measure: ***Toll-free accounts accuracy***					
Definition: Customer accuracy is defined as a live assistor giving the correct answer with the correct resolution. It is how often the customer received the correct answer to their inquiry and/or had their case resolved correctly based upon all available information and IRM required actions.					
--	--	--	91	**88**	*88.7*
Explanation of Shortfall and Future Plan: The goals for FY 2003 were set based on FY 2002 performance and anticipated increases due to the implementation of the new Embedded Quality (EQ) process. The expected improvements from EQ were not realized, and IRS is conducting a root-cause analysis to determine the reasons why the outcomes were not achieved. The following actions will be taken to improve the accuracy percentage for FY 2004: delivery of application-specific training and subsequent proficiency certification; ongoing research and analysis of quality data to identify improvement opportunities and initiatives; implementation of Contact Recording to enhance the ability of management to gauge and improve individual performance.					
Performance Measure: ***Number of returns closed (large cases)***					
Definition: All Coordinated Industry corporate returns closed with activity codes 203 through 225.					
3,578	3,734	4,851	4,100	**4,527**	*3,528*
Performance Measure: ***Correspondence returns examined (non-EITC)***					
Definition: The number of non-EITC (discretionary) audit closures produced in service center examination.					
--	146,621	177,447	246,000	**262,431**	*discontinued*
Explanation of Discontinuance: Data for this performance measure will continue to be collected at the bureau level.					
Performance Measure: ***Field exam quality (SB/SE) (Field)***					
Definition: The score awarded to a reviewed Field Examination & Office Examination Cases by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.					
58	70	71	76	**76**	*discontinued*
Explanation of Discontinuance: Data for this performance measure will continue to be collected at the bureau level.					
Performance Measure: ***Field exam quality (LMSB) (Industry cases)***					
Definition: Average of the percentage of Critical Elements that were passed on Industry cases reviewed.					
--	70	69	75	**74**	*discontinued*
Explanation of Shortfall and Future Plan: The missed target was due primarily to continuing problems with documentation in the Revenue Agents Report, in particular with Exam Plans where only 47% of the reviewed cases were properly documented and tied the work papers to the specific items in the plan For FY 2004, the audit standards will be the same and both quality programs (Industry Cases and Coordinated Industry Cases) will be under the one Senior Manager. This will improve the consistency of decisions and information being provided to field agents on audit standards that must be present to pass quality review. **Explanation of Discontinuance:** Data for this performance measure will continue to be collected at the bureau level.					

Performance Measure: *Correspondence examination quality*					
Definition: The quality of actions taken while working service center examinations. Closed paper cases are reviewed.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
70	71	71	73	**73**	*93*

Performance Measure: *Individual return examinations*					
Definition: Combined count of the Number of Individual (Form 1040) returns closed through a time period from the beginning of the fiscal year with a total positive income or total gross receipts less than or greater than $100,000.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	202,551	205,261	183,000	**206,392**	*discontinued*
Explanation of Discontinuance: Data for this performance measure will continue to be collected at the bureau level.					

Performance Measure: *Field exam quality (LMSB) (Coordinated industry cases)*					
Definition: Average of the percentage of Critical Elements that were passed on Coordinated Industry cases reviewed.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	80	78	85	**89**	*discontinued*
Explanation of Discontinuance: Data for this performance measure will continue to be collected at the bureau level.					

Performance Measure: *Business returns examined*					
Definition: Average of the percentage of Critical Elements that were passed on Coordinated Industry cases reviewed.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	23,163	21,159	18,000	**18,957**	*discontinued*
Explanation of Discontinuance: Data for this performance measure will continue to be collected at the bureau level.					

Alcohol and Tobacco Tax and Trade Bureau (TTB)

Performance Measure: *Taxes and fees collected from alcohol and tobacco industries (in billions)*					
Definition: Includes revenue collected through alcohol, tobacco, firearms and ammunition excise taxes, and special occupational taxes.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
14.1	14.0	15.1	15.1	**14.7**	*14.6*
Explanation of Shortfall and Future Plan: Decrease in collections reflects the trend in industry, especially the tobacco products manufacturers, to relocate off-shore and import their products. This tax is then collected and reported by the U.S. Bureau of Customs and Border Protection.					

Performance Measure: *Percent of entities filing electronically*					
Definition: Represents the percent of alcohol and tobacco customers, as well as the firearms excise taxpayers, who use electronic filing instead of paper filing.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	0.1	**0.1**	*0.1*

Performance Measure: ***Ratio of taxes and fees collected vs. resources expended***					
Definition: Represents the amount of taxes and fees collected, divided by the amount of resources expended to collect such taxes and fees.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
207	272	325	211	**242**	242
Explanation of Overage: Ratio increase (211 to 242) is due to greater than estimated reduction in revenue collection expenses (primarily to decreased staffing) resulting from the split-up of ATF and the creation of TTB as a separate bureau in January 2003. In FY 2002 there was a tobacco tax increase. During the same year inspector resources were redirected towards explosives mission activities (inspection of explosive licenses in response to the September 11th, 2001 tragedy).					
Performance Measure: ***Response to unsafe conditions and product deficiencies discovered (alcohol)***					
Definition: Tracks the number of corrections made to unsafe conditions and product deficiencies reported to TTB and discovered from inspector activities.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	190	**191**	*190*
Performance Measure: ***Percentage of label approval applications submitted and processed electronically***					
Definition: calculated by dividing the number of e-filed applications by the total COLA submissions (paper and electronic).					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	10	**3**	*7*
Explanation of Shortfall and Future Plan: The electronic filing system did not open to the public until the end of May 2003, later than was projected at the beginning of the year.					

F5: Cost-Effectively Finance the Government's Operations

Bureau of Public Debt (BPD)

Performance Measure: ***Make 100% of TREASURY DIRECT interest and redemption payments timely***

Definition: Customers invest in Treasury securities with the expectation that the U.S. Government will make payments when due. Timely payments bolster investor confidence and ensure the Treasury securities remain an attractive investment option.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*revised*

Explanation of Revision: Beginning in FY 2004, the performance measure "Make 100% of TREASURY DIRECT interest and redemption payments timely" and the performance measure "Make 99.9% of TREASURY DIRECT interest and redemption payments accurately" are being combined into one measure: "Percentage of *TreasuryDirect* interest and redemption payments made timely and accurately with a target of 100%."

Performance Measure: ***Make 99.9% of TREASURY DIRECT interest and redemption payments accurately***

Definition: As custodians of our TREASURY DIRECT customers' investments, it is our job to correctly calculate and deliver payments to them. Virtually all of our payments are calculated automatically by our automated systems.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	99.9	**100**	*revised*

Explanation of Revision: Beginning in FY 2004, the performance measure "Make 100% of TREASURY DIRECT interest and redemption payments timely" and the performance measure "Make 99.9% of TREASURY DIRECT interest and redemption payments accurately" are being combined into one measure: "Percentage of *TreasuryDirect* interest and redemption payments made timely and accurately with a target of 100%."

Performance Measure: ***Make 100% of Commercial Book Entry interest and redemption payments timely and accurately***

Definition: Customers rely on the commercial book entry system to credit their accounts at the opening of business on the payment day accurately.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*100*

Performance Measure: ***Percent of auctions results released in 6 minutes***

Definition: Treasury securities are broadly distributed to all financial markets throughout the world. To maintain an efficient market for Treasury securities and to minimize uncertainty in these markets, it is crucial that securities auctions be completed and results announced as quickly as possible. The goal is to announce auction results with 6 minutes of the close of the auction 80 percent of the time.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80.0	**96.5**	*revised*

Explanation of Revision: Beginning in FY 2004, this performance measure is being revised to read as follows: Percent of auction results released in two minutes +/- 30 seconds with a target of 95%.

Departmental Offices (DO)

Performance Measure: ***Percent of borrowing policies and borrowing requirements announced to financial market participants in a timely manner***

Definition: This measure is important as the best price for Treasury securities is obtained when Treasury provides information to financial market participants with sufficient lead-time to avoid surprises (risk and uncertainty). BPD then conducts the auction at the announced time.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	99.4	100	**96.3**	*discontinued*

Explanation of Shortfall and Future Plan: Treasury is constrained in meeting our objective of low cost borrowing over time by the uncertainty of our future borrowing needs and the cost that meeting those needs will impose on the American taxpayer.

Financial Management Service (FMS)

Performance Measure: ***Percentage of reporting locations with reconciliation differences, for deposits and payments, less than four months old***

Definition: Measures the extent to which reports on deposits and payments from reporting sources in Federal agencies (ALCs) differ from FMS' data. The ALC identifies an agency, bureau or other reporting source.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	95	**95.97**	*95*

F6: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coin and Currency

Bureau of Engraving & Printing (BEP)

Performance Measure: ***Manufacturing costs for currency***

Definition: This measures the dollar cost per thousand notes produced, an indicator of currency manufacturing efficiency and effectiveness of program management. This standard is developed annually based on the past year's performance, contracted price factors, and anticipated productivity improvements. Actual performance comparison against the standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals established for this product line.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
22.65	23.88	30.03	31.00	**29.14**	*35.00*

Performance Measure: ***Percent of Federal Reserve orders met as requested***

Definition: This measures BEP's ability to meet customer order delivery schedules. The Federal Reserve considers this measure satisfied when complete shipments of finished currency are received in the Federal Reserve vault where it is held prior to final distribution to Federal Reserve district banks.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*discontinued*

Explanation of Discontinuance: Based on Treasury guidance during the FY 2004 budget process, this measure was deemed to be a workload measure and was discontinued at Treasury's request.

Performance Measure: ***Percent of United States Postal Service orders met as requested***

Definition: This measures BEP's ability to meet customer order delivery schedules. The customer considers this measure satisfied if all postage product lines (i.e. coils, books, sheets) are shipped by BEP in accordance with shipping/ordering instructions received by BEP directly from Post Masters.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*discontinued*

Explanation of Discontinuance: This measure is no longer applicable because postage stamp manufacturing is being phased out at BEP.

Performance Measure: ***Number of notes returned by Federal Reserve due to manufacturing defects per million notes produced***

Definition: This measures the Bureau's ability to provide quality products to our customer. The measure refers to any manufacturing flaw which the Federal Reserve determines renders the note unsuitable for circulation.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
1,956	0.0090	0.0060	0.0250	**0.0080**	*discontinued*

Explanation of Discontinuance: This measure has been replaced by the quality outcome measure "Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements.

Performance Measure: ***Currency shipment discrepancies per million notes***

Definition: This measures BEP's ability to provide effective product security and accountability. This measure refers to product overages or underages of as little as a single currency note in shipments of finished notes to the Federal Reserve Banks.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
0.0012	0	0	0.0100	**0**	*0.0100*

Performance Measure: ***Change in productivity from prior year***

Definition: This measures manufacturing efficiency by using Bureau of Labor Statistics methodology to calculate the increase or decrease in productivity from one year to the next.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
-15.6	-16.6	-6.3	0	**11.1**	*discontinued*

Explanation of Discontinuance: This measure is no longer necessary because it is a key component of the efficiency measure "Manufacturing costs for currency" and as such a decision was made jointly with Treasury during the FY 2004 budget process to drop this measure.

Performance Measure: ***Unqualified audit opinion***

Definition: This measure represents an assessment by an independent, certified public accounting firm of the integrity of the Bureau's revolving fund and the reliability of financial data used for managerial decision-making.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
Met	Met	Met	Meet	**Met**	*Meet*

Performance Measure: ***Maintain/Upgrade ISO Certification***

Definition: ISO Certification signifies that the certified organization follows a rigorous quality control program under stringent international standards. ISO certification provides current and future Bureau customers assurance that our currency-manufacturing program will deliver high quality security products.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	Met	Met	Meet	**Met**	*Meet*

Performance Measure: ***Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements***

Definition: Qualitative indicator reflecting BEP's ability to provide a quality product.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**99.9**	*99.9*

Performance Measure: ***General and administrative costs as a percent of total costs***

Definition: This measure is a quantitative indicator of the Bureau's ability to control and minimize its general and administrative support costs.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**9.7**	*9.5*

Performance Measure: ***Percent of contracts awarded competitively***

Definition: This measure tracks the Bureau's commitment to promoting fair and open competition in awarding contracts for goods and services. Competition for goods and services will ensure that they provided to the government in the most cost efficient and effective means possible.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**74**	*76*

U.S. Mint

Performance Measure: ***Conversion cost per 1000 coin equivalents***

Definition: This measure is used to indicate the cost-efficiency of the Mint's circulating coinage production. The coin equivalent methodology assigns a weighting for each denomination based on the resources it takes to make the coin from blank or coin strip.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
6.14	7.38	8.69	9.96	**9.96**	*9.78*

Performance Measure: ***Total losses***

Definition: Measures the dollar amount of losses incurred due to the realization of threats against the Mint.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**Not Available**	*discontinued*

Explanation of FY 2003 Actual: Actual data will not be available until November 30 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Per unit cost - Penny***

Definition: Calculated by dividing the penny's costs (including costs of goods sold and the selling, general and administrative costs) by the number of units delivered.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
0.0082	0.0080	0.0089	0.0095	**Not Available**	*.0095*

Explanation of FY 2003 Actual: Actual data will not be available until November 30 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Per unit cost - Nickel***

Definition: Calculated by dividing the nickel's costs (including costs of goods sold and the selling, general and administrative costs) by the number of units delivered.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
0.0316	0.0331	0.0332	0.0308	**Not Available**	*.0311*

Explanation of FY 2003 Actual: Actual data will not be available until November 30 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Per unit cost - Dime***

Definition: Calculated by dividing the dime's costs (including costs of goods sold and the selling, general and administrative costs) by the number of units delivered.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
0.0192	0.0892	0.0278	0.0231	**Not Available**	*.0235*

Explanation of Shortfall and Future Plan: Actual data will not be available until November 30 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Per unit cost - Half-Dollar***

Definition: Calculated by dividing the half-dollar's costs (including costs of goods sold and the selling, general and administrative costs) by the number of units delivered.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
0.1000	0.0892	0.1110	0.1196	**Not Available**	*.1213*

Explanation of Shortfall and Future Plan: Actual data will not be available until November 30 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Inventory Turnover***

Definition: Number of times per year the average inventory is sold.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	1.6	2.4	**2.0**	*3.3*

Performance Measure: ***Machine Availability***

Definition: The amount of time the production equipment is available to produce finished goods.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	52	51	**56**	*64*

Performance Measure: ***Yield***

Definition: Assesses the amount of metal or other material that results in a finished good.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	86	96	**85.9**	*97*

Explanation of Shortfall and Future Plan: Actual data will not be available until November 30 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***SG&A Costs as a Percent of Revenue (excludes bullion)***

Definition: Uses the Selling, General and Administrative (SG&A) from the financial statements and divides by the Mint-wide revenue (excluding the bullion revenue) to arrive at the percentage result.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	12.7	7.7	**15.3**	*16.0*

Performance Measure: ***Per unit Cost - Quarter***

Definition: Calculated by dividing cost (including cost of goods sold and the selling, general and administrative costs) by the number of units delivered.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
0.0524	0.0438	0.0637	0.0515	**Not Available**	*0.0527*

Explanation of Shortfall and Future Plan: Actual data will not be available until November 30 and will be reported in FY 2004 Performance and Accountability Report.

Performance Measure: ***Cycle Time***

Definition: The length of time from when material enters a production facility until it is delivered to the customer.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	112	150	**73**	*128*

LE1: Reduce Violent Crime and the Threat of Terrorism

Treasury law enforcement bureaus whose efforts helped reduce violent crime, and in particular gun-related crimes" were divested to the Departments of Homeland Security and Justice.

LE2: Combat Money Laundering and Other Financial Crimes

Financial Crimes Enforcement Network (FinCEN)

Performance Measure: ***Average time to process a civil penalty case measured in years***					
Definition: This measure monitors progress in reducing the average processing time for civil penalty matters from a 1997 baseline of 4.23 years.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
1.8	1.8	1.5	1.5	**1.3**	*1.3*

Treasury Forfeiture Fund (TFF)

Performance Measure: ***Percent of forfeited cash proceeds resulting from high-impact cases***					
Definition: Measures the percentage of forfeited cash proceeds resulting from high-impact cases (those with asset seizures in excess of $100,000). This measure is calculated by dividing the total amount of forfeited cash proceeds from cases greater than $100,000 by the total amount of forfeited cash proceeds for all cases. Focusing on strategic cases and investigations which result in high-impact seizures will affect the greatest damage to criminal organizations while accomplishing the ultimate objective - to punish and deter criminal activity.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	78.54	73	75	**80.55**	*75*

LE3: Protect our Nation's Borders and Major International Terminals from Traffickers and Smugglers of Illicit Drugs

Treasury law enforcement bureau USCS whose efforts helped protect the border and major international terminals from traffickers and illicit drugs was divested to the Department of Homeland Security.

LE4: Protect our Nations Leaders and Visiting Dignitaries

Treasury law enforcement bureau USSS whose efforts helped protect our nations leaders and dignitaries was divested to the Department of Homeland Security.

LE5: Provide High Quality Training for Law Enforcement Personnel

Treasury law enforcement bureau FLETC whose efforts provide training to law enforcement personnel was divested to the Department of Homeland Security.

M1: Support the Achievement of Business Results

Departmental Offices (DO)

Performance Measure: ***Percentage of performance targets met by Domestic Finance bureaus (BPD, FMS, and CDFI)***

Definition: The Under Secretary for Domestic Finance has direct oversight of these bureaus and the CDFI Fund. Success in this measure is predicated upon success by the bureaus in meeting their published performance measures.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
83	88	83	92	**64**	*discontinued*

Explanation of Shortfall and Future Plan: The two bureaus and CDFI had a total of 28 measures of which 18 were met.

Performance Measure: ***Percent of new IT capital investments that are within costs, on schedule, and meeting performance targets***

Definition: Under the Clinger-Cohen Act, new IT investments must be selected, controlled, and evaluated using appropriate investment criteria established by the Treasury Investment Review Board. Treasury's system for tracking these criteria is the Information Technology Investment Portfolio System.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
Unmet (data not available)	Unmet (data not available)	Unmet (data not available)	100	**Unmet (data not available)**	*90*

Explanation of Shortfall and Future Plan: Based on the data available from 37 major IT initiatives, 76% or 28 of the initiatives reported being either 1) ahead of schedule and below planned cost or 2) within 10% negative variance of cost and schedule. The CIO goal was to have 90% of initiatives within 10% of performance goals. The CIO Office has adopted a three-part strategy to remediate the shortfall. First, the CIO Office has established a Technology Investment Review Board, chaired by the CIO, to have oversight for major initiatives. Second, the CIO established a Portfolio Management Office within the Office of the CIO to have staff review projects and their status. Third, the CIO Office will have new automated tools to assist in reviewing initiative and project status.

Performance Measure: ***Percent of submissions that are timely and contain quality data***

Definition: This measures the percentage of bureaus and reporting entities whose data is input into Treasury's financial management system (TIER) within 3 days of the end of each month and meets all systems edits.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
90	84	100	100	**100**	*100*

Performance Measure: ***Delivery date of Treasury-wide financial statement and audit opinion (Target: November/Unqualified)***

Definition: This measures the quality of Treasury's prior year financial statements in terms of the opinion rendered as a result of an independent audit.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
Unqualified	Unqualified (Feb. 27, 2002)	Unqualified (Nov. 15, 2002)	Unqualified	**Unqualified (Nov. 14, 2003)**	*Unqualified (Nov. 15, 2004)*

Performance Measure: ***Number of open material weaknesses***

Definition: Treasury wants to reduce and eventually eliminate the material weaknesses that currently exist within Treasury, while simultaneously taking actions which will serve to avoid new material weaknesses. Material weaknesses are significant problems with an organization's systems' reliability; controls on waste, fraud or abuse; mission performance; and/or compliance with laws and regulations, identified, identified by the General Accounting Office, Treasury's Inspectors General, and/or Treasury bureaus.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
32	29	20	8	**9**	*6*

Explanation of Shortfall and Future Plan: FMS was unable to close the material weakness on systems security. Closure is now anticipated prior to the end of FY 2004.

Performance Measure: ***Percent of bureaus in compliance with FFMIA systems requirements***

Definition: This measures the percentage of Treasury bureaus that are in compliance with the Federal Financial Improvement Act of 1996 (FFMIA) financial systems requirements.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
54	72	72	86	**80**	*90*

Explanation of Shortfall and Future Plan: FMS was unable to close the material weakness on systems security. Closure is now anticipated prior to the end of FY 2004.

Performance Measure: ***Percent of all IT systems that are currently certified and accredited to operate***

Definition: Under the Clinger-Cohen Act, new Information Technology (IT) investments must be selected, controlled, and evaluated using appropriate investment criteria established by the Treasury Investment Review Board. Treasury's system for tracking these criteria is the Information Technology Investment Portfolio System.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
7.0	15.5	32.0	70.0	**50**	*70*

Explanation of Shortfall and Future Plan: The goal was not met by Treasury due to the identification of 243 additional Information Systems that potentially requires accreditation. The Treasury has embarked on an aggressive Oversight and Compliance Program that will track the progress of Treasury bureaus C&A efforts and will provide assistance and guidance to facilitate the same.

Performance Measure: ***Percentage of Treasury budget/program activities that have output fully loaded unit cost information in the Annual Performance Budget***

Definition: Measures progress in integrating budget and performance by the use of cost accounting information.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	**--**	**--**	baseline	**22**	*76*

Performance Measure: ***Percent of total eligible FTE competitively-sourced***

Definition: Determine the number of eligible FTE competed or directly converted in accordance with A-76 as compared to the FY 2000 Fair Act Commercial Inventory.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	18	1	**Not Available**	*10*

Explanation of Shortfall and Future Plan: While the 2003 Fair Act Inventory was submitted to OMB on time, approvals are behind schedule due to staff turnover at OMB. Approval is expected soon.

Performance Measure: ***Percentage of bureaus' individual performance plans for supervisors, managers, and SES members that include a measure for Human Capital and EEO accountability***					
Definition: Focuses on holding supervisors and managers accountable for results-oriented management of Human Capital and EEO.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**Not Met**	*revised*
Explanation of Shortfall and Revision: Measure is being revised for FY 2004 to align with the President's Management Agenda and specifically with the Office of Management and Budget's Proud to Be Goal of aligning performance plans to the agency mission. The new measure is: Bureau performance plans for supervisors, managers, and SES members contain elements that link to the bureau mission. The goal for FY 2004 is 75%. Definition: This measure is the overall percentage of bureaus' whose performance plans for supervisors, managers, and SES members contain elements that specifically link to the bureau mission.					

U.S. Mint

Performance Measure: ***Lost time accident rate***					
Definition: Unsafe acts that lead to an employee missing at least one full day of work.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
4.97	3.93	2.24	1.44	**1.48**	*1.24*
Performance Measure: ***Percent reduction in total work-related injuries and illness rate***					
Definition: Goal of zero injuries and illnesses as a result of working at Treasury.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**32**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					
Performance Measure: ***Reduction in number of new workers compensation claims accepted by the Office of Workers' Compensation Programs***					
Definition: Reduce the number of new workers compensation claims annually.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**Not Available**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					
Performance Measure: ***Percent reduction in lost-time case rate***					
Definition: Reduce the lost-time case rate annually.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**33**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					

Performance Measure: ***Workforce climate***					
Definition: Create a work environment where employees feel empowered, where differences are resolved constructively, and where employees can be productive.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**60**	*65*

Office of Inspector General (OIG)

Performance Measure: ***100 percent of audits and evaluations sampled will meet applicable standards***					
Definition: The IG Act requires that our audits be conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. OIG evaluations are conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. The purpose of these standards in to ensure that users of our audits and evaluations have confidence that the work is objective and credible.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*100*
Performance Measure: ***Complete 48 audits and evaluations in FY 2004***					
Definition: The purposes of audits and evaluations are to: (1) promote economy, efficiency, and effectiveness of Treasury programs and operations; (2) prevent and detect fraud, waste, and abuse in those programs and operations; and (3) keep the Secretary and the Congress fully informed. Audits and evaluations are also a key element in fulfilling the Federal government's duty to be accountable to the public.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
130	97	130	146	**116**	*48*
Explanation of Shortfall and Future Plan: **D**ue to the impact of divesting approximately 70 percent of its workforce to the newly created Department of Homeland Security five months into the fiscal year, the OIG completed 116.					
Performance Measure: ***Complete 100 percent of audits required by statute by the required date***					
Definition: The underlying legislation mandating certain audit work generally prescribes, or authorizes OMB to prescribe, the required completion date for recurring audits, such as those for annual audited financial statements. For other types of mandated audit work, such as a Material Loss Review (MLR) of a failed financial institution, the legislation generally prescribes a timeframe to issue a report (6 months for an MLR, as an example) from the date of an event that triggers the audit.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**92**	*100*
Explanation of Shortfall and Future Plan: In March 2003, the OIG transferred approximately 70 percent of its workforce to the newly established Department of Homeland Security. While the OIG coordinated with the new Department to complete as much work as possible in a timely manner, the significant shortage of OIG staff and the impact of agency transition caused delays in the completion of some Audit work. The OIG has considered its workforce reduction and the impact of divestiture into consideration in planning for future audit work.					

Performance Measure: ***100 percent of investigations sampled will meet PCIE standards***					
Definition: The President's Council on Integrity and Efficiency (PCIE) has issued qualitative standards regarding the planning, execution, and reporting of investigations, as well as the information management system for investigations. All investigations initiated in FY 2005 through FY 2009 will comply with these standards.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*100*

Performance Measure: ***The percentage of investigations referred for prosecution within one year of initiation will be increased by 10 percent by FY 2009***					
Definition: OIG calculates the figure for a fiscal year by dividing the criminal and civil investigations referred to the Department of Justice for prosecution within one year of case initiation by the total number of investigations referred to the Department of Justice. OIG aims for the FY2009 figure to be 10 percent greater than the FY 2003 figure.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	7	5	9	**9**	*5*

Performance Measure: ***The percentage of routine misconduct investigations referred to management for administrative adjudication within 4 months of initiation will be increased by 10 percent by FY 2009***					
Definition: In cases where investigations uncover misconduct that does not raise to the level of criminal or civil prosecution, the case should be reported to the bureau or office for administrative action. OIG calculates the percentage figure for a fiscal year by dividing the number of cases referred to management within four months of case initiation by the total number of cases referred to management. OIG aims for the FY 2009 figure to be 10 percent greater than the FY 2003 figure.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	9	10	15	**15**	*10*

Office of the Comptroller of the Currency (OCC)

Performance Measure: ***Percentage of the annual targeted amount for OCC's reserves that is achieved***					
Definition: This measure reflects the degree to which the amount set aside for OCC's contingency and special reserves meet the annual targeted goal.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	100	**97**	*discontinued*
Explanation of Shortfall and Future Plan: The OCC did not achieve the FY 2003 goal for its special and contingency reserves for two reasons: 1) funding the cost of the OCC's district restructuring and 2) earnings on investments were below the anticipated rate of return. The OCC's FY 2003 goal was established based on an estimated rate of return of 3.82 percent on investments; however, the actual rate of return for the year was 2.77 percent. **Explanation of Discontinuance:** Based on Treasury guidance during the FY 2004 budget process, this measure was deemed to be a workload measure and was discontinued at Treasury's request.					

Performance Measure: ***Ratio of OCC employees to management services support staff at fiscal year-end***					
Definition: This measure reflects the relative number of support staff required to meet the human resources, financial, administrative, and training needs of the front line operations of the OCC.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	13	**13.2**	*discontinued*
Explanation of Discontinuance: Based on Treasury guidance during the FY 2004 budget process, this measure was deemed to be a workload measure and was discontinued at Treasury's request.					

Treasury Building/Annex Restoration and Renovation (TBARR)

Performance Measure: ***Implement Phase 3 of the building modernization program***					
Definition: This measures award of an option under the contract for construction of Phase 3 of the building restoration and renovation program.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	Unmet	Award Contract	**Perform Contract**	*new phase*

Treasury Franchise Fund (Franchise)

Performance Measure: ***Total revenue equals or exceeds total expenses for each franchise operation for each fiscal year***					
Definition: This profitability measure shows whether franchise operations' revenue exceed or is equal to expenses to provide self-sustaining operations.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
Positive	Positive	Positive	Positive	**Positive**	*Positive*
Performance Measure: ***Current ratio (current assets divided by current liabilities)***					
Definition: This ratio represents the number of times current assets will pay current liabilities.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
1.5	1.3	1.4	1.5	**1.3**	*1.2*
Explanation of Shortfall and Future Plan: Goal needed to be revised because attaining the goal might have conflicted with the statutory provision. The Fund is currently creating operating reserves just under 2 percent. The Fund is allowed by law to capture 4 percent reserves over cost. A 1.5 current ratio would likely lead to an annual reserve over the 4 percent allowed by law and therefore needs to be changed.					

Performance Measure: ***Percent change in total sales dollars from prior year***

Definition: This measure indicates the growth or decline in the amount of sales dollars year over year. It is calculated by using sales dollars (current year) divided by sales dollars (prior year).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
20	36	41	11	**34**	*10*

Explanation of Overage: Early on the Fund set a goal of 10% a year growth. This would be a stretch goal for similar private industry firms that perform the same/similar services. From FY 2000-2003, the Fund has grown on average approximately 37% a year. This is not unusual for *extremely* successful start-up companies. As with very successful start-up companies, the Fund will mature…and as it matures the growth pace will lessen. The organization is performing a great deal of work on effective strategic planning and marketing. As a group, much of its success can also be attributed to continuous improvement efforts. Each manager in the organization has been assigned a major initiative to move the organization forward. This approach appears to be working well.

Performance Measure: ***Number of management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein***

Definition: Management controls, as defined in Circular A-123, are the organization, policies, and procedures used by agencies to reasonably ensure that: (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected against waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
0	0	0	0	**0**	*0*

Performance Measure: ***100% voluntary program participation***

Definition: This measure indicates the commitment of the Fund to assure that customer are free to exit agreements made with the Fund. There are no mandatory requirements for any customer to use the services of the Franchise Businesses.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
100	100	100	100	**100**	*100*

Performance Measure: ***Unqualified Annual Financial Statement audit opinion from independent external auditors***

Definition: This measure indicates that external auditors have provided an opinion on the reasonable assurance about whether the financial statements are free of material misstatement.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
Met	Met	Met	Meet	**Met**	*Meet*

Performance Measure: ***Percentage change in total number of customers serviced from prior year***

Definition: This measure indicates the growth or decline in customer count from the prior years. It is calculated by using customers serviced (current year) divided by customers serviced (prior year).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
7	14	18	9	**12**	*10*

Treasury Inspector General for Tax Administration (TIGTA)

Performance Measure: ***Potential monetary benefits from audit recommendations made during the fiscal year ($ in millions)***

Definition: Potential monetary benefits are the total questioned costs and funds that could be put to better use identified in audit reports issued in a fiscal year.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
117.1	13,000	71	144	**1.9B**	*revised*

Explanation of Overage: TIGTA Office of Audit (OA) exceeded its FY 2003 performance goals because of extraordinary audit results impacting cost savings, increased revenue and taxpayer accounts. While OA continues to refine its forecasting methodology to reflect actual performance, it cannot always predict such remarkable results. However, the annual audit plan is designed to include the most sensitive IRS issues having the greatest impact on tax administration.
Explanation of Revision: This measure has been revised and is now part of a new overall measure, "Increase in financial accomplishments that result from audit and investigative activities."

Performance Measure: ***Potential number of taxpaying entities for whom tax administration is improved as a result of audit recommendations made during the fiscal year (in millions)***

Definition: Total number of taxpaying entities for whom rights and entitlements are protected, taxpayer burden is reduced or privacy and security over sensitive taxpayer data is improved because of audit recommendations made in audit reports issued during a fiscal year.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
11.3	14.5	7.5	14	**47**	*13.4*

Explanation of Overage: TIGTA OA exceeded its FY 2003 performance goals because of extraordinary audit results impacting cost savings, increased revenue and taxpayer accounts. While OA continues to refine its forecasting methodology to reflect actual performance, it cannot always predict such remarkable results. However, the annual audit plan is designed to include the most sensitive IRS issues having the greatest impact on tax administration.

Performance Measure: ***Percentage of threats of imminent danger disseminated within 24 hours to IRS***

Definition: When a threat is reported against the IRS, TIGTA is made aware of the information and transmits it to the IRS within a 24 period.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	100	**0**	*discontinued*

Explanation of Discontinuance: This measure has been discontinued but remains part of TIGTA's investigative services captured in the newly designed performance measure, "Percentage increase in positive results from investigative activities."

Performance Measure: ***Percentage of criminal investigative reports referred for prosecution within one year of case initiation***

Definition: The percentage is computed by dividing the number of criminal investigations referred during the fiscal year within one year of initiation by the total number of criminal investigations referred during the fiscal year.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
85	90	89	85	**95**	*discontinued*

Explanation of Discontinuance: This measure will remain as an internal measure but has been discontinued as an external performance measure.

Performance Measure: ***Percentage of misconduct investigations referred to management for administrative adjudication within four months of case initiation***

Definition: For cases initiated after September 30, 1999, the percentage is computed by dividing the number of misconduct cases referred to management during the fiscal year within four months of initiation by the total number of misconduct cases referred during the fiscal year. Misconduct investigations involve an IRS or TIGTA employee.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
48	71	81	70	**86**	*discontinued*

Explanation of Discontinuance: This measure will remain as an internal measure but has been discontinued as an external performance measure.

Performance Measure: ***Total potential increased revenue or revenue protected as a result of audit recommendations made during the fiscal year ($ in billions)***

Definition: Total potential government revenue from either increased tax, interest and penalties from taxpayers or denied refunds, identified in final audit reports issued during the fiscal year. This includes assessment or collection of additional taxes (increased revenue), or prior denial or claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system (revenue protection).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
1.4	13.7	730	1.2	**7.2**	*revised*

Explanation of Overage: TIGTA Office of Audit (OA) exceeded its FY 2003 performance goals because of extraordinary audit results impacting cost savings, increased revenue and taxpayer accounts. While OA continues to refine its forecasting methodology to reflect actual performance, it cannot always predict such remarkable results. However, the annual audit plan is designed to include the most sensitive IRS issues having the greatest impact on tax administration.
Explanation of Revision: This measure has been revised and is now part of a new overall measure, "Increase in financial accomplishments that result from audit and investigative activities."

Performance Measure: ***Percentage of closed investigations that meet the President's Council for Integrity and Efficiency (PCIE) investigative quality standards***

Definition: Based on a sample of closed investigations, the number of investigations meeting PCIE standards divided by the total number of investigations sampled during the fiscal year. The PCIE standards are the general and qualitative guidelines applicable to investigative efforts conducted by criminal investigators working for the Offices of the Inspector General affiliated with the PCIE.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	98	97	95	**99**	*discontinued*

Explanation of Discontinuance: This measure will remain as an internal measure but has been discontinued as an external performance measure.

M2: Improve Customer Satisfaction

Financial Crimes Enforcement Network (FinCEN)

Performance Measure: ***Percentage of law enforcement customers satisfied with FinCEN's investigative analytical reports***

Definition: FinCEN's case support includes providing analytical reports to law enforcement. The purpose of this measure is to ascertain whether our Federal law enforcement customers are satisfied with FinCEN's analytical reports.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	79	80	**77**	*Reported biennially*

Explanation of Shortfall and Future Plan: The follow-up survey in FY 2003 showed that, although the average time to provide a case report had declined, customers still perceived timeliness as a problem. FinCEN will be conducting a workflow analysis of the report process and is piloting electronic processing of case reports to expedite turnaround time.

Performance Measure: ***Percentage of customers (financial institutions) satisfied with FinCEN's guidance***

Definition: The purpose of this measure is to ascertain whether FinCEN's customers are satisfied with the guidance FinCEN provides.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**77**	*Reported biennially*

Internal Revenue Service (IRS)

Performance Measure: ***Customer satisfaction - Field Collection***

Definition: Reflects customers' overall level of satisfaction with the way their cases were handled by the IRS Field Collection Program. Only those customers who owe money to the IRS and have been referred to Collection are sampled and certain sample limitations apply. The Customer Satisfaction rating is the percentage of customers who are satisfied with the service they are receiving overall, providing ratings of 4s and 5s on a 5-point scale. Data is now reported as a percent versus the prior method (mean of all scores) in conformance with conventional data reporting.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
47	53	51	50	**60**	*51*

Performance Measure: ***Correspondence examination customer satisfaction***

Definition: Percentage of satisfaction/ dissatisfaction of customers with the way their cases were handled by the Service Center Examination Program.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
34	34	33	33	**36**	*34*

Performance Measure: ***Customer account correspondence***					
Definition: Responses to IRS notices and letters and other unsolicited written account inquiries.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
16,749,967	19,184,321	22,525,594	22,600,000	**22,256,480**	*23,719,000*
Explanation of Shortfall and Future Plan: There were increases in receipts as a result of back-end notice response changes, additional amended returns due to state remapping, rebate transcripts, carry back legislation, and improved productivity. This did not offset the reduction in residual business receipts early in FY 2003. In FY 2004, continue to improve processes by streamlining procedures and providing improved tools. The delivery of the Transcript Delivery System will provide an improved method of delivering transcripts to employees and taxpayers, and the Remittance Transaction Research project will reduce missing and misapplied payment research time by providing on-line payments information.					

Performance Measure: ***Customer satisfaction (walk-in)***					
Definition: Taxpayer's overall satisfaction and dissatisfaction with the services provided by Field Assistance personnel as determined by the customer satisfaction survey. The Customer Satisfaction rating is the percentage of customers who are satisfied with the service they are receiving overall, providing ratings of 4s and 5s on a 5-point scale. Data is now reported as a % versus the prior method (mean of all scores) in conformance with conventional data reporting.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
91	90	86	88	**87**	*88*
Customer satisfaction was below the target because the service at the Field Assistance (FA) offices for this period remains a key improvement factor in the taxpayers eyes and survey results continue to indicate that time customers wait is highly correlated to their overall satisfaction. Survey results are obtained through comment cards voluntarily completed by customers, generally those who are either very satisfied or very dissatisfied with the service received. For 2004, IRS FA offices will continue to implement the network of the Queuing Management System (Q-Matic) to screen and categorize taxpayer needs.					

Performance Measure: ***Field exam customer satisfaction***					
Definition: Customers' overall level of satisfaction and dissatisfaction with the way their cases were handled by the Field Examination Program. The Customer Satisfaction rating is the percentage of customers who are satisfied with the service they are receiving overall, providing ratings of 4s and 5s on a 5-point scale. Data is now reported as a % versus the prior method (mean of all scores) in conformance with conventional data reporting.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
44	47	47	52	**63**	*53*

Performance Measure: ***EP & EO exam customer satisfaction***					
Definition: Customers' overall level of satisfaction with the way their cases were handled by the IRS Employee Plans and Exempt Organizations Determination programs. The Customer Satisfaction rating is the percentage of customers who are satisfied with the service they are receiving overall, providing ratings of 4s and 5s on a 5-point scale. Data is now reported as a % versus the prior method (mean of all scores) in conformance with conventional data reporting.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
67	68	70	71	**72**	*71*

Performance Measure: ***Field exam quality (SB/SE) (Office)***					
Definition: The score awarded to a reviewed Field Examination & Office Examination Cases by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
58	70	74	73	**75**	*75*
Performance Measure: ***Toll-free customer satisfaction***					
Definition: The percentage of customers who were satisfied/dissatisfied with the way their cases were handled by the Toll Free Telephone Program (converted to a five point scale in FY 2003).					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
58	59	56	56	**95**	*57*
Explanation of Overage: The increase in the % Satisfied for Toll Free Assistance is driven by a change in the scale of the survey results and an expansion of the definition of satisfied. Prior to FY 2003, the survey was on a four-point scale and satisfaction was defined as the percent of customers providing a rating of "4". Targets were set using this definition. In FY 2003, the scale change from four-point to five-point and the definition of satisfaction expanded to be the percentage of 4's and 5's. Likewise, the definition of dissatisfaction expanded from the percentage of 1's to be 1's and 2's.					

Comptroller of the Currency (OCC)

Performance Measure: ***Percentage of consumer complaints closed within 60 calendar days of receipt***					
Definition: This measure reflects the timeliness of OCC in facilitating the resolution of consumer complaints within an established standard.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80	**87**	*80*
Performance Measure: ***Percentage of licensing applications filed electronically***					
Definition: This measure reflects the extent to which institutions are using the Internet to file licensing applications with the OCC.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**8**	*15*

Office of Thrift Supervision (OTS)

Performance Measure: ***Percent of complaints involving OTS-regulated thrift institutions answered within 60 days***					
Definition: All complaints are reviewed to ensure compliance with federal consumer protection laws and regulations and to identify any institution conduct that warrants further supervisory scrutiny.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80	**72**	*80*
Explanation of Shortfall and Future Plan: Consumer complaints that come into Washington must be referred to OTS's regional offices since they are responsible for the day-to-day supervision of our institutions. OTS's new automated system now directs every call immediately to the appropriate region. We expect that the targeted levels in the performance measure will be achieved in FY04.					

Performance Measure: ***Percent of Congressional inquiries forwarding complaints involving OTS-regulated institutions answered within 30 business days***					
Definition: Constituent services, Congressional committee and document requests have different customer-imposed deadlines. OTS staff strives to meet those deadlines.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80	**80**	*80*

Performance Measure: ***Percent of written External Interpretive Opinions processed within 60 or 90 days as specified in the External Interpretive Opinions Customer Service Plan***					
Definition: Providing interpretive guidance to thrifts is an important OTS function. OTS receives written requests for interpretation of its regulations and laws.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80	**100**	80

Performance Measure: ***Percent of survey respondents that indicated the examiners took time at the start of the examination to gain an understanding of the thrift's business strategy and operating philosophy***					
Definition: Examiners understand the importance of taking the necessary time at the beginning of the examination process to gain an understanding of the thrifts' business strategy and operating philosophy.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80	**98**	*80*

Performance Measure: ***Percent of survey respondents that indicated the examination was of value to their organization***					
Definition: A priority of our regulatory process is effective communication before, during and after the examination. We make every reasonable effort to staff examinations in the least disruptive and most efficient fashion.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	80	**98**	*80*

Treasury Franchise Fund (Franchise)

Performance Measure: ***Customer satisfaction approval rating***					
Definition: This measure indicates an objective level of customer satisfaction.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
91	92	93	92	**83**	*80*
Explanation of Shortfall and Future Plan: The target listed was based on FY 2002 actual results. This was too ambitious and out of line with Program Assessment Rating Tool language.					

M3: Improve Employee Satisfaction

Bureau of Engraving & Printing (BEP)

Performance Measure: ***Employee turnover rate***

Definition: This measure tracks the percentage of Bureau employees that separate from Bureau employment annually (excluding retirements).

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**3**	*2.75*

Performance Measure: ***Percent of reduction in workers compensation claims***

Definition: The goal is zero new workers' compensation claims. To reach this goal each bureau is expected to reduce the number of new workers compensation claims annually.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**187**	*discontinued*

Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Performance Measure: ***Percent reduction in lost-time case-rate***

Definition: The goal is a lost-time case-rate of zero. To reach this goal each bureau is expected to reduce its lost-time case-rate annually. The lost time case rate is calculated as the total number of OSHA reportable cases involving lost time times 200,000 divided by the total hours worked by employees. This is an OSHA-defined calculation used to approximate the number of lost time cases per one hundred employees.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**4.38**	*discontinued*

Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Performance Measure: ***Percent reduction in total work-related injuries and illness rate***

Definition: The goal is a lost-time case-rate of zero. To reach this goal each bureau is expected to reduce its work-related injury and illness rate annually. The injury and illness rate is calculated as the total number of OSHA reportable cases times 200,000 divided by the total hours worked by employees. This is an OSHA-defined calculation used to approximate the number of injuries and illnesses per one hundred employees.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**8.62**	*discontinued*

Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Bureau of Public Debt (BPD)

Performance Measure: ***Percentage reduction in total work-related injuries and illnesses***

Definition: Total number of OSHA reportable cases times 200,000 divided by the total hours worked by employees.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	15	**21**	*discontinued*

Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Performance Measure: *Reduction in number of new workers compensations claims accepted by the Office of Workers' Compensation Programs*					
Definition: Reduce new workers' compensation claims annually to reach the goal of zero.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	50	21	20	**58**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					

Performance Measure: *Percent reduction in lost work-day case rates*					
Definition: Calculated as the total number of OSHA reportable cases involving lost-time times 200,000 divided by the total hours worked by employees.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	15	**58**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					

Departmental Offices (DO)

Performance Measure: *Percentage decrease in EEO complaints*					
Definition: Provides an assessment of the reduction in number of filings of EE0 complaints.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	10	**13**	*discontinued*
Explanation of Discontinuance: Measure is being revised to provide a more accurate assessment of EEO complaint resolution. The new measure will be “Complete investigations of EO complaints within 180 days.” Definition: This measures the time it takes the agency to complete investigations of EEO complaints. The goal for FY 2004 is 40%.					

Performance Measure: *Percentage of EEO complaints and grievances for which bureau uses ADR techniques*					
Definition: Measures opportunities for early dispute resolution.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	20	**20**	*revised*
Explanation of Revision: Measure is being revised to: Increase the number of instances in which Alternative Dispute Resolution is offered at the formal EEO complaint stage. Definition: This measures the percentage of cases for which ADR is offered as a means of resolving EEO complaints at the formal stage. The goal for FY 2004 is 18%.					

Financial Crimes Enforcement Network (FinCEN)

Performance Measure: *Percent reduction in total work-related injuries and illness rate*					
Definition: The rate of injury and illness is calculated as the total number of OSHA reportable cases time 200,000 divided by the total hours worked by employees.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	89	baseline	**21**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					

Performance Measure: ***Percent reduction in lost-time case-rate***					
Definition: The goal is zero. The lost-time case rate is calculated as the total number of OSHA reportable cases involving lost-time times 200,000 divided by the total hours worked by employees.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	baseline	**12**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					

Performance Measure: ***Reduction in number of new workers compensations claims accepted by the Office of Workers' Compensation Program***					
Definition: Reduce the number of new workers compensation claims annually.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	7	1	**0**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					

Internal Revenue Service (IRS)

Performance Measure: ***Employee Satisfaction - Agency-wide***					
Definition: This measures the overall satisfaction of employee satisfaction (Service-wide) as the average percentage of favorable ratings in a survey of 12 indexes where 100% would indicate favorable in all indexes. It is a percentage measure of employee perceptions of the work environment, management practices, organizational barriers, and overall work environment that impacts an employee's efforts to do a good job.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
59	51	55	58	**60**	62

Performance Measure: ***Employee health and safety***					
Definition: The number of FECA claim cases with any amount of lost time compensable by continuation of regular pay (COP) or FECA compensation paid by DOL/OWCP per 100 FTE worked. (An FTE in this context is 2,000 hours worked.)					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	0.98	0.49	**0.83**	*discontinued*
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.					

Office of the Comptroller of the Currency (OCC)

Performance Measure: ***OCC's workforce distribution by race, national origin, and gender compares favorably with the civilian labor force***					
Definition: This measure reflects whether the OCC's workforce is comparable to the civilian labor force (CLF) with respect to representation by race, national origin and gender.					
FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	Meet	**Met**	*discontinued*
Explanation of Discontinuance: Based on Treasury guidance during the FY 2004 budget process, this measure was deemed to be a workload measure and was discontinued at Treasury's request.					

Performance Measure: ***Percentage of the nine merit system principles that are rated favorably by at least 75% of OCC employees surveyed***

Definition: This measure reflects employee satisfaction with the overall work environment at the OCC. The Office of Personnel Management conducts a government-wide employee satisfaction survey. The survey asks employees to rate work issues around the nine merit system principles.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	55	**Not Available**	*discontinued*

Explanation of Shortfall: OCC will delete this performance measure because the tool for obtaining the data is no longer available. This measure was based on the employee satisfaction survey administered by the Office of Personnel Management (OPM). OCC received the results of OPM's latest survey; however, the survey has been substantially changed from the previous instrument upon which the performance measure was developed.
Explanation of Discontinuance: The survey instrument did not specifically address the nine merit system principles and, therefore, OCC is no longer able to use this performance measure.

Performance Measure: ***Percent reduction in lost-time case rate***

Definition: The goal is a lost-time case-rate of zero. To reach to this goal each bureau is expected to reduce its lost-time case-rate annually.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	.1675	(22)	100	**-125**	*discontinued*

Explanation of Shortfall and Future Plan: To achieve the goal of 100%, no accidents with lost work time could occur during the fiscal year. During FY 2003, there were 11 cases where employees lost work time because of a work-related accident. The costs for the 11 lost-time cases were approximately $3,000 less than the 6 lost-time cases incurred in FY 2002.
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Performance Measure: ***Percentage reduction in total work-related injuries and illness rate***

Definition: The goal is injuries and illnesses as a result of working at Treasury. To reach this goal, each bureau is expected to reduce its work-related injuries and illnesses rate annually..

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	.536	(52)	100	**-111**	*discontinued*

Explanation of Shortfall and Future Plan: To achieve the goal of a 100 percent reduction, no accidents could occur during the fiscal year. The base year for comparison was FY 2001 when 16 work-related injuries and illnesses occurred. During FY 2003, there were 33 accidents, but they were less severe than in prior years. Each accident was investigated and there appears to be no patterns to the nature of the accidents and no obvious corrective actions to be taken.
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Performance Measure: Percentage r*eduction in number of new workers compensations claims accepted by the Office of Workers' Compensation Programs*

Definition: The goal is zero new workers' compensation claims. To reach this goal each bureau is expected to reduce the number of new workers compensation claims annually.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Plan	FY 2003 Actual	FY 2004 Proposed Plan
--	11	(109)	100	**-182**	*discontinued*

Explanation of Shortfall and Future Plan: To achieve the goal of 100%, no accidents could be accepted by the OWCP. The base year for comparison was FY 2001 when 11 work-related injuries and illnesses were accepted by OWCP. There have been 31 claims accepted by OWCP during FY 2003.
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Office of Thrift Supervision (OTS)

Performance Measure: ***Number of work-related injuries and illness rate***

Definition: The rate of injury and illness is calculated as the total number of OSHA reportable cases time 200,000 divided by the total hours worked by employees.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Plan	FY 2003 Actual	FY 2004 Proposed Plan
--	--	--	0	**9**	*discontinued*

Explanation of Shortfall and Future Plan: Although OTS strives to have zero work-related injuries and illnesses, there were 9 work-related injuries and illness during FY 2003.
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Performance Measure: ***Lost time (in business days)***

Definition: The goal is a lost time case-rate of zero. To reach this goal each bureau is expected to reduce its lost time case-rate annually.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Plan	FY 2003 Actual	FY 2004 Proposed Plan
--	--	--	0	**1**	*discontinued*

Explanation of Shortfall and Future Plan: Although OTS strives to have zero lost days as a result of work-related injuries and illnesses, there was one day lost during FY 2003.
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Performance Measure: ***Number of workers compensation claims***

Definition: The goal is zero new workers' compensation claims. To reach this goal each bureau is expected to reduce the number of new workers compensation claims annually.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Plan	FY 2003 Actual	FY 2004 Proposed Plan
--	--	--	0	**5**	*discontinued*

Explanation of Shortfall and Future Plan: Although OTS strives to have zero workers compensation claims there were 5 workers compensation claims during FY 2003.
Explanation of Discontinuance: Beginning in FY 2004, Treasury will corporately collect and report the data for this measure under the DO performance plan.

Treasury Inspector General for Tax Administration (TIGTA)

Performance Measure: ***Percentage of employee survey respondents who indicate a positive work experience***

Definition: The percentage is calculated by dividing the number of employee respondents indicating that TIGTA provides a positive work environment by the total number of employee respondents.

FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003		FY 2004 Proposed Plan
			Plan	Actual	
--	--	--	70	**70**	*Biennially reported*

PERFORMANCE MEASURES BY BUREAU/MAJOR PROGRAM

This section lists performance measures and resource information by Treasury bureau or major program, and further by strategic goal. The list also references Full Report pages which provide the full performance report information for the measure.

Source documents for FY 2000 – FY 2002 and FY 2004 amounts are from the FY 2000 through FY 2004 President's Budget Appendices, unless otherwise indicated (numbers may differ slightly due to rounding). The FY 2003 amounts reflect final enacted appropriated amounts per P.L. 108-7 plus or minus transfers and/or actual receipts received from offsetting collections.

Bureau of Engraving and Printing (BEP)					
	New Spending Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	471	404	443	523	533
FTE	2,510	2,490	2,442*	2,427	2,627

*Inaccurately reported by National Finance Center for FY 2002 Report

F6: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coin and Currency

M3: Improve Employee Satisfaction

Bureau of Public Debt (BPD)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget * ($ in millions)	178	183*	188	190	174
FTE*	1,459	1,467	1,455	1,399	1,333

*Corrected from President's Budget Appendix

F5: Cost-Effectively Finance the Government's Operations

	Page
Make 100% of TREASURY DIRECT interest and redemption payments timely	**296**
Make 99.9% of TREASURY DIRECT interest and redemption payments accurately	**296**
Make 100% of Commercial Book Entry interest and redemption payments timely and accurately	**296**
Percent of auctions results released in 6 minutes	**296**

M3: Improve Employee Satisfaction

Percentage reduction in total work-related injuries and illnesses	**318**
Reduction in number of new workers compensations claims accepted by the Office of Workers' Compensation Programs	**319**
Percent reduction in lost work-day case rates	**319**

Community Development and Financial Institutions (CDFI)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	95	118	80	75	51
FTE	52	53	59	53	71

E1: Promote Domestic Economic Growth

	Page
Number of accounts opened at insured depository institutions	**272**
Number of full-time equivalent jobs in underserved communities created or maintained	**272**
Number of commercial real estate properties financed by CDFI Program awardees, BEA Program applicants, and NMTC Program allocatees	**272**
Number of affordable housing units (including rental units) in underserved communities developed or rehabilitated	**272**
Number of businesses financed	**273**
Number of homebuyers	**273**
Dollars of private and non-CDFI Fund investments that CDFI Fund awardees were able to leverage because of their CDFI Fund assistance ($ millions)	**273**
Number of CDFIs serving underserved communities that have accessed the Fund's institution-building technical assistance or training	**273**
Number of individuals provided financial literacy, home ownership, business and other training or technical assistance that counters predatory lending	**274**

Departmental Offices (DO)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003*	2004
Budget ($ in millions)	159	229	177	181	167
FTE	1,017	1,040	825	865	860

*Reflects appropriated level less transfers

E1: Promote Domestic Economic Growth

	Page
Rate of Domestic Economic Growth (GDP)	274

E2: Maintain U.S. Leadership on Global Economic Issues

Economic conditions in developing countries	279
Economic conditions in the global economy	279
Economic conditions in transitional countries	279
Level of U.S. direct investment abroad ($ in billions)	279
U.S. meets current financing commitments and pays all arrears to multilateral development banks ($ in millions)	279
Dollar value of U.S. exports of goods and services ($ in billions)	280
Economic conditions in foreign countries that are major U.S. trading partners - European Union (Euro Area)	280
Economic conditions in foreign countries that are major U.S. trading partners - China	280
Economic conditions in foreign countries that are major U.S. trading partners - United Kingdom	280
Economic conditions in foreign countries that are major U.S. trading partners - Mexico	280
Economic conditions in foreign countries that are major U.S. trading partners – Japan	281
Economic conditions in foreign countries that are major U.S. trading partners – Canada	281

F5: Cost-Effectively Finance the Government's Operations

Percent of borrowing policies and borrowing requirements announced to financial market participants in a timely manner	297

M1: Support the Achievement of Business Results

Percentage of performance targets met by Domestic Finance bureaus (BPD, FMS, and CDFI)	305
Percent of new IT capital investments that are within costs, on schedule, and meeting performance targets	305
Percent of submissions that are timely and contain quality data	305
Delivery date of Treasury-wide financial statement and audit opinion (Target: November/Unqualified)	305
Number of open material weaknesses	306
Percent of bureaus in compliance with FFMIA systems requirements	306
Percent of all IT systems that are currently certified and accredited to operate	306
Percentage of Treasury budget/program activities that have output fully loaded unit cost information in the Annual Performance Budget	306
Percent of total eligible FTE competitively-sourced	306
Percentage of bureaus' individual performance plans for supervisors, managers, and SES members that include a measure for Human Capital and EEO accountability	307

M3: Improve Employee Satisfaction

	Page
Percentage decrease in EEO complaints	**319**
Percentage of EEO complaints and grievances for which bureau uses ADR techniques	**319**

Department-wide Systems and Capital Investment Program (DSCIP)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003*	2004
Budget ($ in millions)	44	62	69	50	37
FTE	--	--	--	--	--

*Reflects appropriated level less transfers

Financial Crimes Enforcement Network (FinCEN)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	28	39	48	51	58
FTE	169	174	200	230	277

LE2: Combat Money Laundering and Other Financial Crimes

	Page
Average time to process a civil penalty case measured in years	**303**

M2: Improve Customer Satisfaction

Percentage of law enforcement customers satisfied with FinCEN's investigative analytical reports	**314**
Percentage of customers (financial institutions) satisfied with FinCEN's guidance	**314**

M3: Improve Employee Satisfaction

Percent reduction in total work-related injuries and illness rate	**319**
Percent reduction in lost-time case-rate	**320**
Reduction in number of new workers compensations claims accepted by the Office of Workers' Compensation Program	**320**

Financial Management Services (FMS)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001*	2002	2003	2004
Budget ($ in millions)	201	269	213	221	229
FTE**	2,028	1,949	1,700	1,765	2,086

*Budget authority levels in FMS Salaries and Expenses include $49,576,000 appropriated in FY 2001 for the production and mailing of advanced tax relief payments under section 101 of the Economic Growth and Tax Relief Reconciliation Act of 2001.
**FTE levels adjusted to reflect only direct funded FTE.

F1: Manage the Federal Government's Accounts

	Page
Percentage collected electronically of total dollar amount of Federal government receipts	**282**

F2: Ensure All Federal Payments Are Accurate and Timely

	Page
Percentage of paper check and EFT payments made on time	283
Percentage of paper check and EFT payments made accurately	283
FMS will make Treasury payments and associated information made electronically	283

F3: Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards

Percentage of government-wide accounting reports issued accurately	284
Percentage of Government-wide accounting reports issued timely	284
FMS will receive an unqualified audit opinion on FMS' Schedule of Non-entity Assets, Non-entity Costs, and Non-entity Custodial Revenues, and Schedule of Non-entity Government-wide Cash	284

F4: Collect Revenue Due to the Federal Government

Amount of delinquent debt collected using all available collection tools	285
FMS will increase the annual collection of delinquent debt, not including Federal tax debt, by $120 million above that collected in FY 2001 for a total of $2.8 billion	285
Dollar amount of lockbox collections transacted through Pay.gov ($ in billions)	285
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral	285

F5: Cost-Effectively Finance the Government's Operations

Percentage of reporting locations with reconciliation differences, for deposits and payments, less than four months old	297

Internal Revenue Service (IRS)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	8,217	8,912*	9,471	9,835	10,437
FTE	97,074	97,707	99,181	99,155	100,043

*FY 2001 amount was overstated in the FY 2003 President's Budget request as a result of a proposal to include the full cost of employee benefits. This budget proposal was not accepted by Congress.

F4: Collect Revenue Due to the Federal Government

	Page
Percentage of AUR Quality	286
Appeals cases closed	286
ACS closures - Taxpayer Delinquent Accounts	286
Payment received electronically (thousands)	286
Employee Plans and Exempt Organization determination letters	286
Toll-free tax law quality	287
Percentage of individual returns filed electronically	287
Field Collection - Number of cases closed - Tax Delinquent Investigations	287
Toll-free level of service	287
AUR Closures	287
Field Collection quality	288
ACS level of service	288

M2: Improve Customer Satisfaction

M3: Improve Employee Satisfaction

U.S. Mint (Mint)					
	New Spending Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	1,423	1,069	814	841	971
FTE	2,676	2,760	2,428	2,302	2,610

F6: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coin and Currency

	Page
Conversion cost per 1000 coin equivalents	**300**
Total losses	**300**
Per unit cost - Penny	**300**
Per unit cost - Nickel	**300**
Per unit cost - Dime	**300**
Per unit cost - Half-Dollar	**301**
Inventory Turnover	**301**
Machine Availability	**301**
Yield	**301**
SG&A Costs as a Percent of Revenue (excludes bullion)	**301**
Per unit cost – Quarter	**301**
Cycle time	**301**

M1: Support the Achievement of Business Results

Lost time accident rate	**307**
Percent reduction in total work-related injuries and illness rate	**307**
Reduction in number of new workers compensation claims accepted by the Office of Workers' Compensation Programs	**307**
Percent reduction in lost-time case rate	**307**
Workforce climate	**308**

Office of Inspector General (OIG)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003*	2004
Budget ($ in millions)	31	33	35	22	11
FTE	248	246	272	176	87

*Reflects the divestiture of resources to DHS in FY 2003.

M1: Support the Achievement of Business Results

	Page
100 percent of audits and evaluations sampled will meet applicable standards	**308**
Complete 48 audits and evaluations in FY 2004	**308**
Complete 100 percent of audits required by statute by the required date	**308**
100 percent of investigations sampled will meet PCIE standards	**309**
The percentage of investigations referred for prosecution within one year of initiation will be increased by 10 percent by FY 2009	**309**

Office of the Comptroller of the Currency (OCC)					
	New Spending Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	403	435	449	471	500
FTE	2,837	2,836	2,792	2,761	2,789

E1: Promote Domestic Economic Growth

M1: Support the Achievement of Business Results

M2: Improve Customer Satisfaction

M3: Improve Employee Satisfaction

Office of Thrift Supervision (OTS)					
	New Spending Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	144	160	164	173	179
FTE	1,254	1,211	1,087	912	913

E1: Promote Domestic Economic Growth

M2: Improve Customer Satisfaction

M3: Improve Employee Satisfaction

Treasury Building/Annex Restoration and Renovation (TBARR)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	23	31	29	29	25
FTE	12	8	10	10	10

M1: Support the Achievement of Business Results

	Page
Implement Phase 3 of the Building Modernization Program	310

Treasury Forfeiture Fund (TFF)					
	New Spending Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	226	270	178	221	221
FTE	--	--	--	--	--

LE2: Combat Money Laundering and Other Financial Crimes

	Page
Percent of forfeited cash proceeds resulting from high-impact cases	303

Treasury Franchise Fund (Franchise)					
	New Spending Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	209	248	354	504	384
FTE	435	437	473	528	543

M1: Support the Achievement of Business Results

	Page
Total revenue equals or exceeds total expenses for each franchise operation for each fiscal year	310
Current ratio (current assets divided by current liabilities)	310
Percent change in total sales dollars from prior year	311
Number of management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein	311
100% voluntary program participation	311
Unqualified Annual Financial Statement audit opinion from independent external auditors	311
Percentage change in total number of customers serviced from prior year	311

M2: Improve Customer Satisfaction

Customer satisfaction approval rating	317

Treasury Inspector General for Tax Administration (TIGTA)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003	2004
Budget ($ in millions)	112	118*	126	124	124
FTE	922	922	928	926	900

*FY 2001 amount was overstated in the FY 2003 President's Budget request as a result of a proposal to include the full cost of employee benefits. This budget proposal was not accepted by Congress.

M1: Support the Achievement of Business Results

	Page
Potential monetary benefits from audit recommendations made during the fiscal year ($ in millions)	**312**
Number of taxpaying entities for whom tax administration is improved as a result of audit recommendations made during the fiscal year (in millions)	**312**
Percentage of threats of imminent danger disseminated within 24 hours to IRS	**312**
Percentage of criminal investigative reports referred for prosecution within one year of case initiation	**312**
Percentage of misconduct investigations referred to management for administrative adjudication within four months of case initiation	**313**
Total potential increased revenue or revenue protected as a result of audit recommendations made during the fiscal year ($ in billions)	**313**
Percentage of closed investigations that meet the President's Council for Integrity and Efficiency (PCIE) investigative quality standards	**313**

M3: Improve Employee Satisfaction

Percentage of employee survey respondents who indicate a positive work experience	**323**

Alcohol and Tobacco Tax and Trade Bureau (TTB)					
	Enacted New Budget Authority & FTE				Estimated
Fiscal Year	2000	2001	2002	2003*	2004
Budget ($ in millions)	--	--	--	54	80
FTE	--	--	--	260	544

*Determination order issued on January 24, 2003 reflects FY 2003 partial funding of $54M and 260 FTE. The FY 2004 President's Budget reflects $80M full year of funding.

F4: Collect the Revenue Due to the Federal Government

	Page
Taxes and fees collected from alcohol and tobacco industries (in billions)	**294**
Percent of entities filing electronically	**294**
Ratio of taxes and fees collected vs. resources expended	**295**
Response to unsafe conditions and product deficiencies discovered (alcohol)	**295**
Percentages of label approval applications submitted and processed electronically	**295**

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

Treasury's Commitment to Quality Performance Measurement

The availability of quality performance information to assess program performance has long been a priority at the Department. Beginning with the FY 1998 performance plans, Treasury has provided descriptive information on each performance measure to define what was being measured and the significance of the measurement. With the FY 1999 performance plans, a description of the accuracy and means to verify data was included for each measure. In the FY 2000 performance plans, bureaus were required to provide self-assessments of data quality.

These self-assessments require bureaus to rate the data for each performance measure as having:

- *Reasonable Accuracy:* Judged to be sufficiently accurate for program management and performance reporting purposes (specified in OMB Circular A-11, Section 232.10 as "acceptably reliable").
- *Questionable or Unknown Accuracy:* Judged to be materially inadequate.
- Where statistical confidence intervals are available, these are provided instead of the rating statements.

More verification efforts were added in FY 2001 and FY 2002, when bureaus were required to address any data reliability issues regarding their performance measures in the Assurance Statements required by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Completeness of Data

FY 2003 Data

Because of the accelerated submission of this consolidated Report, several of the actual (final) numbers for FY 2003 are estimates. Final actual data for these measures will be presented in the FY 2005 President's Justification for Appropriations and the FY 2004 Performance and Accountability Report.

The following performance measure did not have any data available for this Report, but will have final numbers presented in the FY 2005 President's Justification for Appropriations:

Performance Measure
Dollar value of U.S exports and services ($ in billions)

The following performance measure will not have any data available until after publication of the FY 2005 President's Justification for Appropriations:

Performance Measure	Data Available
Level of U.S. direct investment abroad ($ in billions)	July 2004

FY 2002 Data

The following performance measures did not have data available at the time of publication of the FY 2002 Performance and Accountability Report. They are presented here, with their final FY 2002 data.

Departmental Offices: Strategic Goal E2	**FY 2002 Plan**	**FY 2002 Actual**
Economic conditions in developing countries	Growth	4.6
Economic conditions in the global economy	Growth	3.0
Economic conditions in transitional countries	Growth	4.1
Level of U.S. direct investment abroad ($ in billions)	Growth	$1,520
Dollar value of U.S. export of goods and services ($ in billions)	Growth	974
Economic conditions in foreign countries that are major U.S .trading partners – European Union (Euro Area)	Growth	1.0
Economic conditions in foreign countries that are major U.S. trading partners – China	Growth	8.0
Economic conditions in foreign countries that are major U.S. trading partners – United Kingdom	Growth	1.6
Economic conditions in foreign countries that are major U.S. trading partners – Mexico	Growth	0.9
Economic conditions in foreign countries that are major U.S. trading partners –Japan	Growth	0.3
Economic conditions in foreign countries that are major U.S. trading partners - Canada	Growth	3.4
Financial Management Service: F3	**FY 2002 Plan**	**FY 2002 Actual**
Percentage of Federal agency reports for the Financial Report of the U.S. Government processed by FMS within the established standard range	99	98.48
Internal Revenue Service: F4	**FY 2002 Plan**	**FY 2002 Actual**
TAS casework quality index	80	78.5
Departmental Offices: M1	**FY 2002 Plan**	**FY 2002 Actual**
Percentage of new IT capital investments that are within costs, on schedule, and meeting performance targets	100	Unmet
Treasury Franchise Fund: M2	**FY 2002 Plan**	**FY 2002 Actual**
Customer satisfaction approved rating	92	90
U.S. MINT: M2	**FY 2002 Plan**	**FY 2002 Actual**
Federal Reserve Board customer satisfaction survey results	85	85
ACSI score of 85%	85	84

Data Reliability

Performance data presented in this Report meets the standards for reliability set forth in OMB Circular A-11, Section 232. There is neither a refusal nor a marked reluctance by agency managers or Government decision makers to use the data in carrying out their responsibilities. Data judged as materially inadequate, along with a brief reason for the inadequacy and planned corrective actions are in the following chart.

Bureau	Data Not Reasonably Accurate / Materially Inadequate	Reason for Inadequacy and Actions to Correct
CDFI	Number of full-time equivalent jobs in underserved communities created or maintained	Information is noted as Unknown Accuracy because it is self-reported by awardees. There is no validation by a third party.
	Number of individuals provided financial literacy, home ownership, business and other training or technical assistance that counters predatory lending	
	Dollars of private and non-CDFI Fund investments that CDFI Fund awardees were able to leverage because of their CDFI Fund assistance ($ millions)	
DO	Percent of new IT capital investments that are within costs, on schedule, and meeting performance targets	The investment status data is a subset of project data collected from the Treasury bureaus as part their Budget Exhibits 300 (business cases.) In order to improve initiative status reporting, the Treasury CIO in the summer of 2003 established a Technology Investment Review Board that will use a quarterly reporting and review process for all major initiatives, beginning in FY 2004.

GLOSSARY OF ACRONYMS

ACE	Automated Commercial Environment
ACS	Automated Collection System
ADR	Alternative Dispute Resolution
AML	Anti-Money Laundering
APEC	Asia Pacific Economic Cooperation
APIS	Advanced Passenger Information System
ARC	Administrative Resource Center
ATAT	Abusive Tax Transactions
ATF	Bureau of Alcohol, Tobacco and Firearms
ATFE	Alcohol, Tobacco, Firearms and Explosives
ATTFs	Anti-Terrorism Task Force
AUR	Automated Underreporter
BEA	Bank Enterprise Award
BEP	Bureau of Engraving and Printing
BMF	Business Master File
BPD	Bureau of Public Debt
BPMS	Business Performance Management System
BPN	Business Partner Network
BSA	Bank Secrecy Act
BSMO	Business System Modernization Office
C&A	Certification and Accreditation
CAC	Collection Action Clauses
CADE	Customer Account Data Engine
CAF	Centralized Authorization File
CAMELS	Capital Adequacy Asset Quality Management, Earnings, Liquidity Sensitive Rating System
CAP	Custodial Accounting Project
CDFI	Community Development Financial Institutions Fund
CDE	Community Development Entity
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act
CFT	Combating the Finance of Terrorism
CI	Criminal Investigations
CIP	Critical Infrastructure Protection
CIRB	Capital Investment Review Board
CBP	US Bureau of Customs and Border Protection
CLF	Civilian Labor Force
CNC	Currently Not Collectible
COLA	Certificate of Label Approval
COOP	Continuity of Operations
CPIC	Capital Planning and Investment Control Process
CRA	Community Reinvestment Act
CS	Competitive Sourcing
CSBS	Conference of State Bank Supervisors
CSR	Customer Service Representative

CY	Calendar Year
DCFO	Deputy Chief Financial Officer
DCP	Office of D.C. Pensions
DCIA	Debt Collection Improvement Act
DCS	Depositary Compensation Securities
DDb	FCR Dependent Database
DHS	Department of Homeland Security
DO	Departmental Offices
DOD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
DSCIP	Department-wide Systems and Capital Investment Program
EBRD	European Bank for Reconstruction and Development
EDS	TE/GE Determination System
EEO	Equal Employment Opportunity
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
EHRI	Enterprise Human Resources Integration
EITC	Earned Income Tax Credit
ELA	Enterprise Licensing Agreement
EMC	Emergency Management Center
E.O.	Executive Order
EOAF	Executive Office of Asset Forfeiture
EOTF/FC	Executive Office of Terrorist Financing and Financial Crime
EP/EO	Employee Plans and Exempt Organization
EQ	Embedded Quality
EQMS	Exam Quality Measurement System
ETA	Electronic Tax Administration
EU	European Union
FA	Field Assistance
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FCR	Federal Case Registry
FDA	Food and Drug Administration
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FIU	Financial Intelligence Units
FLETC	Federal Law Enforcement Training Center
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FPA	Federal Program Agencies
FPC	Federal Preparedness Circular
FR	Financial Report
FRB	Federal Reserve Board
FRBNY	Federal Reserve Bank of New York

FTA	Federation of Tax Administration
FTC	Federal Trade Commission
FTE	Full Time Equivalent
FY	Fiscal Year
G-7	Group of Seven (United States, United Kingdom, France, Germany, Italy, Japan, and Canada)
GAO	General Accounting Office
GDP	Gross Domestic Product
GOALS	Government On-line Accounting Link System
GPRA	Government Performance and Results Act
GSA	General Services Administration
HC	Human Capital
HIPC	Heavily Indebted Poor Countries
HR	Human Resources
HRPC	Human Resources Policy Council
ICE	US Bureau of Immigration and Custom's Enforcement
IDA	International Development Association
IEIN	Internet Employer Identification Number
IFAD	International Fund for Agriculture and Development
IFI	International Financial Institutions
IFS	Integrated Financial System
IIS	Integrated Insolvency System
IMF	International Monetary Fund
IMF(tax)	Individual Master File
INS	Immigration and Naturalization Service
IPA	Independent Public Accountant
IRFOF	Internet Refund/Fact of Filing
IRIS	Integrated Revenue Information Systems
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IRS-CI	IRS Criminal Investigation Division
IT	Information Technology
ITCS	Inventory Tracking and Closure System
ITIN	Individual Tax Identification Number
I-TIPS	Information Technology Investment Portfolio System
ITP	Illegal Tax Protester
IVRS	Integrated Violence Reduction Strategy
JAMES	Joint Audit Management Enterprise Systems
JFMIP	Joint Financial Management Improvement Program
JGTRRA	Jobs and Growth Tax Relief Reconciliation Act
JI	Jemaah Islamiya
JTTF	Joint Terrorism Task Forces
LEFIIS	Law Enforcement Financial Institution Information Sharing
LEP	Limited English Proficiency
LIMS	Laboratory Information Management System
LINUS	Letter Information Network User System
MCA	Millennium Challenge Account
MDB	Multilateral Development Bank
MOU	Memorandum of Understanding
NAAG	National Association of State Attorneys General
NADBank	North American Development Bank

NCUA	National Credit Union Association
NGO	Non-Governmental Organization
NIST	National Institute of Standards and Technology
NLC	National Laboratory Center
NMLS	National Money Laundering Strategy
NMTC	New Markets Tax Credit
NRP	National Research Program
NTA	National Taxpayer Advocate
NTEU	National Treasury Employee Union
OA	Office of Audit
OCC	Office of the Comptroller of Currency
OCDM	Office of Cash and Debt Management
OCIO	Office of the Chief Financial Officer
OECD	Organization for Economic Cooperation and Development
OEIS	Office of Enterprise Information Systems
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPB	Office of Performance Budgeting
OPM	Office of Personnel Management
OSHA	Occupational Health and Safety Administration
OTA	Office of Technical Assistance
OTS	Office of Thrift Supervision
OWCP	Office of Workers Compensation Programs
PACS	PATRIOT Act Communications System
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PBA	Performance Based Allowance
PCA	Private Collection Agencies
PCAs	Prompt Corrective Action System
PCIE	President's Council for Integrity and Efficiency
P.L.	Public Law
PMA	President's Management Agenda
POs	Partner Organizations
PPS	Practitioner Priority Services
Q-Matic	Queuing Management System
RICS	Returns Inventory and Classification System
RRA 98	Restructuring and Reform Act of 1998
SACMM	Software Acquisition Capability Maturity Model
SAMC	Situation Awareness Management Capabilities
SAR	Suspicious Activity Reports
SB/SE	Small Business/Self Employed
SCPM	Strategic Compliance Planning Model
SDLC	Systems Development Life Cycle
SDR	Special Drawing Rights
SEI	Software Engineering In$titute (Carnegie Mellon University)
SG&A	Selling, General and Administrative
SME	Small and Medium Enterprise
SP	Senior Professional
SPS	Secure Payment System
SSA	Social Security Administration

SVC	Stored Value Card
TA	Technical Assistance
TAC	Taxpayer Assistance Center
TAS	Taxpayer Advocate Services
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquent Investigations
TDS	Transcript Delivery Service
TE/GE	Tax Exempt/Government Entities
TFF	Treasury Forfeiture Fund
TFTF	Task Force on Terrorist Financing
TIGTA	Treasury Inspector General for Tax Administration
TIER	Treasury Information Executive Repository
TIRB	Technology Investment Review Board
TTB	Alcohol and Tobacco Tax and Trade Bureau
TTL	Treasury Tax and Loan
TY	Tax Year
U.S.C.	United States Code
USCS	U.S. Customs Service
USSS	U.S. Secret Service
USTR	U.S. Trade Representative
VITA	Volunteer Income Tax Assistance
VPN	Virtual Private Network
XML	Extensible Markup Language

Treasury On-Line — http:// www.treas.gov

Alcohol and Tobacco Tax and Trade Bureau	http://www.ttb.gov
Community Development Financial Institutions Fund	http://www.treas.gov/cdfi
Comptroller of the Currency	http://www.occ.treas.gov
Bureau of Engraving & Printing	http://www.bep.treas.gov
Financial Crimes Enforcement Network	http://www.treas.gov/fincen
Financial Management Service	http://www.fms.treas.gov
Internal Revenue Service	http://www.irs.gov
U.S. Mint	http://www.usmint.gov
Bureau of the Public Debt	http://www.publicdebt.treas.gov
Office of Thrift Supervision	http://www.ots.treas.gov

THE DEPARTMENT OF THE TREASURY
1789