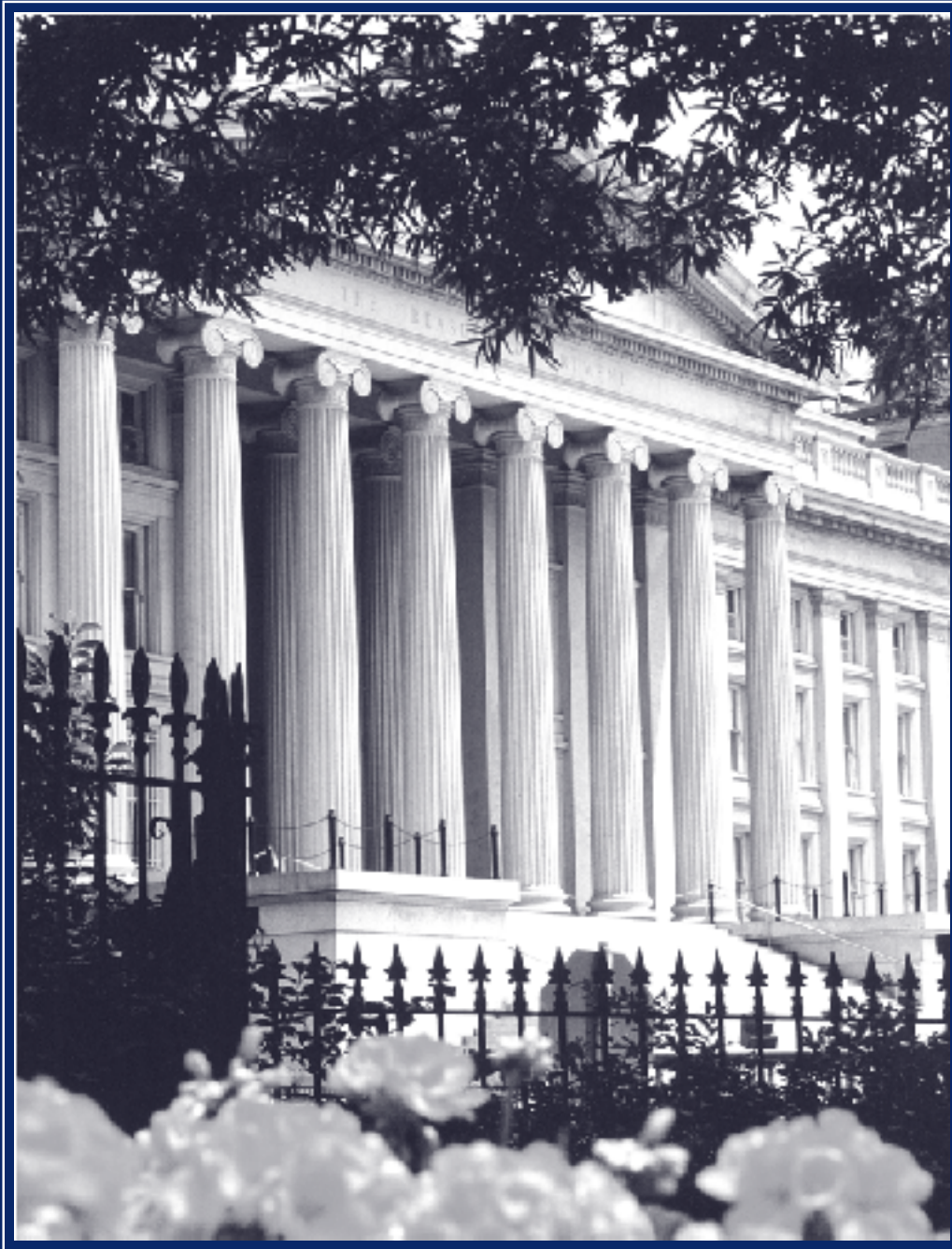


# PERFORMANCE AND ACCOUNTABILITY REPORT

Volume I

FY 2002



Department of the Treasury

**Volume I - Table of Contents**

**Message from the Secretary**

**Message from the Chief Financial Officer**

**Executive Summary**

Performance and Financial Highlights.....1  
Performance Scorecard.....5  
President's Management Agenda .....9

**Introduction..... 13**

**Part 1 - Management's Discussion and Analysis**

Organizational Structure and Mission..... 15  
Program Performance Highlights  
Economic Mission ..... 19  
Financial Mission ..... 31  
Law Enforcement Mission..... 49  
Management Enabling Goal ..... 67  
Treasury Inspectors General..... 77  
Financial Highlights..... 81

**Part 2 - Management and Performance Challenges**

Treasury FY 2002 Activities to Address Challenges..... 87  
Inspectors General Reports (OIG and TIGTA Reports) ..... 97  
Future Effects on Existing, Currently-Known Demands, Risks, Uncertainties, Events, Conditions,  
and Trends ..... 113

**Part 3 - Financial Information**

Inspector General Report on Treasury's Financial Statements ..... 119  
Management's Response ..... 145  
Financial Statements..... 147  
Notes to the Financial Statements ..... 155

**Part 4 - Systems, Controls, and Legal Compliance**

Secretary's Letter of Assurance  
Overall Results ..... 211  
Summary of Open FMFIA Material Weaknesses and FFMIA Compliance by Bureau..... 212  
Section 2 Summary of Pending Material Internal Control Weaknesses..... 213  
Section 4 Summary of Pending Material Instances of Non-conformance ..... 217  
Summary of Management Report on Final Actions on Audit Recommendations ..... 219  
Appendix A - Audits Pending Final Action on Which Management Decisions Were Made Prior to  
October 1, 2001 ..... 225

**Part 5 - Supplemental Information**

Required Supplemental Information to Financial Statements ..... 229  
Other Accompanying Information - Tax Burden..... 238  
Other Accompanying Information - Prompt Payment..... 240  
Glossary of Acronyms ..... 241

# *Message from the Secretary*

November 15, 2002

I am presenting the Department of the Treasury's Performance and Accountability Report for Fiscal Year (FY) 2002. For the first time, the Department has combined the Program Performance Report and the Accountability Report into one document.

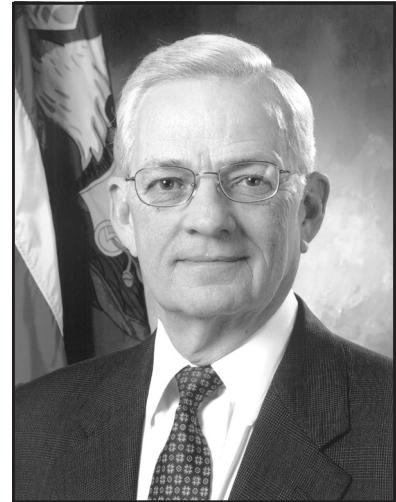
FY 2002 was a significant year for several Treasury efforts, particularly involving our nation's efforts to fight terrorism. Treasury formulated several measures to improve performance of the economy, including economic stimulus and terrorism risk insurance proposals. Treasury assisted in proposals to create a Department of Homeland Security.

This year, all Treasury bureaus achieved the goal of closing their financial books within three working days after the end of each month. This achievement helped provide our program managers with timely financial information needed to make effective management decisions. In the same spirit, I challenged the Department to not only integrate the Performance and Accountability Report, but also deliver it within forty-five days after fiscal year end – three months earlier than last year – a challenge that was met across the Department. As the three-day close provides fresh internal data, this integrated report provides timely annual data for both internal and external stakeholders to assess our performance and influence decisions during the upcoming year.

The unqualified auditor's opinion on the Department's financial statements speaks to their completeness and reliability. However, we recognize we still have management control and systems deficiencies to address. This area is discussed in detail in Part 4 of this report.

We will continue our efforts to merge budget, accounting, and performance systems to provide Treasury leadership the information they need to make informed, cost-effective decisions. In doing so we will be better able to identify opportunities to improve productivity, striving to provide world-class, citizen-centric service at the lowest possible cost, while still maintaining a safe, effective, and robust environment for all our employees.

Treasury's broad economic, financial, and law enforcement responsibilities impact the lives of all Americans, and the public deserves a government that is accountable for its stewardship of their tax dollars. This report represents the Department of the Treasury's commitment to strong program performance and financial accountability. I have assessed the performance data presented in this report, as required by the Reports Consolidation Act of 2000, and determined it to be reliable and complete, with the exceptions noted in Volume II.



Sincerely,

A handwritten signature in cursive script that reads "Paul H. O'Neill". The signature is written in dark ink and is positioned above the printed name.

Paul H. O'Neill

## *Message from the Chief Financial Officer*



Continuing with the steady progress on the quality and timeliness of our financial reporting, Fiscal Year (FY) 2002 produced significant breakthroughs in accountability and accelerated reporting throughout the Department of the Treasury. Specifically, Treasury demonstrated its commitment to quality and consistency in financial reporting by implementing a three-day monthly close and by receiving, for the third year in a row, an unqualified audit opinion on its FY 2002 financial statements. Further, the financial statements included in this combined Performance and Accountability Report are being issued three months earlier than last year's statements.

Receiving an unqualified opinion while issuing this report on a vastly accelerated schedule are laudable achievements which we could not have accomplished without the strong support from all our bureaus and the Office of Inspector General. However, as noted in Part 4, the Department is not providing assurance that it is meeting the financial systems objectives of the Federal Managers' Financial Integrity Act. And, for the same reasons, it cannot state that it is in substantial compliance with the Federal Financial Management Improvement Act. Additional progress was made on addressing these matters during FY 2002, with material weaknesses being reduced through closure and consolidation to 13, a 55 percent reduction over FY 2001. Plans are in place to address all our material weaknesses and financial systems problems over the next several years. Many of the remaining issues are long standing and complex, thus requiring extended time frames to correct. Details of our corrective action plans are provided in Part 4 of this report.

The significance of Treasury demonstrating the financial management discipline necessary to prepare timely and accurate financial statements cannot be overstated. Treasury is the principle agency charged with collecting revenue and managing the public debt on behalf of the entire Federal government. Three Treasury bureaus - the Internal Revenue Service (IRS), the United States Customs Service (Customs), and the Bureau of Alcohol, Tobacco and Firearms - accounted for greater than 97 percent of all revenue collected by the Federal Government during FY 2002, totaling \$1.8 trillion in net revenue. Total debt managed by the Department, including intra-governmental holdings, was \$6.2 trillion at the end of FY 2002. Interest on the debt for FY 2002 was \$334 billion.

Treasury achieved numerous successes in its diverse set of programs dealing with the United States and world economies, law enforcement activities, banking oversight, and voluntary compliance with our nation's tax laws. Highlights of these programs are provided in this report. Treasury met 63 percent of its 224 performance targets in FY 2002 and exceeded our previous year's performance or performed at maximum level for 57 percent of our measures. We continue to review the quality and usefulness of our performance metrics in keeping with the Administration's goal of having high-quality outcome measures to assess program effectiveness.

This report also highlights several management issues that remain high priorities across Treasury. These include data security, IRS and Customs systems modernization, and government-wide audited financial statements. Looking forward, we recognize the significant obstacles that must be overcome before our financial management can be viewed as world class. One of our highest priorities will be to continue implementing the goals of the President's Management Agenda, following the Secretary's charge to "go beyond green." I am committed to ensuring we make meaningful progress in improving all management operations to effectively and efficiently support our responsibilities.

Sincerely,

A handwritten signature in dark ink, appearing to read "E.R. Kingman, Jr.", written in a cursive style.

Edward R. Kingman, Jr

---

## EXECUTIVE SUMMARY

The Department of the Treasury was established in 1789 and has primary responsibility for developing domestic and international financial, economic, and tax policies; participating in the formulation of broad fiscal policies; collecting the bulk of the Federal government's revenues; and managing the public debt. The Department is also responsible for major law enforcement responsibilities; serves as the financial agent for the Federal government; regulates the Federally chartered banking and thrift industry; manufactures the nation's coins and currency; and provides protective services to the President, Vice President, and other designated officials. The Department is organized into two major components: The Departmental Offices and the operating bureaus. The Departmental Offices are primarily responsible for the formulation of policy and management of the Department as a whole, while the twelve operating bureaus carry out the specific operations required by the Department's mission. The Department's programmatic responsibilities are divided among its Economic, Financial, and Law Enforcement missions, which are supported by its Management Enabling goal.

Treasury is moving to modernize every aspect of our business processes. This integrated Performance and Accountability Report is our first attempt to accelerate presentation of performance data to coincide with financial data, following our Government-leading achievement of closing our financial books within three working days of the end of each month. To support these improvements, we are creating program monitoring processes to identify and eliminate programs providing little or no value to the American taxpayer, and redirecting the resources from these programs to those higher priority items aligned with Treasury's performance objectives of achieving the President's domestic and international economic agendas, securing our homeland, and leading the financial war on terrorism.

### **Performance Highlights**

Treasury continued to work toward achieving its strategic goals and improving service to the American public. The following summarizes Treasury's efforts in accomplishing the FY 2002 performance objectives, both successes and continuing challenges.

#### **Economic Mission**

- ***Stimulating Economic Growth.*** In the domestic economic arena, Treasury contributed to growth enhancing policies through proposals and analysis for tax-relief and other stimulus measures. Real Growth Domestic Products (GDP) grew 3 percent over the past year. This growth was achieved in spite of effects of the terrorist attacks and, in large part, due to the passage of tax relief in the spring of 2001. In March 2002, additional stimulus measures were passed designed to boost employment and capital spending.
- ***Responding to Terrorist Attacks -- Terrorist Insurance.*** 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 and negotiating the terrorism risk insurance components of the Terrorism Insurance Bill, which is a major Administration goal. If a bill is enacted, Treasury will play a lead role as the administrator of the terrorism risk insurance program, including issuing implementing regulations, calculating and making Federal payments, recouping amounts as required and conducting certain insurance industry studies.

- ***Economic Development Abroad.*** President Bush launched a new development initiative, the Millennium Challenge Account (MCA) in March 2002, to substantially increase U.S. development assistance beginning in FY 2004. Treasury worked with other agencies to design an efficient and effective administrative structure for the MCA, creating a logical process by which specific projects and/or programs will be selected, and identify objective criteria to measure progress. The goal of the MCA is to reward sound policy decisions that support economic growth and reduce poverty.

### **Financial Mission**

- ***Tax Collection.*** The following summarizes IRS' FY 2002 performance.
  - **Pre-Filing Programs.** IRS is focusing on how to better assist taxpayers in understanding their tax obligations. Significant progress in this area will lead to reduced filing errors and increased productivity in downstream tax administration processes. Although IRS only met 33 percent of its targets for FY 2002, 67 percent of the indicators exceeded FY 2001 performance levels.
  - **Filing Programs.** Overall, 43 percent of the indicators met FY 2002 targets, and 71 percent exceeded FY 2001 performance. IRS' aggressive marketing program enabled electronic-filing performance to continue to exceed goal, and IRS projects continued progress in 2003 and beyond as the agency works towards 80 percent electronic-filing by 2007. Demand for toll free phone services increased dramatically due to several new tax programs. While the level of service did not meet the target in FY 2002, service was up from 2001. Quality of service improved significantly as a result of improved call routing and employee training.
  - **Post-Filing (Compliance Programs).** Although 50 percent of indicators in this area met FY 2002, 57 percent of their performance targets exceeded FY 2001 levels. Enforcement revenue increased over 2001 for an annual total of \$33.9 billion. Performance targets were missed in Automated Collection Site (ACS) programs. Contributing to the lower performance levels were: (1) the suspension of some activities to ensure proper treatment of taxpayers affected by the September 11, 2001, terrorist attacks, and (2) an unexpected increase in non-ACS telephone calls, diverting resources from Automated Call Collection work.
- ***Issuing Payments.*** As an essential part of the U.S. economy, Treasury issued approximately 920 million payments to more than 100 million individuals and businesses, totaling over \$1.2 trillion. Whether recipients of Social Security or Veterans' benefits, income tax refunds, vendor payments, annuities, or salaries, making payments to American citizens accurately and on time is of considerable financial importance. Treasury's payments were on time and accurate 100 percent of the time.
- ***Non-Tax Delinquent Debt.*** As a result of continued improvement in FMS' Debt Management Program, collections of non-tax delinquent debt again exceeded Treasury performance goals. For FY 2002, the target for collecting delinquent debt was \$2.6 billion. FMS achieved collections of more than \$2.8 billion.
- ***Government's Cash Management.*** The Government's cash position, budget surplus, and deficit information were reported on schedule and accurately 100 percent of the time in the key Treasury publications. For the fifth consecutive year, the Financial Report of the U.S. Government, including the Government's consolidated financial statements was issued on time, although it continued to receive a disclaimer of opinion.

- **Cash and Debt Management.** Treasury developed a comprehensive contingency plan for cash and debt management business processes to provide current and timely cash and debt position information to key Treasury officials during a crisis situation. This plan includes the establishment of a real-time back-up site and the creation of a delegation of authority covering cash and debt management functions in the event key personnel are unable to perform them.

### Law Enforcement Mission

- **Homeland Security Legislation.** Treasury assisted in developing the proposal to create a new Cabinet-level Department of Homeland Security. Included in the President's plan was a transfer of the U.S. Customs Service and U.S. Secret Service to the new Department. Subsequent legislation also includes the transfer of the Federal Law Enforcement Training Center to the new Department and the law enforcement portion of the Bureau of Alcohol, Tobacco and Firearms to the Department of Justice.
- **Global Efforts to Combat Terrorist Financing.** At the direction of the President, Treasury launched the financial front in the war on terrorism and took the lead in global efforts to combat the financing of terrorism. Treasury successfully pursued international cooperation to combat terrorist financing on a global scale, working multilaterally with the G-7, the G-8, the G-20, the international financial institutions, and the Financial Action Task Force under the Organization for Economic Cooperation and Development. Treasury also worked bilaterally with individual countries to block the financing of terrorist networks, freeze terrorist assets, and criminalize the collection of funds for terrorism. Treasury established a task force on terrorist financing to keep track, account-by-account, dollar-by-dollar, of all countries' efforts. Treasury also reached out to foreign governments allied in the war on terrorism to provide assistance to identify and immobilize terrorist assets pursuant to United Nations directives.
- **Operation Greenquest.** This operation is a multi-agency Customs-led Treasury initiative designed to stamp out terrorist funding by identifying, disrupting, and dismantling the financial systems and infrastructures that terrorist organizations use to fund their work. In FY 2002, Greenquest initiated 859 financial investigations involving suspected terrorist financing and referred 1,109 leads on potential terrorist financial activities to domestic and foreign offices. The Operation's financial investigations resulted in 47 arrests, 28 indictments, and the seizure of \$7.3 million. Operation Oasis, a Customs outbound bulk currency initiative coordinated by Operation Greenquest, has resulted in total seizures of \$18.6 million worth of smuggled currency and monetary instruments resulting in 397 seizures.

**Economic Sanctions.** After September 11, 2002, the role of Treasury's Office of Foreign Assets and Control (OFAC) in fighting terrorist financing expanded greatly through the issuance of Executive Order (E.O.) 13224, which broadened the scope of previously existing OFAC authority with respect to supporters of terrorism, and the passage of the USA PATRIOT Act (PATRIOT Act), which substantially enhanced the usefulness of classified material and provided a wide array of other enforcement tools. These programs prohibit transactions by persons subject to U.S. jurisdiction with, and block the property of, targeted governments and listed entities and individuals. A total of 243 entities and individuals have been designated under E.O. 13224 since it was signed on September 23, 2001.

- **Drug Interdiction.** Increased enforcement efforts in Mexico and changes in smuggling patterns are but two factors likely to have been instrumental in cocaine and marijuana seizure levels being below FY 2002 projected levels. Initially, the heightened state of alert resulting from the September 11, 2001, terrorist attacks increased drug seizures at the border. This in turn however, may have forced changes in smuggling methodologies and trends. Customs enforcement efforts are both a catalyst in forcing that change and an end result toward meeting the challenge of the changing patterns.

### Internal Treasury Management

- **Management Improvements.** In managing our own resources, Treasury completed its first-ever *Human Capital Strategic Plan*, achieved an unqualified audit opinion for the third year in a row, reduced the number of material weaknesses by 31 percent, and improved management of capital investments.
- **Performance Management.** The Department met 69 percent of its 203 quantifiable performance measures, exceeding our previous year's performance for or maximizing performance for 56 percent of the measures. The Performance Scorecard at the end of this section highlights results of several key performance indicators.

### Financial Highlights

As with FY 2000 and FY 2001, Treasury received an unqualified audit opinion on its FY 2002 financial statements. And, the FY 2002 statements are being issued forty-five days after year-end, more than three months earlier than the FY 2001 statements. These are significant accomplishments for the Department, and we are continuously improving our financial processes and systems to improve the timeliness and accuracy of our financial information. The Department's Financial Analysis and Reporting System (FARS), which includes our central financial data warehouse, was web-enabled during FY 2002, further streamlining the process of reporting monthly financial information to the Department from Treasury bureaus. The overall improvement in the financial reporting process, coupled with our implementation of the 3-day monthly close initiative, enabled us to provide timely monthly financial information to our management and meet the ongoing challenge of preparing quarterly and annual financial statements in a reasonable timeframe comparable to the private sector.

Treasury's total assets as of September 30, 2002 were \$6.4 trillion, compared to \$6 trillion at the close of FY 2001. Total assets included \$5.9 trillion due from the General Fund of the Federal government to pay tax refunds and the principal and accrued interest on the public debt. Total liabilities at September 30, 2002, including interest on the public debt, were \$6.3 trillion, compared to \$5.9 trillion at the close of 2001. Debt owed to other Federal agencies increased from \$2.5 trillion at the end of FY 2001 to \$2.7 trillion at September 30, 2002, and Federal debt held by the public increased from \$3.3 trillion at the end of FY 2001 to \$3.5 trillion at September 30, 2002.

Net cost of Treasury operations for FY 2002 was \$15.8 billion, versus \$15 billion for FY 2001. Gross interest on Federal debt, including both intra-governmental and publicly held debt, was \$334 billion for FY 2002 and \$362 billion for FY 2001. Total FY 2002 net revenue collected on behalf of the Federal government was \$1.8 trillion, compared with \$1.9 trillion for FY 2002.



**Performance Scorecard**

This chart provides an overview of Treasury’s performance against key indicators for the programmatic mission areas. These key indicators are discussed in the MD&A “Program Performance Highlights” section (see referenced page number); additional detail on these and the full set of performance measures is found in Volume II. *[Note: Key indicators were selected based on whether there exists a clear nexus between the measure and the strategic goal it supports.]*

Strategic Goal	Key Performance Indicator (s)	Plan	Actual (Final data bolded)	Page
<b>E1.</b> Promote Domestic Economic Growth	No quantitative performance indicators were included in the FY 2002 Performance Plan (see <i>Program Performance Highlights</i> for a report on this goal)	--	--	21
<b>E2.</b> Maintain U.S. Leadership on Global Economic Issues	Economic conditions in the global economy [calendar year]	Growth	2.8% <i>(est.)</i>	25
<b>F1.</b> Manage the Federal Government’s Accounts	Percentage of the total dollar amount of Federal government receipts FMS collected electronically	80%	<b>80%</b>	33
<b>F2.</b> Ensure All Federal Payments are Accurate and Timely	Percentage of paper check and Electronic Funds Transfer payments made accurately	100%	<b>100%</b>	35
	Percentage of paper check and Electronic Funds Transfer payments made on time	100%	<b>100%</b>	35
<b>F3.</b> Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards	Percentage of Government-wide accounting reports issued accurately	100%	<b>100%</b>	37
	Percentage of Government-wide accounting reports issued timely	100%	<b>100%</b>	37

Strategic Goal	Key Performance Indicator (s)	Plan	Actual (Final data bolded)	Page
<b>F4.</b> Collect Revenue Due to the Federal Government	Increase debt collection through all available tools from the FY 1998 baseline of \$1.988 billion to \$2.6 billion	\$2.60 B	<b>\$2.84 B</b>	39
<b>F5.</b> Cost-Effectively Finance the Federal Government's Operations	Percentage of borrowing policies and requirements announced to financial market participants in a timely manner	100%	<b>99.4%</b>	43
	Percentage of Treasury marketable securities auction results announced within 25 min.	95%	<b>99.4%</b>	43
<b>F6.</b> Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency	Manufacturing costs for currency (dollar cost per thousand notes produced)	\$25.00	<b>\$30.03</b>	45
	Conversion cost to produce 1000 coin equivalents	\$8.97	<b>\$11.50</b>	46
<b>LE1.</b> Reduce Violent Crime and the Threat of Terrorism	Crime-related costs avoided (\$ in billions)	\$3.62	<b>\$3.90</b>	51
<b>LE2.</b> Combat Money Laundering and Other Financial Crimes	Total monetary instrument seizures (\$ in millions)	\$95.0	<b>\$274.3</b>	55
	Counterfeit passed per million dollars of genuine U.S. currency	\$83	<b>\$68</b>	56
<b>LE3.</b> Protect our Nation's Borders and Major International Transportation Terminals from Traffickers and Smugglers of Illicit Drugs	Targeting efficiency in the air/land vehicle passenger environment (times better than random selection) - Air Travel	10.0	<b>29.1</b>	60
	Targeting efficiency in the air/land vehicle passenger environment (times better than random selection) - Vehicles	11.0	<b>23.8</b>	60

Strategic Goal	Key Performance Indicator (s)	Plan	Actual (Final data bolded)	Page
LE4. Protect our Nation's Leaders and Visiting Dignitaries	Percentages of instances protectees arrive and depart safely	100%	<b>100%</b>	63
LE5. Provide High Quality Training for Law Enforcement Personnel	Percentage of students that express satisfactory or higher ratings on the Student Quality of Training Survey	90%	<b>99.3%</b>	65

---

## President's Management Agenda

Treasury aggressively pursued implementing the goals of the President's Management Agenda (PMA) and integrating those goals into the management of its operations during FY 2002. Below is a summary of activities to achieve those goals, as well as planned actions to make progress during FY 2003.

### Strategic Management of Human Capital

Treasury's vision for managing its human capital is to retain a diverse, high-caliber workforce – a workforce that places the right employees in the right place at the right time to fulfill the Department's global mission efficiently and effectively. Accomplishments for FY 2002 toward this vision include:

- Development of the Department's Human Capital Strategic Plan in consultation with the bureaus. The Plan was recently implemented at the bureau level, and the Department held workshops to assist the bureaus gain a better understanding of the Plan's objectives.
- Establishment of four Human Capital Leadership Groups each comprised to increase the bureaus' involvement with Departmental Human Capital management. Leadership Groups assist one another in the planning and implementation process, share innovative ideas and best practices, and evaluate each others' progress in meeting the PMA objectives through a dissertation-style rating process.

As part of the President's Management Agenda, OPM recently issued new standards for evaluating the Department's success in meeting the Human Capital Standards for Success. During FY 2003, Treasury will be working closely with OPM, OMB and the bureaus to determine if any revision of Treasury's HCSP will be necessary to meet the objectives of the President's Management Agenda.

### Competitive Sourcing

Treasury's Competitive Sourcing team continues to provide support for IRS and other Treasury bureaus' competitive sourcing initiatives. Accomplishments for FY 2002 include:

- Holding two Government-wide competitive sourcing conferences attended by over 1,100 professionals. The second conference was the first conference addressing the link between competitive sourcing and human capital. Treasury also held a Department-wide conference providing an overview of the competitive sourcing process.
- Producing intellectual capital on competitive sourcing for the A-76 Institute and Performance Institute as well as writing articles published in *Federal Times*. Treasury provided consulting services and expertise to NASA, Department of Agriculture, Department of Transportation and State Department.
- Providing FMS, Mint, DO, Customs, ATF and IRS with consulting services on selected competitions. Through September 30, 2002, Treasury completed studies on 192 full time equivalents (FTEs) and commenced several full studies at IRS, Mint and the BEP.

In FY 2003, Treasury will identify opportunities to integrate other elements of the PMA into competitive sourcing. Treasury will continue to monitor progress on studies and conduct Most Efficient Organization (MEO) Reviews. Finally, Treasury will work toward the ultimate competitive sourcing objective by identifying new potential targets for A-76 studies.

### **Improved Financial Performance**

Treasury's financial performance vision is for every financial management system to be in compliance with all Federal financial management systems requirements, providing timely, accurate, informative data for both day-to-day management and external reporting purposes. The Department will fulfill this vision by streamlining financial management practices, developing sound costing methodologies, and integrating financial data with performance data. Accomplishments for FY 2002 include:

- On time delivery of the Department's FY 2001 financial statements to OMB and Congress with an unqualified audit opinion, and on-time delivery of interim financial statements to OMB.
- Successful implementation of the 3-day close initiative during FY 2002. Each Treasury bureau is now able to close its books within 3 days after the close of each month and forward its summary financial data to the Department's data warehouse for consolidation and analysis.
- Reduced material weaknesses from 29 at the beginning of FY 2002 to 20 as of year-end. IRS has consolidated five closely related material weaknesses into one under "Modernization, Information Technology & Security (MITS) weakness. Similarly, FMS has combined three Government-wide Consolidated Financial Statements weaknesses into one. Both have obtained the concurrence from TIGTA and GAO, respectively.

Despite our accomplishments, we need to continue striving to correct our remaining material weaknesses, which prevent us from being in compliance with Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) and also with Federal Financial Management Improvement Act (FFMIA). We also have several instances of noncompliance with laws and regulations, as described in the Inspector General's in Part 3, which we are working to address.

The Department will continue to build upon its successes in data quality and timeliness and reduction of material weaknesses. Key areas of focus in FY 2003 will include integrating financial and performance data with the support of the CFO Council's Cost Accounting and Labor Distribution Committee, and improving levels of compliance with FFMIA, FMFIA and Government Information Security Reform Act (GISRA).

### **Expanded E-government**

Treasury's E-government vision is to deploy and manage assets and services, which ease the burden on citizens, businesses and other government organizations conducting business with the Department. Accomplishments for FY 2002 include:

- Expanded Financial Management Services' Pay.gov collections initiative. The Department has entered into an agreement with OMB to make the Pay.gov authentication service available Government-wide.
- Launched a Web-based tax refund application.
- Agreed to establish free Internet tax filing for low-income citizens.

The Department will focus more on building a comprehensive Enterprise Architecture and on refining its portfolio management efforts in FY 2003. The Department will also encourage increased participation by the bureaus in the PMA E-government initiatives at the managing or supporting partner level, which implement the 24 E-government initiatives across Treasury.

---

## Budget and Performance Integration

Budget and performance integration is vital to Treasury's vision of providing high-quality products and services to citizens, businesses and other governmental organizations. Budget and performance integration also accelerates Treasury's progression to a world-class, citizen-centered, results-oriented organization. The Department will formulate and commit resources based on program performance, which improves the Department's delivery of services by making program performance information the foundation for Treasury's daily decision processes. Accomplishments for FY 2002 include:

- Formulation of Treasury's FY 2004 budget and performance plans that better aligned resources with Treasury's strategic priorities. The Department utilized a process of reviewing base resources, provided a well-defined process for program requests, and presented budget requests programmatically.
- Establishment of a Treasury CFO Council committee to address cost accounting and performance integration.

During FY 2003, Treasury will continue to refine the performance budgeting concept, advance managerial cost accounting, and enhance performance measures.

## INTRODUCTION

### Purpose of this Report

The Government Performance and Results Act of 1993 requires the submission of an annual report on program performance to the President and to Congress by late March of the following fiscal year. The Chief Financial Officers Act requires the submission of an annual report on the agency's financial condition and results (the Accountability Report) to the President and to Congress in February of the following fiscal year. In the past, Treasury has submitted these reports separately. This document represents Treasury's first effort to consolidate these reports into one Performance and Accountability Report as provided for in the Reports Consolidated Act of 2000. In addition, Treasury has greatly accelerated the submission of this Report.

### Structure

In order to navigate this document more easily, two volumes have been prepared. *Volume I* presents program and financial information, including highlights of progress toward achieving Treasury's strategic goals. This volume also presents management and performance challenges, with brief discussions of actions taken during FY 2002 and planned actions for FY 2003. In addition, audited financial statements, supplemental information, and management control information are also provided.

*Volume II* presents detailed information on Treasury's FY 2002 performance:

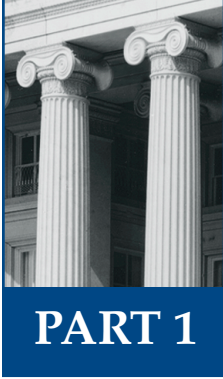
- The "Full Report of Treasury's FY 2002 Performance Measures by Strategic Goal" reports on all performance measures for which targets were set in the FY 2002 Performance Plan (as presented in the FY 2003 Justification for Appropriations and Performance Plans). For each performance measure, the report presents an explanation of results of the measure, performance levels for the three previous fiscal years, the performance target and actual for the report year, and performance targets for FY 2003. The report examines unrealized performance targets and presents schedules for improvement.
- A "List of Treasury's FY 2002 Performance Measures by Bureau/Major Program" provides a list of the performance measures for each Treasury bureau or major program.
- The "Completeness and Reliability of Performance Data Statement" discusses Treasury's efforts to assess the completeness and reliability of our performance data.

Final actual data is presented in **bold** in Volume II. Some actual numbers for FY 2002 are provided as estimates at the time of publication (these are presented in *italics* in Volume II). Final actual data for these measures will be presented in the FY 2004 President's Justification for Appropriations and in the FY 2003 Performance and Accountability Report. Projected targets for FY 2003 are presented from the FY 2003 President's Justification for Appropriations and are also presented in *italics*.

Electronic copy of this Performance and Accountability Report is available on the following Treasury World Wide Web sites: [www.treas.gov/gpra](http://www.treas.gov/gpra) and [www.treas.gov/tcfof](http://www.treas.gov/tcfof).

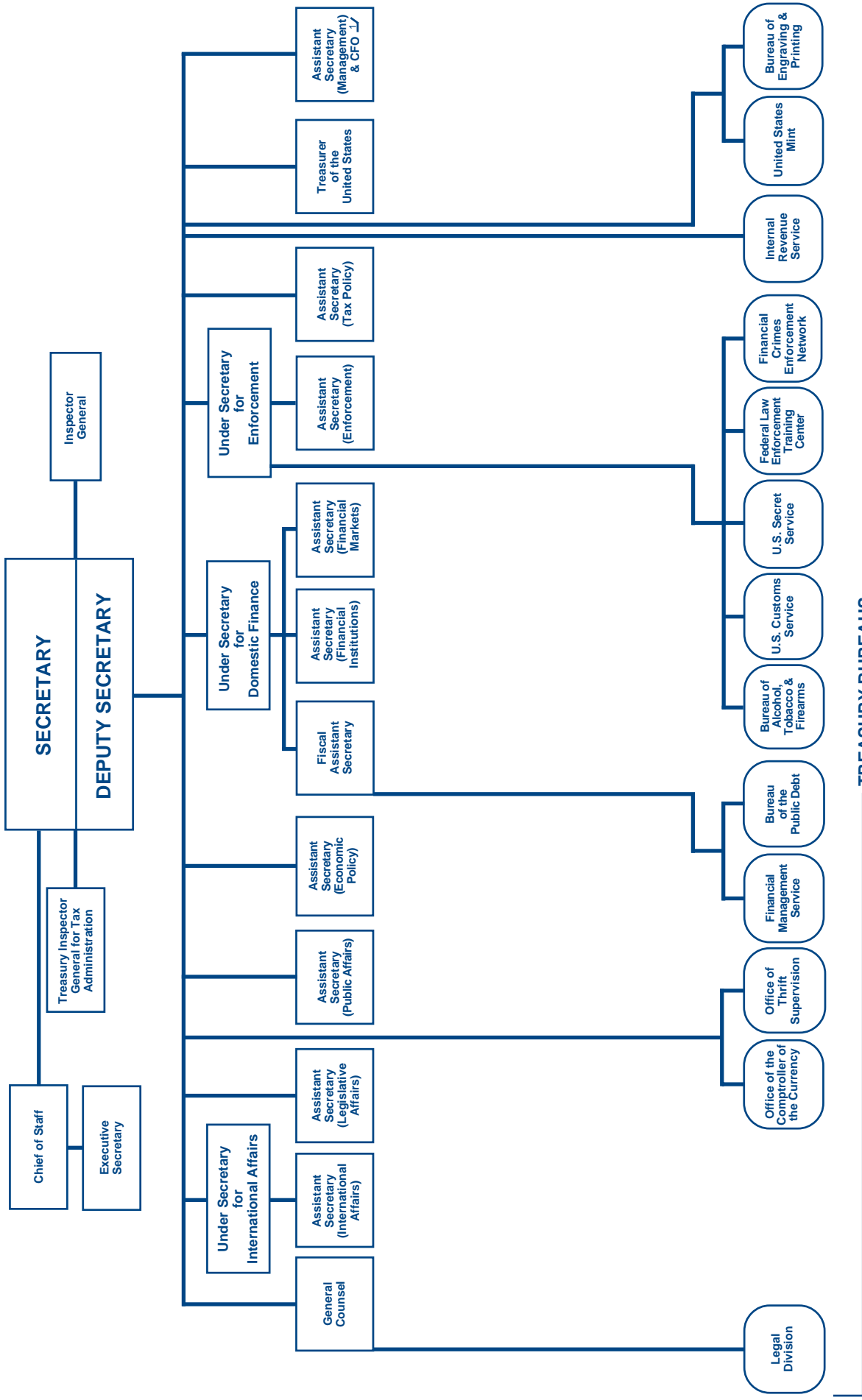






# MANAGEMENT'S DISCUSSION AND ANALYSIS

# THE DEPARTMENT OF THE TREASURY



↘ Assistant Secretary (Management) and Chief Financial Officer is Treasury's Chief Operating Officer.

---

## ORGANIZATIONAL STRUCTURE AND MISSION

### Who We Are

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

The basic functions of the Department 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
- Promulgation and enforcement of tax and tariff laws
- Enforcement of customs and trade laws
- Anti-counterfeiting operations and Executive protection
- Enforcement of Federal firearms and explosives laws

### Treasury Organization

The Department is organized into two major components: the Departmental Offices and the operating bureaus. The Departmental Offices are primarily responsible for the formulation of policy and management of the whole Department, while the operating bureaus carry out the specific operations required under the Department's mission.

The Departmental Offices are composed of the Secretary, Deputy Secretary, Under Secretary for International Affairs, Under Secretary for Domestic Finance, Under Secretary for Enforcement, and divisions headed by Assistant Secretaries who report to the Secretary. Most of these divisions are located within the Main Treasury Building in Washington, D.C.

Treasury also has several entities within the Departmental Offices, which are responsible for performing specialized functions to carry out the Department's mission.

- **Community Development Financial Institutions Fund (CDFI)** provides access to credit, capital, and financial services in economically-distressed urban and rural communities, which helps alleviate poverty and ensure economic growth in these areas.
- **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.
- **Treasury Forfeiture Fund (TFF)** supports consistent and strategic use of asset forfeiture by Treasury law enforcement bureaus 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 Internal Revenue Service, to promote economy, efficiency and effectiveness.
- **Treasury Inspector General for Tax Administration (TIGTA)** conducts audits and investigations of the Internal Revenue Service to ensure efficiency, effectiveness, and integrity of IRS programs and activities.

In addition to the Departmental Offices, Treasury operates twelve bureaus whose programs and responsibilities support the Department's diverse missions.

**Bureau of Alcohol, Tobacco and Firearms (ATF)** works to reduce violent crime, collect revenue, and protect the public.

**Bureau of Engraving and Printing (BEP)** produces United States currency, postage stamps, and other Government securities.

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

**Federal Law Enforcement Training Center (FLETC)** serves as the Federal government's leader for, and provider of, world-class law enforcement training.

**Financial Crimes Enforcement Network (FinCEN)** supports law enforcement investigative efforts, fosters interagency and global cooperation against domestic and international financial crimes, and administers the Bank Secrecy Act.

**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)** provides taxpayers quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness.

**United States Mint (Mint)** manufactures and markets circulating coins, bullion coins, national medals, and numismatic coins and products, and secures and protects the U.S. Government's gold and silver bullion reserves.

**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.

**United States Customs Service (Customs)** protects the nation's borders, collects the revenue due, and foster lawful international trade and travel.

**United States Secret Service (Secret Service)** protects the President, Vice President, and other designated individuals and provides security for National Special Security Events; and enforces laws relating to counterfeiting of obligations and securities of the United States, as well as other financial crimes.

**Treasury Mission and Strategic Goals**

The following table presents the Department’s three programmatic strategic goals and management enabling goal, as presented in the *Treasury Strategic Plan, FY 2000-2005*:

<b>Economic Mission</b> Promote Prosperous and Stable American and World Economies	<b>Financial Mission</b> Manage the Government's Finances	<b>Law Enforcement Mission</b> Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug-Free America
<ul style="list-style-type: none"> <li>• Promote Domestic Economic Growth</li> <li>• Maintain U.S. Leadership on Global Economic Issues</li> </ul>	<ul style="list-style-type: none"> <li>• Manage the Federal Government’s Accounts</li> <li>• Ensure All Federal Payments are Accurate and Timely</li> <li>• Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards</li> <li>• Collect Revenue Due to the Federal Government</li> <li>• Cost-Effectively Finance the Federal Government’s Operations</li> <li>• Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce Violent Crime and the Threat of Terrorism</li> <li>• Combat Money Laundering and Other Financial Crimes</li> <li>• Protect Our Nation’s Borders and Major International Transportation Terminals From Traffickers and Smugglers of Illicit Drugs</li> <li>• Protect Our Nation’s Leaders and Visiting Dignitaries</li> <li>• Provide High-Quality Training for Law Enforcement Personnel</li> </ul>
<b>Management Enabling Goal:</b> Continue to Build a Strong Institution		
<ul style="list-style-type: none"> <li>• Support the Achievement of Business Results</li> <li>• Improve Customer Satisfaction</li> <li>• Improve Employee Satisfaction</li> </ul>		

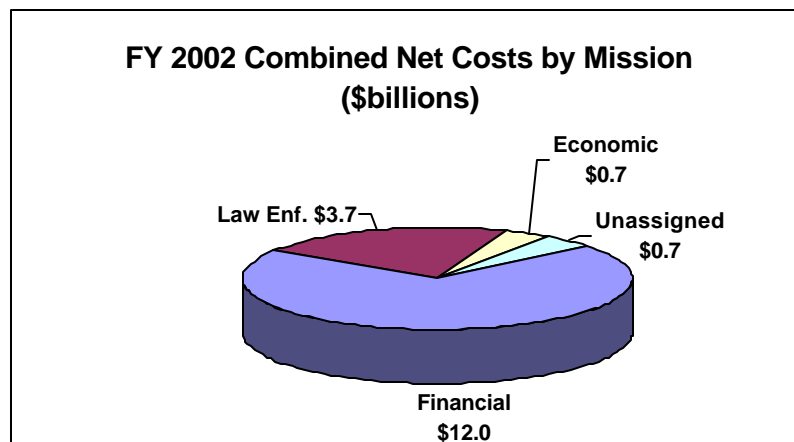
## Facts and Figures

Treasury's FY 2002 operating appropriation was \$15.8 billion. The Department employed approximately 147,000 people located throughout all 50 states, the District of Columbia, and many overseas sites. Treasury bureaus vary in size, with the Internal Revenue Service employing 71 percent of all Treasury employees, the U.S. Customs Service employing 13 percent, and the other bureaus and Departmental Offices employing the remaining 16 percent.

### Net Costs to Accomplish Treasury's Program Missions

Measuring *costs* (the value of resources used to achieve an objective) is an integral part of measuring performance. When cost information is linked to measures of effectiveness in achieving a desired outcome or stated objective, readers can assess the "cost-effectiveness" of a program. *Net cost* refers to a program's total costs (including supporting services) minus the revenues the program earns.

The combined total net operating cost of Treasury's business in FY 2002 was \$17.1 billion, as reported in Note 23 of Treasury's Notes to the Financial Statements. Note 23 provides supporting detailed information related to Treasury's Consolidated Statement of Net Cost. It displays the full costs of programs carried out by the Treasury Department to meet the three strategic missions described in the Treasury Strategic Plan -- Economic, Financial, and Law Enforcement. It also displays costs by bureau, office, or organization within the three mission areas. Costs that could not be reasonably allocated to program areas are shown as *Unassigned*. The following chart is presented on a combined basis. Accordingly, it includes intra-Treasury costs and earned revenues that are eliminated on Treasury's Consolidated Statement of Net Cost.



***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.

**Economic Strategic Goals**

- E1. Promote Domestic Economic Growth
- E2. Maintain U.S. Leadership on Global Economic Issues

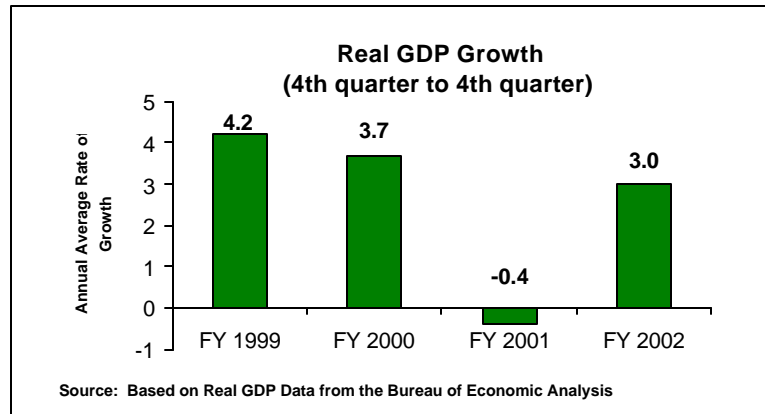




## Strategic Goal E1: Promote Domestic Economic Growth

### Results

Given the dual shocks to the economy of the first recession in a decade and the attacks of September 11, 2001, the near-term goal of restoring the economy to a solid recovery path appears to be well underway. Real GDP growth rose to 3.0 percent during FY 2002, from -0.4 percent during FY 2001.



### Strategic Goal Overview

Economic growth, as measured by real GDP, is the broadest summary measure of the performance of the U.S. economy. 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/Key Measures

Strategies for promoting domestic economic growth this year included our regular efforts to assure the near-term health of the economy, activities to address special economic problems that had arisen, policies focused on the long-term health of the economy, and, through the OCC and OTS, the regulation of the national banking and thrift systems.

### Near-Term Health of the Economy

- Monitoring and analyzing economic activity on a real-time basis.** Beginning in October 2001, Treasury intensified efforts not only to monitor high-frequency data for a more rapid reading of the pulse of economic activity but also to put all available information together into a near-term forecasting tool. We developed an econometric model that converts statistical information into a summary of current quarter growth that has been useful in understanding aggregate activity, as well as the implications for overall GDP growth of pockets of strengths and weakness within the economy.
- Contributing to growth-enhancing policies through analysis of tax-relief and other stimulus measures.** The Administration had been extraordinarily successful in introducing and gaining passage of substantial tax cuts early in the recession in FY 2001. As a result, consumer spending showed only modest effects from the recession. Employment and capital spending remained weak, however. In March 2002, additional stimulus was passed that was designed to address those problems. Benefits for the insured unemployed were extended for an additional 13 weeks and 30 percent immediate expensing was allowed on business purchases of equipment retroactive to September 11, 2001. Analysis of the expensing option was undertaken by Treasury in Fall 2001. By the second calendar quarter of 2002, capital spending had begun to rise.

### Addressing Special Problems

The attacks of September 11, 2001, as well as the impact on financial markets of questionable corporate accounting practices during the past fiscal year, required special response.

- ***Responding to the Terrorist Attacks -- Airlines.*** Treasury worked to assess damage to the airline industry and continues to participate as a voting member in the Air Transportation Stabilization Board (ATSB). The ATSB has the authority to provide up to \$10 billion in Federal loan guarantees to the airlines.
- ***Responding to Terrorist Attacks -- Terrorist Insurance.*** 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 and negotiating the terrorism risk insurance of the Terrorism Insurance Bill, which is a major Administration goal. A number of Treasury offices, including Domestic Finance, Economic Policy, and General Counsel, have been very involved in formulating Treasury position on terrorism risk insurance, issuing a report on the need for the Federal terrorism risk insurance program, studying the most efficient and least market-distorting structure for the program, and drafting legislation. These efforts supported Treasury's negotiations on the Bill. If a bill is enacted, Treasury will play a lead role as the administrator of the terrorism risk insurance program, including issuing implementing regulations, calculating and making Federal payments, recouping amounts as required and conducting certain insurance industry studies.
- ***Corporate Governance and Accounting Industry Reform.*** Treasury participated in the President's Working Group on Financial Markets and continues to be involved in corporate governance issues. Treasury analyzed the basic economic principles involved in auditor behavior. This research will contribute to future involvement in this issue.

### Long-Term Health of the Economy

The impending retirement of the baby boom generation leads to several issues of retirement and health security.

- ***Social Security Reform.*** Treasury continued to be actively involved in efforts to modernize and restore fiscal soundness to the Social Security system and to effectively communicate the current state of Social Security and Medicare funding. Treasury worked to assure that any changes conformed to the President's principles for Social Security modernization and reform.
- ***Design and Implementation of a Long-Term Economic Growth Model with Special Emphasis on the Health Care Sector.*** Treasury is examining the effects of different assumptions about the productivity of the health care sector, including the effects of medical errors and inefficiency, on the economy as a whole, and what this implies for the long-term viability of Medicare. Work has begun on a model linking health care spending and growth in the rest of the economy.

### Regulation of National Banks and Thrifts

- ***Safe and Sound Banking and Thrift System.*** Economic growth is dependent upon a sound banking system. Treasury's OCC and OTS promote that end through their examination and licensing functions. Both the bank and the thrift industry segments under their jurisdiction ended the year strongly, thus helping sustain growth of the U.S. economy.

### Partners

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

Primarily through the Federal Financial Institutions Examination Council, Treasury's bank and thrift regulators work with the other Federal financial regulators (Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and National Credit Union Administration) to coordinate supervisory policies, regulations and regulatory reporting requirements, and examiner training on issues that cut across the banking system. They also work with other Federal, state, and international regulators and supervisors on matters of mutual interest.

### Next Steps

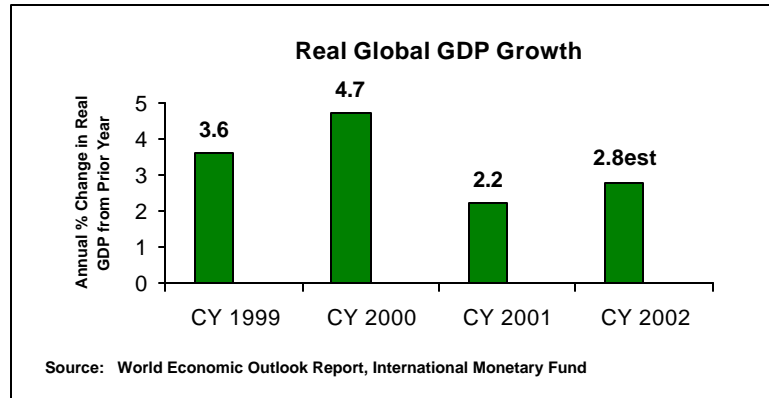
Promoting economic growth is an ongoing and continual activity. Treasury will extend its efforts on terrorism insurance, corporate accounting reform, social security reform, and long-term health spending until suitable legislation has been passed to assure a solution to the problems addressed. OCC will continue to monitor and evaluate risks to individual national banks and the national banking system and incorporate the results of these risk analyses into its supervision strategies. OTS will improve its examination process by combining the safety and soundness and compliance exam functions to provide a clearer representation of the institution's operations, ensure attainment of regulatory objectives, and result in more frequent monitoring of compliance requirements.



## Strategic Goal E2: Maintain U.S. Leadership on Global Economic Issues

### Results

Since late 2001, a global recovery led by the United States has been under way, with trade and industrial production picking up across the globe. The International Monetary Fund (IMF) projects growth of real global gross domestic product (GDP) to be 2.8 percent in CY 2002. However, the pace of recovery has not shown the desired vigor. While the recovery has been stronger in the dynamic, market-oriented Asian economies, growth in Europe and Japan has been disappointing. Conditions in Latin America have become more difficult this year, though countries with strong economical policies like Mexico and Chile have enjoyed growth rates higher than the regional average. Growth in the transition economies and in developing countries in the Middle East, South Asia, and Africa is projected to be positive in CY 2002 but below potential. Restoring and maintaining strong global economic growth is in the U.S. national interest and is a fundamental goal of the Administration's international economic policy.



### Strategic Goal Overview

Treasury played 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. Strengthening economic growth and stability in the industrialized countries through sound macroeconomic and structural policies;
2. Enhancing economic growth and stability in emerging market countries, including through reform of the IMF;
3. Raising economic growth and reducing poverty in developing countries, including through reform of the multilateral development banks (MDBs);
4. Promoting free trade; and
5. Combat terrorist financing.

### Strategies/Key Measures

#### Policies to Promote Productivity Growth and Rising Standards of Living

Treasury has led Administration efforts to promote economic growth abroad. A starting principle is that all governments need to have ownership over their own economic policies and bear the responsibility for addressing their own economic challenges. At the same time, Treasury has used its engagement with other countries to underscore and illustrate the benefits of policies that generate sustained productivity growth, the driving force for raising standards of living. In particular, Treasury has highlighted the following such policies:

- Pro-growth legal and regulatory policies to encourage business investment, innovation, and entrepreneurial activity.

- Tax policies – particularly lower marginal tax rates – that improve incentives for work and investment.
- Strong rule of law and intolerance of corruption so that people have confidence that they will be able to enjoy the fruits of their economic endeavors.
- Strong financial systems that allow capital to be put to its most efficient use.
- Sound fiscal policies, low-inflation monetary policies, and flexible exchange rates that provide the macroeconomic background needed to support business activity.
- Investments in health and education that improve the well-being and skills of the labor force and population as a whole.
- Free trade that provides new avenues for growth and fosters the diffusion of technologies and ideas that increase productivity.

### **Economic Growth and Stability in the United States and Other Industrialized Countries**

A good international economic policy starts with getting economic policy right at home. The measures described under Strategic Goal E1 (“Promote Domestic Economic Growth”) illustrate the measures being taken to promote economic growth in the United States.

Growth in Europe and Japan continues to be disappointing. The IMF projects CY 2002 real GDP growth to be 0.9 percent in the Euro area and -0.5 percent in Japan. Treasury has used its regular consultations with Japan and the European countries – including through the Group of Seven (G-7) – to discuss the policies these countries are adopting to promote growth in their economies and support higher global economic growth. A return to strong economic growth in Europe and Japan is vital to U.S. national security interests. European efforts to remove structural barriers in their economies are particularly important in this regard, as are Japan’s efforts to end deflation and address the problems of non-performing loans in the Japanese banking system.

### **Economic Growth and Stability in the Emerging Markets**

Treasury continued to take steps designed to promote productivity growth in emerging markets and a restoration of strong private capital flows to these countries, including through efforts to reform the International Monetary Fund.

- ***Crisis Prevention.*** Treasury emphasized crisis prevention as the best way to deal with financial crises. Crisis prevention refers both to early detection of potential crises and to early action to address sources of vulnerability. During FY 2002, Treasury developed a “Blue Chip” index of vulnerability to crisis based on numerical indicators from a variety of public and private sources. Treasury also worked with the IMF to increase the IMF’s focus on issues that are central to its expertise – monetary, fiscal, exchange rate, financial sector, and debt management policies. In the summer of 2002, the IMF introduced a new analytical framework for debt sustainability analysis, designed to help strengthen early identification of unsustainable situations and aid crisis prevention.
- ***Reducing Contagion.*** During the past year, Treasury utilized econometric and other quantitative analysis to distinguish direct links from one country to another from the automatic spread of bad market events from one country to another within such links. Treasury sought to promote a further reduction in financial contagion by emphasizing that policy decisions will not be based on unfounded claims of contagion. Contagion among different emerging markets fell dramatically during FY 2002.

- ***Limits on Official Finance.*** Treasury pursued limits on official finance to increase the predictability of official sector responses to financial crises. This was implemented through a gradual move in the direction of less reliance on large official packages and avoidance of large-scale, long-term bilateral support for countries facing financial crises. Treasury resisted proposals for large-scale, long-term bilateral support to Brazil, Argentina, and Turkey during FY 2002.
- ***Improving Predictability in the Sovereign Debt Restructuring Process.*** Treasury advanced efforts to improve predictability in the process by which sovereign debt is restructured, when such restructuring occurs. In the spring of 2002, Treasury proposed the introduction of new collective action clauses into external sovereign bond contracts to facilitate a more predictable and transparent resolution of sovereign debt when necessary. Treasury also supported continued work by the IMF in developing a proposal for how a statutory approach to sovereign debt restructuring might function.

Treasury achieved significant international cooperation in advancing the above efforts during FY 2002. Months of discussion among the G-7 Finance Ministers and Deputies culminated in agreement on an historic G-7 Action Plan for emerging markets in April 2002. It calls for improved IMF crisis prevention and surveillance, limits on IMF lending, introduction of collective action clauses into sovereign debt contracts, and further development of a sovereign debt restructuring mechanism to address sovereign defaults.

### **Economic Growth and Stability in Developing Countries**

Treasury continued its efforts to promote economic growth and poverty reduction in the developing world, including through reform of the multilateral development banks.

- ***Productivity Growth.*** Rising productivity is the driving force behind higher economic growth, improved living standards, and sustained poverty reduction. Treasury continued to emphasize the importance of focusing MDB projects and operations on areas that raise productivity growth. Regarding U.S. bilateral assistance, President Bush proposed a new development initiative, the Millennium Challenge Account (MCA), in March 2002, to substantially increase U.S. development assistance beginning in FY2004. The MCA is designed to reach up to \$5 billion a year in FY 2006. Assistance would be allocated to countries that have demonstrated solid performance in areas critical to increasing productivity growth: ruling justly; investing in people including education, health care, and immunization; and encouraging economic freedom. Treasury, working with other agencies, worked to develop recommendations for objective criteria to measure progress in each of these three areas. The goal of the MCA is to reward sound policy decisions that support economic growth and reduce poverty.
- ***Grants.*** In July 2001, President Bush called upon the World Bank and other multilateral development banks to increase the portion of their assistance provided as outright grants rather than loans for education, health nutrition, water and sanitation in the poorest countries. During FY 2002, Treasury succeeded in finalizing an agreement with other international donors on a substantial increase in grants during the \$23 billion thirteenth replenishment of the International Development Association (IDA). As a result of this agreement, nearly all IDA assistance will be provided on grant terms for education, HIV/AIDS, health, nutrition, potable water and sanitation in countries whose people live on less than a dollar a day. In addition, Treasury was successful in securing agreement during negotiations on the ninth replenishment of the African Development Fund to substantially increase the use of grants.
- ***Measurable Results.*** Treasury has emphasized the importance of measurable results in the development work of the multilateral development banks, to make sure that their activities are producing concrete improvements in the lives of the intended beneficiaries. Treasury leadership succeeded in obtaining agreement among IDA donors to the development of a system for measuring and evaluating results in the

areas of education, health, and private sector development. For the first time, this enables donors to link their contributions to the World Bank to achievement of measurable results on the ground. This will help direct scarce donor dollars toward activities and projects that are demonstrably improving people's lives.

- **Private Sector Development.** In the recent IDA replenishment, Treasury also secured international agreement that IDA resources, which have traditionally gone only to the public sector, also be used for private sector development in IDA-eligible countries. This agreement lays the basis for expanded collaboration between IDA and the International Finance Corporation, the World Bank Group's private sector finance arm—collaboration that will help remove the obstacles to private sector led-growth in the poorest countries.

## Free Trade

Treasury helped secure Congressional passage of the Trade Act of 2002. The Trade Act provides for trade promotion authority to streamline approval of trade agreements by Congress and should accelerate the conclusion of foreign trade agreements in coming years; for enhanced trade preferences under the Andean Trade Pact (Columbia, Peru, Bolivia, Ecuador) and the General System of Preferences for various developing countries, and for trade adjustment assistance, including health care, to benefit U.S. workers displaced by foreign trade.

Treasury has been actively involved in multilateral trade negotiations in the World Trade Organization, which were launched at Doha in November 2001 and should be completed in 2005, and has served as the lead agency for financial services. Treasury's Financial Sector Growth Initiative places enhanced emphasis on more open and well-regulated financial sectors in emerging markets. Negotiations on free trade agreements with Chile and Singapore continued to move forward, with Treasury leading the negotiations on financial services. Negotiations on a Free Trade Area of the Americas (FTAA) are entering their final stage, with the objective of completion by 2005.

Treasury participated in the Administration's review of steel imports under Section 201 safeguard procedures, leading to the imposition of import restraints on a broad range of foreign steel products in March 2002. Developing countries with a low level of steel exports to the U.S. were excluded from initial restraints, as were Mexico and Canada, our partners under the North American Free Trade Agreement (NAFTA). Treasury continued to lead the U.S. effort to open markets by reducing official export credit subsidies. Since 1992, some \$3 billion in additional federal funding has been avoided through Treasury led efforts at leveling the playing field of foreign markets for competitive U.S. businesses.

Treasury also advanced the Customs Trade Partnership Against Terrorism (C-TPAT). C-TPAT is a joint, government-business initiative to develop and sustain a secure supply chain and is designed to enable Customs to ensure safe and secure borders against terrorism while providing an import process marked by the efficient release of cargo and the prompt resolution of issues affecting C-TPAT participants. Over 300 importers have signed C-TPAT agreements with Customs representing over 25 percent of the total U.S. imports by value. Current C-TPAT sea carrier enrollment represents over 80 percent of the containerized liner service sea cargo entering the U.S. This program works hand in hand with the Container Security Initiative (CSI) and is aimed at facilitating trade while better securing our borders. C-TPAT is designed to enable Customs to ensure safe and secure borders against terrorism while providing an import process marked by the efficient release of cargo and the prompt resolution of issues affecting C-TPAT participants. C-TPAT participants make a commitment to work with their service providers throughout their supply chain to enhance security processes and procedures worldwide.



---

## Combating Terrorist Financing

The terrorist attacks of September 11, 2001, clearly identified the need to eliminate the international flow of funds that finance global terror. At the direction of the President, Treasury launched the financial front in the war on terrorism and took the lead in global efforts to combat the financing of terrorism.

Treasury successfully pursued international cooperation to combat terrorist financing on a global scale, working multilaterally with the G-7, the G-8, the G-20, the international financial institutions, and the Financial Action Task Force (FATF) under the Organization for Economic Cooperation and Development (OECD) and bilaterally with individual countries to block the financing of terrorist networks, freeze terrorist assets, and criminalize the collection of funds for terrorism.

During FY 2002, Treasury built a task force on terrorist financing to keep track, account by account, dollar by dollar, of all countries' efforts. By the end of FY 2002, 166 countries or jurisdictions around the world had blocking orders in force to combat terrorist financing, and over \$112 million has been frozen globally since September 11, 2001 (some \$27 million of this amount has been released for the Afghan Interim Authority).

### Technical Assistance

Treasury also reached out to foreign governments allied in the war on terrorism. The work encompasses a broad range of activities including drafting anti-money laundering legislation, creating regulations and procedures for banking systems to identify and report suspicious transactions, establishing financial intelligence units, and training police and other enforcement agencies in the techniques of financial investigations including forensic accounting. This assistance is enabling foreign countries to identify and immobilize terrorist assets pursuant to United Nations directives.

Treasury also provided technical assistance to promote sound economic governance beyond combating terrorist financing. Technical assistance in the areas of tax, debt issuance and management, budget planning and implementation, bank reform and rehabilitation, and financial law enforcement, was initiated in fourteen new countries in FY 2002, including six countries in Africa, three in Central Asia, and five in Latin America. Treasury placed a resident advisor in Afghanistan.

### 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), Organization for Economic Cooperation and Development (OECD) and its Financial Action Task Force (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).

**Next Steps**

In FY 2003, Treasury will work with the above-mentioned entities to increase global economic growth, improve economic stability, strengthen bilateral and multilateral cooperation, promote productivity growth and poverty reduction, and cut off the flow of terrorist financing.

***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 the Department's resources are devoted to collecting taxes and customs duties. Treasury collects more than 97 percent of total Federal receipts.

**Financial Strategic Goals**

- F1. Manage the Federal Government's Accounts
- F2. Ensure All Federal Payments are Accurate and Timely
- F3. Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards
- F4. Collect Revenue Due to the Federal Government
- F5. Cost-Effectively Finance the Federal Government's Operations
- F6. Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency



**Strategic Goal F1: Manage the Federal Government's Accounts****Results**

Significant improvements were made in providing central payment services to Federal program agencies, operating the Federal government's collections and deposit systems, providing Government-wide accounting and reporting services, and managing the collection of delinquent debt were accomplished by the Department.

**Strategic Goal Overview**

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

**Strategies/Key Measures**

***Government's Daily Cash Position.*** To continue to minimize risk in the management of the Government's cash and debt positions and forecasting the Government's financing needs, Treasury developed a comprehensive contingency plan for its Office of Cash and Debt Management (OCDM) business processes. This plan includes the establishment of a real-time back-up site and the creation of a delegation of authority covering cash and debt management functions in the event OCDM personnel are unable to perform them. As a result, current and timely cash and debt position information will be available to key Treasury officials during a crisis situation.

In FY 2002, FMS and the Department explored options to maximize the investment of excess operating cash through the Term Investment Option (TIO) pilot. Under the pilot program, Treasury invests cash for a fixed period of time at an interest rate determined through competitive auction. Bids are received electronically through a web-based application. The TIO program places excess operating funds directly with financial institutions. The investment must be fully secured using acceptable collateral as determined by Treasury.

***Government's Financial Infrastructure.*** FMS worked closely with Federal agencies to strengthen the Government's financial infrastructure and improve program management across Government. In FY 2002, FMS implemented the final phases of a multi-year effort to move its Government On-Line Accounting Link System (GOALS) applications to newer technology. All Federal agencies use these applications to report Government-wide accounting and budget execution information to FMS. The platform change resulted in improved performance, newer technology, Internet capabilities, and quicker data access by Federal agencies.

***Electronic Collection of Federal Government Receipts.*** In FY 2002, FMS collected 80 percent of the total amount of the Government's receipts electronically. This is an improvement over FY 2001, in which 75.3 percent was collected electronically. To accelerate use of Internet technology, FMS enabled Federal agencies to process collections and related forms over the Internet through its new, Government-wide Internet collection service, Pay.gov. Similarly, business and individual taxpayers can enroll and pay Federal taxes through FMS' secure Internet website, Electronic Federal Tax Payment System On-Line. Through the Paper Check Conversion program, Federal agencies can now convert check payments from their customers to electronic payments at the point their customers present checks. Paper Check Conversion also enables funds to be deposited in Government accounts more quickly and eliminates the need for check clearance and settlement.

***Funds Management and Investment.*** Treasury continued to ensure the effective investment of funds in its custody and accounted for the more than \$2.6 trillion Federal Investment Program, providing investment accounting services for more than 200 funds for numerous Federal agencies. To further strengthen controls, Treasury implemented a quarterly reconciliation process for intra-governmental investment transactions with program agencies. Additionally, Treasury built a web application, FedInvest, to provide online real-time investment account access for the program agencies investing in market-based securities. Treasury also developed an operating circular to provide standard operating instructions to Federal program agencies with Government investment accounts. The operating circular provides clarity and transparency as to the roles and responsibilities of both program agencies and Treasury for the investment of funds in Government investment accounts.

### **Program Evaluations**

To ensure efficient and effective operation of the Electronic Federal Tax Payment System, FMS requested a review by an independent third party. The auditors' preliminary reports did not identify any significant risks to security or internal control in the operation of this system.

To ensure security of public monies and taxpayer information, FMS increased security at its IRS lockbox sites and lockbox banks, to include improved procedures, more security personnel, and on-site monitoring during peak periods. Audits conducted of the IRS Lockbox Network and sites by the Treasury Inspector General for Tax Administration showed that the program met its objectives and was well controlled.

### **Partners**

FMS works closely with Federal program agencies to expand the use of electronic collection mechanisms to assist remitters in making electronic payments to the Government. Federal Reserve Banks support the Government's financial management responsibilities by providing fiscal agent services to Treasury. FMS and the Department work closely with the Federal Reserve Bank of New York to manage the 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.

### **Next Steps**

FMS will continue to expand the use of the Internet to collect GOALS information and incorporate the requirements of the proposed intra-governmental electronic acquisition system into GOALS. FMS will facilitate the use of other electronic collection mechanisms, in part, to move funds more quickly to Treasury's accounts and to provide more timely and accurate accounting data and more timely information on the Government's cash position. Additionally, Treasury is launching an effort to standardize investment accounting with investing Federal agencies. The focus will be to offer investing agencies the necessary accounting services to comply with Federal accounting requirements and facilitate the Government-wide reconciliation/elimination process. FedInvest will serve as the foundation for these efforts in the future.

**Strategic Goal F2: Ensure All Federal Payments are Accurate and Timely**

**Results**

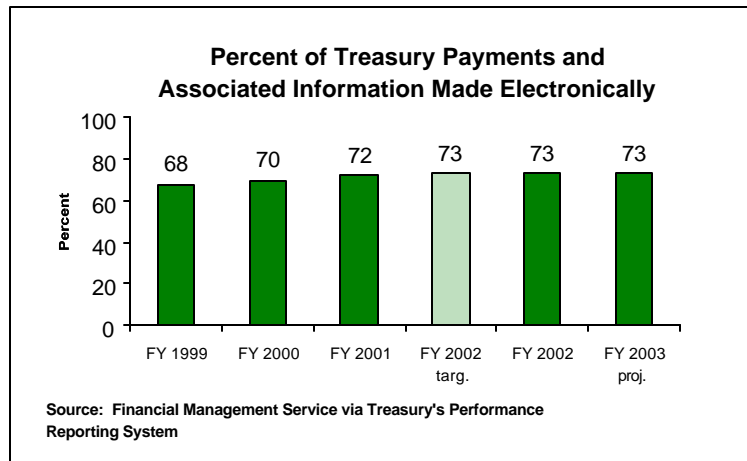
In FY 2002, FMS issued approximately 920 million payments via paper check and electronic fund transfer to more than 100 million individuals and businesses. These disbursed payments are based on submissions from Federal program agencies, which are responsible for certifying the accuracy, validity, and legality of their payment requests. In achieving this, FMS met its program performance targets; payments were on time and accurate 100 percent of the time.

**Strategic Goal Overview**

With Federal payments totaling more than \$1.2 trillion annually, the reliable operation of FMS' payments function is an essential part of 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/Key Measures**

FMS worked with Federal program agencies to ensure Federal government payments were made timely and accurately, as well as to increase the number of electronic payments. In FY 2002, 73 percent of all payments were made electronically. Excluding tax refund payments, which are not included in the Debt Collection Improvement Act of 1996, the percentage of electronic payments increases to 77 percent. To enhance the security and reliability of the Government's payment processes, FMS established a back-up computer-processing site; implemented contingency plans for computer operations and payment processing, and regularly tests these procedures.



FMS continually worked to improve its payment processes. Among other efforts in FY 2002, FMS reduced the cost to the Government by more than \$3 million for processing paper checks after they are "cashed" by payees. FMS, in consultation with agencies, researches, develops, and tests new technologies to improve Government payment processes. The Secure Payments System (SPS) project is an example. FMS is replacing the existing system through which Federal agencies create and submit payment schedules to FMS and FMS validates and authenticates these schedules prior to payment processing. SPS, the replacement system, will be Internet-accessible and use the latest technology in hardware, software, functionality, and security.

**Program Evaluations**

FMS' recent survey of Federal agencies showed that 98.8 percent were satisfied with FMS' payment services. Payment processes are subject to numerous internal controls and audits. Accounting systems and reports are used to validate payment accuracy.

**Partners**

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

**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. In addition to developing and implementing a new, state-of-the art payment certification system, FMS will redesign payments and claims systems to take advantage of new technologies. FMS will also work with agencies to increase vendor and miscellaneous payments made electronically and to increase the use of Stored Value Cards, which significantly reduce cash requirements and support costs related to holding and securing cash at "closed" installations such as Army basic training sites and Navy ships.



---

**Strategic Goal F3: Provide Accurate and Timely Financial Information and Support the Government-wide Implementation of Accounting Standards****Results**

During the year, the Government's cash position, budget surplus, and deficit information were reported on schedule and accurately 100 percent of the time in the following publications: Daily Treasury Statement, Monthly Treasury Statement, Treasury Bulletin, and U.S. Government Annual Report. For the fifth consecutive year, the Financial Report (FR) of the U.S. Government, which includes the Government's consolidated financial statements, was issued on time, although it continued to receive a disclaimer of opinion.

**Strategic Goal Overview**

This goal highlights becoming 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 Government's financial status and to establish fiscal and monetary policies. Treasury is striving to produce 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/Key Measures**

FMS produces timely and accurate daily cash balance information to assist in managing the Government's daily cash position. Effective management of the Government's cash can reduce the Government's borrowing costs. This information proved especially important in FY 2002 as the Government operated for several months with limited borrowing authority.

Five audit findings prevented the attainment of a reliable U.S. financial statement. 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. Further explanations and corrective actions for the last two findings are discussed below.

**Program Evaluations**

Following evaluation, Treasury, in consultation with the auditors and the Office of Management and Budget (OMB), devised a new process in FY 2002, in consultation with the auditors and OMB, for consolidating the agencies' financial statements into one Government-wide statement. This new process will draw directly from the agencies' financial statements and will require more information from the agencies in order to perform a financial statement consolidation similar to that in the private sector. Treasury has presented the new process to the agencies at several forums in FY 2002 and is planning to expand its educational outreach efforts in larger Government-wide forums FY 2003.

Treasury worked closely with OMB in FY 2002 to develop rules for consistent treatment of intra-governmental accounting transactions and a new process to report these transactions. The new exchange transaction rules go into effect on January 1, 2003 and the new system must be used as by October 1, 2003.

### **Management Challenges/High Risk Areas**

GAO listed “Preparing Reliable Financial Statements for the Government Continues to Be a Challenge for FMS” as one of Treasury’s major management challenges in a report dated January 2001. GAO provided technical advice in connection with the planning for the new financial statement preparation process discussed above, and such process is intended to address certain of GAO’s audit findings.

### **Partners**

The Financial Report of the U.S. Government is compiled from the financial information of the 24 CFO Act agencies, nine 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.

### **Next Steps**

The new financial statement preparation process will be implemented with the FY 2004 U.S. financial statements so that agencies can first resolve how to accumulate the needed information and so FMS can develop a system to collect agencies’ input. FMS will continue the multi-year project to rebuild the central accounting system of the Government for reporting budget execution information. This system maintains central accounting for the Government’s cash and cash related assets and maintains a central record of agency spending against Congressionally authorized levels. In FY 2003, agencies will have access to important budget execution information on a daily basis and their final monthly and year-end fund balance information a full week earlier compared to FY 2002. Access will be through web-based technology. Over the next several years, this initiative will improve data access, reduce redundant reporting, eliminate time-consuming reconciliations, and assist agencies in meeting accelerated timeframes for issuing year-end financial reports. This will be a major achievement that will move the Government forward toward its objective of producing year-end financial information more quickly and reliably.

**Strategic Goal F4: Collect Revenue Due to the Federal Government****Results**

Outcome measures for the collection of all revenue due the Federal government have not been finalized, but IRS and FMS have been making some progress on developing them. IRS collected about \$2 trillion in annual income tax revenue; approximately another \$250 billion to \$300 billion goes uncollected every year. As a result of continued improvement in FMS' Debt Management Program, collections of non-tax delinquent debt collection again exceeded Treasury performance goals. For FY 2002, the target for collecting delinquent debt was \$2.6 billion. FMS achieved collections of more than \$2.8 billion. In addition, ATF collected \$15.1 billion in FY 2002 and Customs collected \$19.8 billion.

**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, customs duties, fees, debts, and other money owed to the U.S. Government. The goal is timely collection of all monies due the Government consistent with good customer service and business efficiency. This is important to each citizen for two reasons: first, those who do not pay their fair share of taxes shift their tax burden to the citizens who do pay their fair share; and second, 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/Key Measures**

**IRS Tax Collections:** The IRS has a three-pronged approach in its strategy, addressing filing, payment, and reporting:

- **Filing Compliance** ensures those taxpayers required to file do so and addresses the known non-filer population. IRS is reengineering processes and work streams to improve efficiency and productivity, identifying and expediting assignment of the most egregious non-filers, particularly in high-income brackets, expanding and centralizing automated enforcement, and providing outreach and education efforts. Encouraging electronic filing is another major IRS focus, as efficiencies gained will enable IRS to redeploy employees processing paper to other customer service and compliance programs.
- **Payment Compliance** is the share of taxes paid compared to the amount of taxes owed as reported by the taxpayer. In tax year 2001, about 97.5 percent of self-reported taxes due were paid on time. This year, IRS' Collection function selected cases using a risk-based strategy incorporating information on taxpayer behavior, history and needs. This allowed high value cases to be worked first, protecting the Government's interest and ensuring that resources were applied where they would have the greatest impact.
- **Reporting Compliance** ensures income and expenses are accurately reported on filed tax forms. This year, IRS expanded the program that matches Schedule K-1 forms with amounts reported on individual returns. These efforts assisted IRS in identifying high-income non-filers, abusive scheme promoters and users, and unreported and underreported income. IRS has a new systemic process to help uncover unreported income by evaluating every filed return for the probability of unreported income and then focusing examination personnel on identified high-risk returns. IRS also obtained approval to solicit records of credit cards issued by banks in certain tax-haven countries to identify non-compliance.

**FMS Delinquent Debt Collection.** FMS provides debt collection operation services to Federal program agencies. In FY 2002, agencies referred 93 percent of their eligible delinquent debt to FMS, an increase over the FY 2001 referral rate of 89 percent. 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 Federal tax refunds to collect delinquent state tax debt. In FY 2002, FMS' cross-servicing program collections were \$85.7 million, surpassing the cross-servicing collections for FY 2001 (\$56.8 million). In FY 2002, FMS collected \$60.2 million of delinquent Federal tax debt through its tax levy program. This is more than three times the amount FMS collected for all of FY 2001.

### **Program Evaluations**

**IRS.** TIGTA evaluated IRS' development and implementation of a methodology to provide tax relief to surviving individual taxpayers after the September 11, 2001, terrorist attacks. TIGTA found that IRS took immediate action and that the IRS effectively ensured that affected individual taxpayer accounts received the tax relief intended by IRS and the Department of the Treasury. TIGTA reported in June 2002 on the falling level of income tax examinations, but IRS stopped this erosion in FY 2002, examining more individual returns than in FY 2001. GAO evaluated abusive tax schemes and found that IRS' efforts to identify and combat abusive tax schemes have increased, though challenges still remain.

**FMS.** GAO, in its final report assessing the Advance Tax Refund (tax rebate) Program, affirmed that it was an extremely successful program in which over 86 million advance refund checks were issued and that offsets of these payments were conducted properly to collect \$465 million in delinquent debt.

### **Management Challenges/High-Risk Areas**

[Several items have been identified for this strategic goal. More details on Treasury steps to address these issues are presented in the "Treasury FY 2002 Activities to Address Challenges" section.]

**Collection of Unpaid Taxes.** IRS developed a risk-based compliance strategy to use knowledge regarding taxpayer behavior, history, and needs in the collection-decision process. This will ensure that the highest priority cases are worked first and will reduce the number of accounts that are closed as currently not collectible.

**Earned Income Tax Credit Compliance.** There is a need to stop erroneous payments and improve overall compliance within the EITC program. Currently, the IRS is focused on identifying non-entitlement for EITC in the early filing stages, questionable EITC claims, EITC-based refund schemes, and questionable EITC preparers. IRS also expanded examinations of the duplicate Taxpayer Identification Number (TIN) repeater population and reengineered Accounts Management. The long-term solutions to EITC compliance are being developed by a task force convened by the Secretary.

**Complexity of the Tax Law.** Helping taxpayers file accurate returns under a constantly changing tax code is an ongoing challenge for IRS. The last two National Taxpayer Advocate Annual Reports to Congress have identified tax code complexity as the top problem for both individuals and business taxpayers.

**Workload Capacity.** Tax administration workload grows every year. With the existing outmoded systems and business processes, IRS would need significant staff increases to keep pace. While IRS does have some short-term staffing needs in key, strategic areas, its long-range strategy is to address workload growth through more efficient work processes and modernized information systems.

---

***Improve Regulation of Commercial Trade.*** GAO reported that the automated system Customs uses to process merchandise is outdated and unable to meet trade demands. Customs is currently developing an information management system called Automated Commercial Environment (ACE). ACE will integrate and modernize the Customs risk management processes in the commercial environment to make it more efficient and effective. This will be achieved by improving targeting and selectivity results, and providing compliance assessments, which will improve Customs capability to enforce trade laws. ACE will also provide an extensive analytical capability, both within Customs, and in cooperation with other enforcement agencies.

### **Partners**

Major part of many 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. 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.

### **Next Steps**

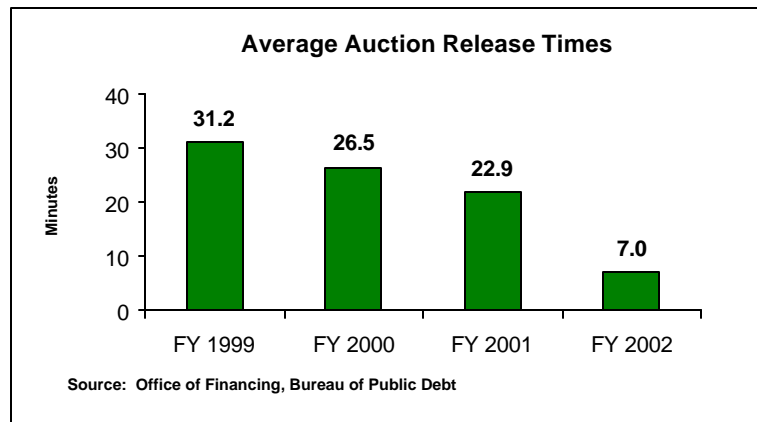
IRS will continue to implement strategies to combat abusive tax non-compliance by identifying schemes, alerting the public, identifying and taking enforcement action against promoters and participants, and utilizing research to assess the magnitude of the problem. They will effectively identify and process taxpayers submitting abusive/frivolous returns or claims; profile the promoters and participants in abusive tax non-compliance activities; and perform targeted educational outreach to impact non-compliant behaviors. Continuing research and analysis over the next two years will help focus these efforts. IRS will continue to make process in collecting better compliance and noncompliance data, as well as in quantifying corporate-level strategic compliance measures through their National Research Program.

To increase collection of delinquent debt, FMS will further expand its payments offset program to include new payment types and additional sources of delinquent debt, continue developing new debt collection tools such as the web-based Debt Check Program enabling program agencies to match loan applicants against the delinquent debtor database prior to providing a Government loan, and further enhance service to FMS' customer agencies with the new FedDebt cross-servicing collection system.



**Strategic Goal F5: Cost-Effectively Finance the Government's Operations****Results**

Over the past year, Treasury was able to achieve this goal through its financing operations, which reduced our interest expense. Improvements to auction processes ensured that Treasury's financing operations remained competitive and cost-effective. Treasury announced borrowing policies and requirements to financial markets in a timely manner more than 99 percent of the time. Treasury also reduced the average auction release time from approximately 23 minutes in FY 2001 to seven minutes in FY 2002.

**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 mission. 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 are 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/Key Measures**

**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 encourages auction participation by conducting single-price auctions and by simplifying the requirements for direct participation in auctions. Single-price auctions distribute auction awards to a greater number of bidders than under multiple-price auctions. Single-price auctions are also likely to lead to more aggressive bidding because successful bidders avoid the so-called "winner's curse," the risk that a bidder will pay more than others in an auction. Ensuring ease of direct participation meets Treasury's obligation, as a public entity, to make auctions widely accessible. Like single-price auctions, easy access to auctions also encourages wide distribution of auction awards and, possibly, lowers borrowing costs over time.

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 are currently developing 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 2002. The delay in the passage of a debt ceiling increase led to one postponed auction with a very short announcement period.

***Treasury Marketable Debt Securities Auctions.*** BPD conducts approximately 180 auctions a year, and issues more than \$2 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. In FY 2002, Treasury announced auction results within 25 minutes of the auction close 99.4 percent of the time. This exceeded the goal of announcing auction results within 25 minutes of the close of the auction 95 percent of the time. Starting in FY 2003, the goal will be to announce auction results within 6 minutes of the close of the auction 80 percent of the time. Also, Treasury has been aggressively pursuing its FY 2004 goal of a consistent two-minute auction. The aim is to make the period of time between the auction close and the public release of results consistently brief, with the ultimate objective being a consistent two-minute release with a variance of no more than 30 seconds. This effort should reduce Treasury's borrowing costs by reducing the market risk our bidders take when placing bids in its auctions.

### **Partners**

The Federal Reserve provides fiscal agent services to Treasury. They work closely with the Department and fully support Treasury's 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.

### **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. Treasury will continue releasing auction results faster through the use of technology, simplifying the auction process, and encouraging direction auction participation within the investor community by being attentive and responsive to its needs. All of these efforts will help make Treasury's auctions as competitive as possible.



**Strategic Goal F6: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coins and Currency****Results**

The Mint, producer of the nation's circulating coins, made improvement in production operations efficiency in FY 2002. Gains included reducing the cycle-time to produce circulating coins from raw material inputs, and a slight increase in the turnover of inventories throughout the year. In addition, the Mint made sound business decisions in the face of lower than expected demand for circulating coinage. The Mint saved money by "right-sizing" the Mint, consolidating headquarters offices, and cutting unnecessary items from the budget. Despite these improvements, the cost per 1,000 coin equivalents exceeded the target by \$2.53, due to high levels of fixed costs in the face of low demand for circulating coinage.

BEP, which produces the nation's paper currency, measures its overall efficiency and effectiveness using program performance standards on annual spoilage, efficiency and capacity utilization goals. In FY 2002, BEP achieved all its performance goals, with one being adjusted during the year as a result of a change in orders from the Federal Reserve for more expensive, counterfeit deterrent notes. The manufacturing cost for currency goal was adjusted for internal comparability purposes from \$25.00 per thousand notes produced to \$30.45. The actual cost per thousand notes was \$30.03.

**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 customer, the Federal Reserve System, which places them into circulation as needed. Efficient operations result in security products that provide the best value to the Federal Reserve and ultimately to the American public. Coin and currency that are of consistently high quality, and produced and delivered under strict accountability controls, facilitate the efficient use of coin and currency in daily business transactions and ensures continued public confidence in the nation's coin and currency.

**Strategies/Key Measures**

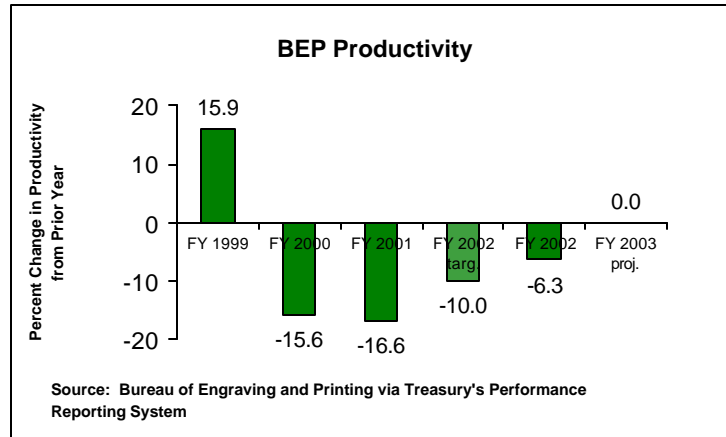
*Coin.* The Mint undertook many strategies in FY 2002 to improve the efficiency of production operations, including:

- Created a draft of a revised strategic plan with four integrated bureau-wide goals, which focus the Mint on matching world-class business practices in all aspects of its mission.
- Worked toward developing ten new key performance measures based on private sector best practices with world-class benchmarks.
- Analyzed the supply chain from the Mint's metals and blanks suppliers to the nation's commerce systems looking to make operations more streamlined and cost efficient.
- Made production facilities cleaner and safer, reducing the lost time accident rate by 42 percent from FY 2001, and in the process improved the workflow and materials handling through better workplace production practices.

A major indicator of its FY 2002 success is the conversion cost from metal blanks or coin strips per 1,000 coin equivalents for circulating coinage. Through September 2002, the result was \$11.50 per 1,000 coin equivalents, higher than its target of \$8.97. The main factor contributing to this result was low coin demand due to a weaker than expected economy.

**Currency.** During 2002, BEP focused on preparations for the production of next generation of currency designs. The Bureau was actively engaged in the development of a new design for the next generation of the \$20 currency note to be introduced into circulation in 2003. Production of the new series currency design required a multi-million dollar capital investment in printing technology and support processes. A modest expansion at the Western Currency Facility to accommodate this new technology will be completed next year.

This technology will enable BEP to support the initiatives of the Advanced Counterfeit Deterrence Program in support of Treasury's goal.



A five-year interagency agreement with the U.S. Postal Service plans for the phase out of the production of postage stamps at BEP; however, decreases in stamp productivity were less than expected. Deliveries exceeded projected demand and staffing reduction goals were achieved earlier than anticipated. BEP's overall productivity decreased by 6.3 percent (against its projected decrease of 10.0 percent).

### Program Evaluations

The Mint is developing and tracking bureau-wide strategic performance measures (see "Next Steps"). The results are compiled and evaluated by an objective third party office within the Mint and reported to the executive team on a monthly basis. These reports are provided in a timely manner, leveraging the three-day close of financial books each month, providing Mint management a nearly real-time tool to make strategic decisions and adjustments to ensure programs are making progress towards achieving planned results.

Personnel from the Federal Reserve assess the reasonableness of Bureau pricing. In addition, BEP's independent auditors review the reasonableness of the cost standards and BEP's reported results. No deficiencies were noted in FY 2002.

### Partners

The Mint worked with many partners in FY 2002. To better deal with the fluctuations in coin demand, the Mint and the Federal Reserve jointly worked on a coin inventory management and forecasting tool. The Director met with members of the numismatic community on several occasions to discuss the Mint and the state of the coin-collecting hobby. The Mint and the United States Postal Service signed an agreement to jointly develop and market a number of products that feature two of America's most popular collectible items--the 50 State Quarters® and the Greetings from America stamps.

---

BEP is an active member of an inter-agency counterfeit deterrence steering committee composed of personnel from the Bureau, Treasury, Secret Service and the Federal Reserve. Working through this committee, the BEP devised a long-term counterfeit deterrence strategy for U.S. currency that features regular redesign of currency notes. 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.

### Next Steps

The Mint is setting the stage for improved performance by revising a draft of the strategic plan and is developing ten new key performance measures that encourage improvement in all areas of operations. The performance measures will drive efficiency improvements through managing performance against world-class benchmarks. In FY 2003, the Mint also aims to improve efficiency by continuing to collaborate with the FRB to improve forecasting, production scheduling, and inventory management. These efforts will lead to a more stable and predictable production environment allowing the Mint to anticipate and respond to changes in economic conditions, and helping reduce the costs of the entire coin distribution system. The Mint will work closely with the Congress, Treasury and the American public to redesign the circulating coinage. The Mint and BEP are also exploring ways to be more efficient through shared services agreements.

In FY 2003, BEP will move forward with currency redesigns necessary to thwart technological advances available to counterfeiters and maintain the integrity of the Nation's money supply. It will be a transition year, particularly in the currency-manufacturing program as it moves into production and issuance of the next generation \$20 currency note. Currency design will also intensify with the continued development of the redesigned \$50 and \$100 notes.



***Law Enforcement Mission: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug-Free America***

Treasury plays a critical role in Federal law enforcement efforts, helping foster a safer nation by combating terrorism and violent crime, protecting our borders, preventing drug smuggling, suppressing counterfeiting, fighting money laundering, preventing financial crimes, and training the vast majority of Federal law enforcement personnel.

**Law Enforcement Strategic Goals**

- LE1. Reduce Violent Crime and the Threat of Terrorism
- LE2. Combat Money Laundering and Other Financial Crimes
- LE3. Protect Our Nation's Borders and Major International Transportation Terminals from Traffickers and Smugglers of Illicit Drugs
- LE4. Protect Our Nation's Leaders and Visiting Dignitaries
- LE5. Provide High-Quality Training for Law Enforcement Personnel



**Strategic Goal LE1: Reduce Violent Crime and the Threat of Terrorism**

**Results**

According to the Federal Bureau of Investigation Uniform Crime Reports, the overall volume of violent crime increased 0.8 percent in calendar year 2001, while the number of violent crimes committed per 100,000 inhabitants decreased 0.4 percent between 2000 and 2001. (Violent Crime is defined as murder, forcible rape, robbery, and aggravated assault.) As a result of the events of September 11, 2001, and the continuing threat of terrorism against the United States, Treasury has expanded its role in combating terrorism.

**Strategic Goal Overview**

Treasury plays a critical role in Federal law enforcement efforts to help foster a safer nation by reducing crime and violence. To protect our nation against terrorism, Treasury prevents international terrorist groups and rogue nations from obtaining sensitive and controlled commodities and financing.

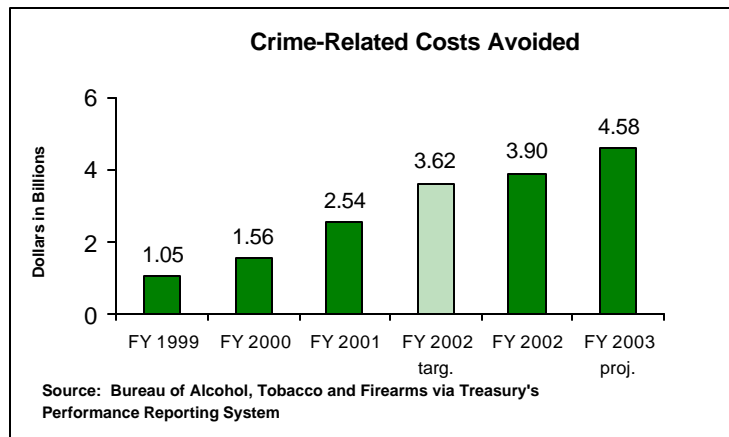
**Strategies/Key Measures**

**Reducing Violent Crime**

*Project Safe Neighborhoods (PSN).* Through its Integrated Violence Reduction Strategy (IVRS) programs, ATF is a major contributor to the Department of Justice’s (DOJ) PSN initiative which is a crosscutting, comprehensive firearms enforcement strategy aimed at reducing the illegal acquisition of firearms, prioritizing investigations, and encouraging comprehensive firearm tracing. Based on PSN initiative data submitted for the first nine months of FY 2002 using a straight-line projection, for FY 2002 there will be a 16.9 percent increase in the number of defendants prosecuted and a 17.9 percent increase in the number of cases under Federal gun laws.

*Uniform Crime Reports on Gun Violence.*

Currently, ATF uses crime-related costs avoided as one of its measures to evaluate its strategy to reduce violent crime. This measure tracks the estimated costs saved by incarcerating armed career criminals and firearms traffickers. ATF continues to work with the DOJ to monitor Uniform Crime Reports data on gun violence in specific areas where PSN and other IVRS crime fighting ATF projects are implemented. Performance measures are being developed which compare crime rates of cities with and without ATF programs.



**Investigating Cyber Crimes.** Through the expertise of the Customs CyberSmuggling Center, Customs focused on efforts to combat civil and criminal activity in areas such as child exploitation, child pornography, child sex tourism, violations of Intellectual Property Rights, fraud, money laundering, terrorist financing, counter-terrorism, and the theft of cultural heritage property. One of the most notable successes of the Center this year was Operation Hamlet, a worldwide investigation of a pedophile ring that resulted in the rescue of 45 children and the arrest of 22 violators in the U.S., Denmark, United Kingdom, and Germany.

### **Reducing the Threat of Terrorism**

**Operation Greenquest.** This operation is a multi-agency Customs-led Treasury initiative designed to stamp out terrorist funding by identifying, disrupting, and dismantling the financial systems and infrastructures that terrorist organizations use to fund their work. In FY 2002, Greenquest initiated 859 financial investigations involving suspected terrorist financing and referred 1,109 leads on potential terrorist financial activities to domestic and foreign offices. The Operation's financial investigations resulted in 47 arrests, 28 indictments, and the seizure of \$7.3 million. Operation Oasis, a Customs outbound bulk currency initiative coordinated by Operation Greenquest, has resulted in total seizures of \$18.6 million worth of smuggled currency and monetary instruments resulting in 397 seizures.

**Economic Sanctions.** After September 11, 2001, the role of Treasury's Office of Foreign Assets and Control (OFAC) in fighting terrorist financing expanded greatly through the issuance of Executive Order (E.O.) 13224, which broadened the scope of previously existing OFAC authority with respect to supporters of terrorism, and the passage of the USA PATRIOT Act (PATRIOT Act), which substantially enhanced the usefulness of classified material and provided a wide array of other enforcement tools. These programs prohibit transactions by persons subject to U.S. jurisdiction with, and block the property of, targeted governments and listed entities and individuals. A total of 243 entities and individuals have been designated under E.O. 13224 since it was signed on September 23, 2001.

Through OFAC's forward leaning administration of these new programs, several major terrorist financing networks have been disrupted and cooperative efforts strengthened with foreign governments to address the exploitation of charitable organizations by terrorist groups and to disrupt fund raising and other activities that support international terrorist networks. In addition, through these programs the U.S. has supported the newly-formed government of Afghanistan by returning Afghan property previously blocked to prevent its use by the Taliban, increased compliance efforts and scrutiny of suspect entities by the international community, and persuaded certain listed entities to sever connections with terrorists and their support networks. In FY 2002, OFAC continued to administer sanctions programs targeting a number of terrorism supporting states, including Iran, Iraq, Libya, North Korea, Sudan and Cuba and to work proactively with the Departments of State and Justice to identify and target specific foreign terrorist organizations worldwide.

**Container Security Initiative (CSI).** In FY 2002, Customs implemented CSI, which pushes security efforts beyond the U.S. border by pre-screening containers at foreign ports. This initiative is designed to minimize the risk that a terrorist organization could ship a weapon of mass destruction to the U.S. in a sea container. High-risk containers are targeted and screened at foreign ports by U.S. Customs personnel and their foreign counterparts before they are shipped to the U.S. In FY 2002, five nations signed on to CSI allowing U.S. inspectors to pre-screen U.S. bound cargo. CSI works hand-in-hand with the Customs Trade Partnership Against Terrorism (C-TPAT) and is aimed at facilitating trade while better securing our borders.



***Border Security Targeting.*** Customs established a coordination point to centralize responses to anti-terrorist and national security concerns. Inspectors and analysts convert raw intelligence into tactical targets and provide field elements with additional research assets for passenger and cargo examinations. Numerous leads resulting in investigative and enforcement actions assisting in identifying terrorist targets have been referred.

***Project Shield America.*** This project was initiated by Customs in early December 2001 to partner with U.S. industry to prevent their technological accomplishments from being exploited by terrorists. In FY 2002, 4,302 businesses were interviewed, resulting in more than 50 investigative leads.

***Non-Intrusive Inspection Technology.*** Customs continues to focus on technological solutions to meet present and future border security needs. Deployment of these initiatives assists Customs in meeting both enforcement and trade facilitation goals by allowing for the examination of containers that are targeted as high risk. Non-Intrusive Inspection (NII) technology enables Customs to perform thorough examinations of cargo and conveyances without having to resort to the costly, time consuming process of unloading cargo for manual searches, or intrusive examinations of conveyances by methods such as drilling or dismantling. Multiple large scale technologies are being deployed to support a layered inspection processes. Some are imaging systems that produce "x-ray" images of a container or vehicle; others provide identification of specific materials. As of November 2002, there have been 101 large-scale systems deployed at ports of entry across the country. NII technology accounted for 617 narcotic seizures totaling 272,869 pounds during FY 2002 (up from 307 seizures and 226,799 pounds in FY 2001).

### **Program Evaluations**

Treasury law enforcement bureaus use various program evaluations to complement the use of performance measures in assessing program effectiveness. Program evaluations also encompass an assessment of program implementation processes and operating policies and practices when implementation rather than program outcome is a concern. In FY 2001, ATF completed an evaluation of its Youth Crime Gun Interdiction Initiative Program. An American Customer Satisfaction Index customer survey was administered which identified the need for additional training. In FY 2002, training was provided in three venues and received an overall satisfaction index rating of 70, which compares well with the average rating (71) of private sector and other Federal government services.

### **Management Challenges/High Risk Areas**

The Treasury OIG has identified violent crime performance measures as a management challenge that needs to be addressed. ATF is addressing the OIG's concerns by developing a new cross-cutting measure, using data provided by the DOJ via Uniform Crime Reports from State and local law enforcement agencies. This will more fully reflect the impact of the ATF IVRS and its component projects. Beginning in FY 2004, ATF will use performance measures that will compare the crime rate trends in metropolitan areas with three or more ATF enforcement or outreach programs with other metropolitan areas of similar demographics that do not have ATF programs in place.

### Partners

ATF works closely with state, local and other Federal law enforcement organizations to implement IVRS. ATF works with the FBI and other DOJ agencies to ensure coordination and effective information sharing in fighting violent crime and the new threat of terrorism. Customs enforces hundreds of laws and regulations in partnership with dozens of Federal agencies. The broad range and myriad of tasks and responsibilities of Customs creates the need to coordinate with other Federal agencies, state, local and foreign governments, and many trade and travel groups.

### Next Steps

ATF will continue to work closely with state, local, and other Federal law enforcement organizations to implement its firearms, explosives, and arson programs in efforts to reduce violent crime and terrorist threats. In FY 2003, ATF will continue to conduct PSN training for federal, state and local law enforcement. ATF will focus on the achievement of 100 percent e-tracing of crime guns to provide timely and accurate investigative leads to law enforcement. ATF will maintain the current level of instruction in the critical areas of firearms and explosives identification and investigation for Federal, state and local agencies as well as our global law enforcement partners.

A key component of Customs antiterrorism strategy will be the expansion of Operation Green Quest. Customs will also enhance Project Shield America with additional agents funded through the FY 2002 Supplemental Appropriations Bill. This program partners with U.S. manufacturers and distributors of sensitive technology, weapons, and equipment to stop the illegal movement of such items.

**Strategic Goal LE2: Combat Money Laundering and Other Financial Crimes****Results**

Treasury continued as the lead U.S. Government agency setting anti-money laundering policy and investigating financial crimes. Although, at present, there are no clear and accepted measures for the magnitude of money laundering and many financial crimes, our programs succeeded in producing significant changes in the anti-money laundering laws and practices of a number of countries around the world. This has made it more difficult for money launderers and financial criminals to find safe haven to launder their illicit proceeds.

**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, fraudsters, 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/Key Measures**

***Combating Money Laundering.*** In July 2002, the Treasury Department released the FY 2002 National Money Laundering Strategy. In addition to setting new goals and objectives for the year to come, the 2002 strategy reports on Treasury's accomplishments for the preceding year. Domestically, Treasury embarked on an anti-money laundering regulatory program of unprecedented scope. Pursuant to this program, under authority of the PATRIOT Act Treasury issued regulations requiring a broad range of financial institutions to establish money laundering programs and institute customer identification procedures. Additionally, insurance companies were brought under the general requirement to report suspicious activity. Internationally, Treasury has continued to take a leadership role in the Financial Action Task Force (FATF), including leading the successful effort to a joint FATF/ International Monetary Fund/ World Bank initiative to establish a global program to assess countries against the FATF standards.

***Monetary Instruments Seized.*** The value of monetary instruments seized by Customs in FY 2002 was \$274.3 million, or 188.7 percent above the projection for FY 2002, and 69.3 percent above the \$162 million reported in FY 2001. Many factors contributed to this substantial increase. Several highly productive investigations, begun in previous reporting periods, were concluded in 2002. The aggressive anti-terrorism efforts that Customs implemented following the events of September 11, 2001, led to the creation of a major terrorist financing initiatives such as Operation Green Quest and Operation Oasis. Implementation of the PATRIOT Act provided a wide array of new enforcement tools (e.g., registration of money service businesses and wire transmitters, new criminal penalties for bulk cash smuggling, and new reporting requirements for nontraditional financial organizations) to bolster the effectiveness of anti-money laundering efforts.

***Property Seized.*** The value of property seized by Customs in connection with financial investigations was \$36.7 million, or 43.9 percent above the FY 2002 projection, and 90.2 percent above the \$19.3 million reported for FY 2001. Again, implementation of the PATRIOT Act with its tighter provisions regarding forfeiture of terrorist assets, greater awareness and utilization of specialized Asset Identification and Removal Groups, and improved coordination with Federal, state, and local law enforcement agencies contributed to these gains.

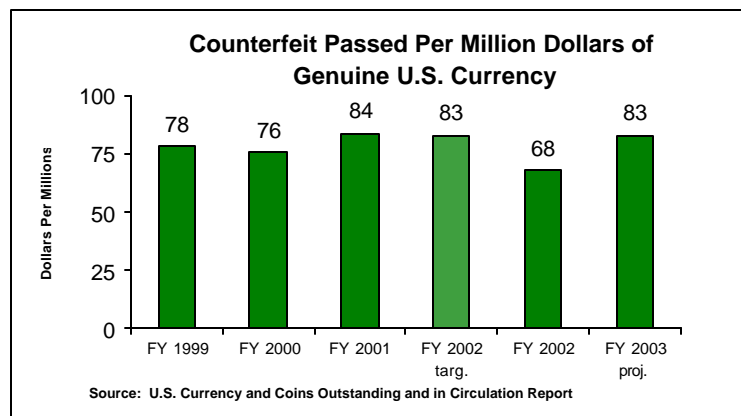
**Identification of Trends and Patterns.** FinCEN disseminated 69 strategic analytical products (an increase of 28 percent over FY 2001) covering a wide variety of topics, including money laundering and terrorist financing methodologies, trends and patterns, and geographic assessments. In response to the PATRIOT Act, FinCEN completed a study on the domestic and international implications of Informal Value Transfer Systems and terrorism.

**Regulation.** Beginning January 1, 2002, Treasury expanded its anti-money laundering regulations and reporting requirements to money services businesses (MSBs), such as money transmitters; issuers, redeemers and sellers of money orders and traveler's checks; check cashers and currency retail exchanges. In FY 2002, more than 11,500 MSBs were registered, and over 16,000 MSB Suspicious Activity Reports were filed. Efforts are underway to expand coverage of the anti-money laundering laws to casinos and card clubs, and the securities industry. These reports provide law enforcement with a new tool for combating the illicit use of underground banking or wire remitters to move funds that might be used to facilitate terrorist activities. Congress recognized the need to expeditiously make additional tools available to law enforcement to fight money laundering and terrorist financing by passing the PATRIOT Act. The final rule for Section 314 was issued in September and encourages cooperation among financial institutions, regulators, and law enforcement to share information regarding individuals or groups suspected of money laundering or terrorism.

**Overseas Efforts.** Treasury bureaus worked closely with international law enforcement agencies. The coordination of international investigative information exchanges continues to grow, with the addition of 11 new financial intelligence units, worldwide. In FY 2002, FinCEN's coordination of investigative information exchanges between the United States and other countries increased by 75 percent over FY 2001 levels to over 700. Within that total, support for domestic law enforcement cases more than doubled from the previous year. To enhance information sharing, FinCEN has been able to connect 52 of the 69 foreign jurisdictions with financial intelligence units to a secure network.

**Networking.** Treasury enforcement bureaus worked cooperatively with the Department of Justice, and state and local enforcement agencies to investigate and prevent money laundering and other financial crime. Federal, state and local enforcement investigators accessed Bank Secrecy Act data through FinCEN's Gateway and Platform programs in support of more than 9,800 cases in FY 2002, an increase of about 12 percent over FY 2001. In addition, FinCEN analysts supported over 4,800 investigations, an increase of about 14 percent over FY 2001, and alerted law enforcement agencies in over 1,600 instances when two or more agencies had an interest in the same subject.

**Anti-Counterfeiting Measures.** The Secret Service worked to stifle counterfeiting and financial crimes involving the currency, obligations, and securities of the U.S. There was \$68 of counterfeit currency passed on the public for every million dollars of genuine currency in circulation. This represents \$15 less of counterfeit per million dollars of genuine currency passed on the American public compared to the goal. Overall, there was \$42.9 million in counterfeit U.S. currency passed domestically and \$1.3 million passed in foreign countries.



---

***Financial Crimes Investigations***. The Secret Service focused its financial crimes investigative resources on cases of significant economic and community impact, organized and transnational crime groups, and criminal schemes involving new technology. The Service closed financial crime cases totaling over \$506 million in actual financial fraud losses and \$2.6 billion in potential losses.

### **Program Evaluations**

Treasury law enforcement bureaus use various program evaluations to complement the use of performance measures in assessing program effectiveness. Program evaluations also encompass an assessment of program implementation processes and operating policies and practices when implementation rather than program outcome is a concern.

### **Partners**

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

### **Next Steps**

In accordance with the FY 2002 Money Laundering Strategy, financial investigations will continue to focus on disrupting and dismantling the financial systems and criminal organizations supporting terrorism. Treasury will also continue implementation of the reporting provisions and enforcement tools of the PATRIOT Act to facilitate analysis and targeting of large-scale criminal organizations.



**Strategic Goal LE3: Protect Our Nation's Borders and Major International Transportation Terminals from Traffickers and Smugglers of Illicit Drugs**

### Results

Although the total flow of narcotics into the country remains unknown, Customs continues to make significant seizures in pounds seized, number of seizures, and pounds per seizure. In addition, Treasury bureaus played an important role in arresting key members of organized drug smuggling groups.

### Strategic Goal Overview

The demand for illegal drugs remains strong in the United States. The National Institute on Drug Abuse estimates about 14.8 million Americans are current users of illicit drugs, with 3.5 million dependent on illegal drugs.

### Strategies/Key Measures

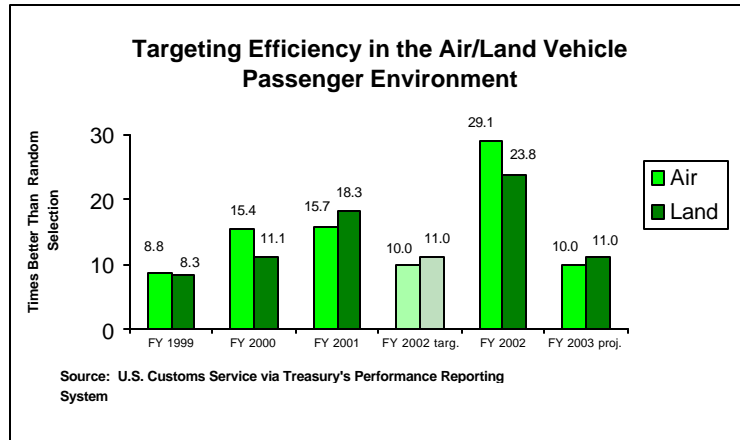
Interdicting illegal drugs entering the U.S. is a key component of the Nation's drug control strategy. Customs worked to disrupt and dismantle drug smuggling organizations through the implementation of a unified intelligence, interdiction, and investigative effort.

**Drug Interdiction.** At the time when narcotic seizure estimates were projected, the lasting impact of the heightened state of alert resulting from September 11, 2001, was not known. Initially, the heightened state of alert increased drug seizures at the border, however, smuggling methodologies and trends constantly change. Customs enforcement efforts are both a catalyst in forcing that change and an end result toward meeting the challenge of the changing patterns. Smugglers constantly seek ways to counter Customs enforcement efforts, and in return, Customs seeks ways to thwart the smugglers ever-changing methods. As noted below, in FY 2002, targets for cocaine and marijuana seizures were not met. Targets for heroin were exceeded.

Drug Type	Measure	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Plan	FY 2002 Actual
<b>Cocaine</b>	Total Seizures (pounds in thousands)	160.4	150.0	190.9	200.3	167.8
	Number of Seizures	2,519	2,487	2,698	2,778	2,533
	Average Seizures (pounds in thousands)	63.9	60.3	70.8	72.1	66.2
<b>Marijuana</b>	Total Seizures (pounds in thousands)	1,147.6	1,291.5	1,503.9	1,579.1	1,374.1
	Number of Seizures	15,705	14,876	14,587	15,024	13,404
	Average Seizures (pounds in thousands)	73.1	86.9	103.1	105.1	102.5
<b>Heroin</b>	Total Seizures (pounds in thousands)	1.9	2.6	3.6	3.8	4.1
	Number of Seizures	911	859	916	943	967
	Average Seizures (pounds in thousands)	2.1	3.0	3.9	4.0	4.2

Measuring drug seizures provides only an indication of the impact of Customs interdiction efforts. To improve on this, Customs is working with the Department of Justice and the Office of National Drug Control Policy to develop drug flow models, which will provide estimates of the amount of illicit drugs entering the country.

**Selection and Targeting of Non-Compliant Travelers.** Customs continued to develop and expand the Automated Targeting System/ Passenger (ATS/P) application, the web-based computer system used to gather tactical intelligence on arriving passengers. ATS/P integrates various enforcement and commercial databases into a consolidated targeting platform. These databases include Advance Passenger Information System (APIS), various law enforcement agency systems, and numerous airline reservation systems. Targeting efficiency has improved considerably over the past few years.



**Smuggling Investigations.** Operation Panama Express, a Tampa-based Organized Crime Drug Enforcement Task Force (OCDETF) investigation, involves some of the most significant cocaine trafficking organizations operating in Colombia - organizations that are currently transporting in excess of 500 metric tons of cocaine annually to the U.S. via Mexico. In May 2002, a seizure made in the Eastern Pacific Ocean from the Colombian fishing vessel Paulo totaled 22,324 pounds, which is considered one of the largest cocaine seizures in history. Operation Panama Express has been recognized as one of the most successful joint operations ever conducted by law enforcement.

### Program Evaluations

Treasury's OIG conducted a follow-up audit of the U.S. Customs Marine Enforcement Program, which found that previously identified problems with delayed preventive maintenance, incomplete information in the vessel inventory tracking system, and weak contract administration and accountability over Government-furnished property had been addressed.

### Partners

During FY 2002 Customs established new partnerships with other governmental entities and with the trade community. One example is the deployment of the first Foreign Intelligence Collection Team to Mexico. This group is tasked with proactively collecting drug intelligence in a partnership venture between Customs and the Drug Enforcement Administration. Additionally, Customs has been actively engaged in Industry Partnership Programs. These programs are designed to deter and prevent narcotics from being smuggled into the United States via commercial cargo and conveyances. Customs also works closely with the commercial airlines and the Immigration and Naturalization Service (INS) to develop and further expand the APIS, an application that processes passenger manifests for inbound international air passengers. Partnerships also exist with INS and the Canadian Inspection Service for expedited passenger processing in its new NEXUS program, which provides a dedicated lane for holder of pre-approved passengers holding required identification.



### Next Steps

Customs will focus on the continuing development of APIS, which includes outbound APIS for commercial passenger air carriers, and commercial vessel APIS for inbound and outbound passengers. Customs will continue to build the next generation of APIS with “Name by Name” query capability. This key law enforcement tool will allow a return message to air carriers to “Board/Don’t Board” the traveler in question. It will have the effect of pushing the U.S. perimeter out to the departure airport by preventing the boarding of those persons who may pose a security threat to the aircraft, and by preventing the arrival of illegal aliens.

Two new programs that have had initial success will be expanded. Due to the effectiveness of the NEXUS pilot project, Customs, INS, and Canadian government agencies are currently working to expand the NEXUS program across the U.S./Canada border. The Secure Electronic Network for Traveler’s Rapid Inspection (SENTRI) program has been installed at the ports of entry along the U.S./Mexico border and has significantly improved traffic flow by use of dedicated commuter lanes for low risk travelers. Customs, INS, and Mexican Immigration are working to expand SENTRI as part of the U.S./Mexico Border Partnership.



**Strategic Goal LE4: Protect Our Nation's Leaders and Visiting Dignitaries****Results**

The ultimate mission of the Secret Service is to ensure the safety of persons authorized Secret Service protection. The Secret Service met its responsibility of providing security to all its protectees and related facilities during FY 2002.

**Strategic Goal Overview**

The protective threat facing the Secret Service has broadened to include individuals and groups operating outside their own countries. These individuals and groups have access to more sophisticated weapons, and are using “front” organizations to finance their activities. They are indiscriminate in their use of violence and often seek public attention for their actions. The low cost and availability of advanced technology and the proliferation of weapons of mass destruction have further increased dangers with which the Secret Service must contend.

**Strategies/Key Measures**

In its effort to perform its protective mission, the Secret Service employs a variety of procedures to ensure the safety of its protectees. These procedures directly relate to the primary strategies that include the proactive use of technology and protective intelligence, and the effective use of resources based on risk assessment and risk management. To maintain effectiveness, the Secret Service continually evaluates, modifies, and improves its policies and procedures to adapt to our complex world.

***Protectee Travel.*** Travel by Secret Service protectees places considerable demands on Secret Service resources. The effort required to provide security increases dramatically when a protectee travels compared to when a protectee remains at his or her residence. The Secret Service measures protectee travel activity in terms of travel stops. A stop is considered a city or other definable sub-division visited by a protectee. The Secret Service provided physical protection at over 7,100 travel stops.

***Expanded Protection.*** Since September 11, 2001, the severity of threats posed by individuals and groups against protectees has increased. Due to this heightened threat of terrorism, the Secret Service is now protecting more individuals. In addition to providing protection during the U.N. General Assembly, the Joint Session in New York, and the September 11 Memorial, the Secret Service also managed protection coverage for two National Special Security Events, the Super Bowl in New Orleans, Louisiana and the 2002 Winter Olympics in Salt Lake City, Utah.

***Protective Intelligence Cases.*** A major component of Secret Service protective operations are the protective intelligence cases worked by field agents. These cases involve an assessment of individuals or groups that may pose a threat to protectees of the Secret Service. The Secret Service closed 4,320 intelligence cases in FY 2002.

**Partners**

The Secret Service has developed and maintains close working relationships with other Federal agencies and state and local law enforcement organizations. In addition to its own resources, the Secret Service relies heavily on these partnerships for support in carrying out its protective mission.

**Next Steps**

The recent terrorist events have underscored the need to continually maintain the highest level of security for our Nation's leaders and visiting dignitaries. The Secret Service must remain forward looking to identify approaches to deal with potential threats. To continue to provide the highest level of quality physical protection, the Secret Service must invest in personnel, equipment, and technologies that can detect and deter threats to our Nation's leaders and visiting dignitaries.

## Strategic Goal LE5: Provide High-Quality Training for Law Enforcement Personnel

### Results

FLETC continually solicits feedback from the 76 organizations that currently partner with them to ensure that both new and experienced law enforcement personnel receive high-quality training. The consistently high survey ratings from both the participating organizations and the students indicate progress is being made in providing high quality training.

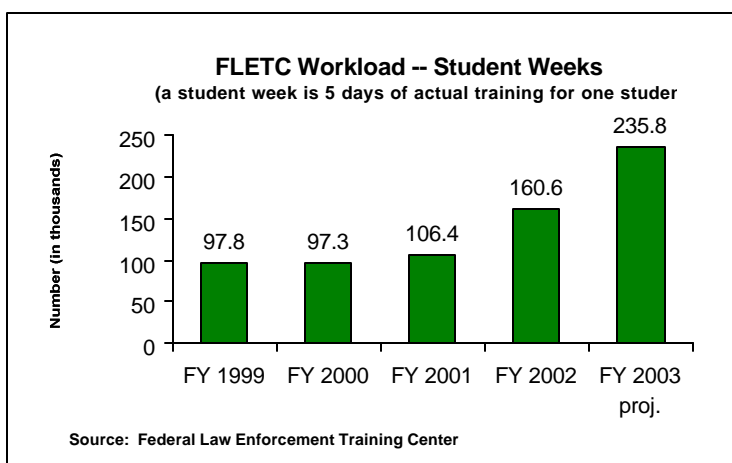
As an example, in response to demands from the Federal Aviation Administration, the FLETC trained several thousand Federal Air Marshals in FY 2002. FLETC's immediate response to the Federal Aviation Administration demand for Federal Air Marshals training demonstrates the bureau's ability to provide the right training at the right time.

### Strategic Goal Overview

America's citizens rely on law enforcement personnel to maintain order throughout the country. It is essential that law enforcement students gain the knowledge and skills to successfully conduct investigations and operations and enforce our nation's laws.

### Strategy/Key Measures

**Increased Demand.** As a result of the September 11, 2001, terrorist attacks, FLETC incurred increased training demands from its Partner Organizations (POs). To meet the demand, FLETC instituted a six-day training week at both the Glynco and Artesia centers, which increased training capacity by 20 percent. FLETC extended the training week to compress the length of all programs and to maximally employ facilities and staff. Increased demand for training is expected to continue for the next few years.



**Law Enforcement Training.** The strategies associated with achieving this goal focus on the quality of instruction and of the training environment. FLETC recognizes the need for instructors to have had operational experience with a representative mix of the POs. FLETC is exploring innovative measures to attract and retain an instructional force that reflects a combination of recent agency experience, familiarity with current agency procedures, and corporate knowledge. In addition, efforts are ongoing to ensure that the entire instructional cadre is exposed to both the latest thinking in adult learning theory and the state-of-the-art technological advancements that complement and facilitate the instruction.

FLETC's attentiveness to the comments of its POs and their students is perhaps the single most important factor in maintaining a high level of satisfaction. Survey feedback from the POs indicated high levels of satisfaction. Additionally, both basic students and advanced students gave the FLETC high ratings on Quality of Training and Services surveys. FLETC also met PO demand for training; nearly 96 percent of requested classes began within 15 days of the start date requested by the agency.

### **Program Evaluations**

Programs are constantly evolving and being refined in response to evaluative data and environmental issues, such as changes in applicable laws, mission emphases, and the partners' requirements. As needed, FLETC holds formal Curriculum Reviews and Development Conferences with the POs to alter training programs to meet their needs. During FY 2002, the "Mixed Basic Police Training Program" was reviewed and revised to include antiterrorism modules.

### **Partners**

FLETC currently has Memoranda of Agreement with 76 POs, who contribute to the training experience by providing members of their own agency staffs on a temporary basis to augment the FLETC instructional force. Regularly scheduled meetings between the POs and the FLETC Director and senior management provide a discussion forum for any issues of mutual interest.

### **Next Steps**

The events of September 11, 2001, have heightened the need for high-quality law enforcement personnel. To meet this demand, the FLETC has developed a long-term strategy for hiring its instructional staff and has begun to execute the strategy. In addition, the involvement of the agencies whose students train at the FLETC will continue to evolve from "participating" to "partner" with increased opportunities for substantive cooperation being identified.

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

To effectively meet Treasury's programmatic goals, the Department needs 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.

**Management Enabling Goals**

- M1. Support the Achievement of Business Results
- M2. Improve Customer Satisfaction
- M3. Improve Employee Satisfaction





**Enabling Goal M1: Support the Achievement of Business Results****Results**

Treasury aggressively pursued implementation of the President's Management Agenda, developed its first-ever *Human Capital Strategic Plan*, achieved an unqualified audit opinion for the second year in a row, reduced the number of material weaknesses by 31 percent, exceeded its procurement competition goals, and worked to ensure that its information systems were secure.

**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 the Department to ensure all mission requirements are met at the least cost to the taxpayer. This goal focuses on efforts to strengthen our human resources, financial and asset management, information technology, and procurement programs.

***Improve the Capacity to Recruit, Develop, and Retain High-Caliber Employees.*** Treasury took innovative approaches to address critical emerging issues in human resources, to improve the Department's position as a competitive employer, and to better achieve organizational goals. Among its accomplishments, Treasury identified actual and anticipated skills gaps resulting from increased retirements and emerging technology, and then developed programs designed specifically to meet these needs. The Department identified and analyzed barriers to effective recruitment in the Federal sector, and prepared a report for OPM with recommended solutions to fix the Government-wide hiring process. Treasury successfully obtained a number of waivers and special authorities to provide managers with needed flexibilities for attracting high-quality staff for critical counter-terrorism activities. Substantial progress was made as Treasury reached 40.13 percent in developing and deploying *HR Connect*. Significant milestones were reached as employee and manager self-service features were deployed. These new components will streamline personnel transaction processes (such as hiring) and reduced paper flow by empowering managers and employees to initiate personnel actions from their desktops. In addition, a major upgrade was undertaken which moves *HR Connect* to a purely internet-based architecture.

***Foster an Environment of Equal Opportunity.*** The Department incorporated its equal opportunity agenda into its *Human Capital Strategic Plan*, which contains measures that ensure that Treasury continues to make progress in attracting, retaining and developing a high quality diverse workforce. Continued progress was noted in the representation of minorities and persons with disabilities. The minority representation of the Department increased to 35.93 percent from 35.48 percent in FY 2001, 14.3 percent above the minority representation in the Civilian Labor Force (CLF). The representation of women increased from 57.99 percent in FY 2001 to 58.53 percent, well above their representation of 46 percent in the CLF. In support of the President's New Freedom initiative and the commitment to increase employment opportunities for persons with disabilities, the Department met 38.4 percent of its goal to employ 12,000 new hires of qualified disabled individuals, across all career fields and grade levels by FY 2005. The Department also made progress in increasing the efficiency of its Equal Employment Opportunity process through a 176 percent increase (569 cases in FY 2002 versus 206 cases in FY 2001) in the use of alternate dispute resolution techniques for complaints of discrimination, and initiated several new dispute prevention initiatives.

***Ensure Strong Financial Management of Treasury's Accounts.*** Treasury received an unqualified audit opinion on its financial statements for FY 2001, its second year in a row for receiving an unqualified opinion. Treasury also reduced the number of open material weaknesses to 20 at the end of FY 2002 from the FY 1998 baseline year of 60 and 29 at the end of FY 2001. Seven new material weaknesses were added at the end of

FY 2002. Treasury maintained the FY 2002 level of 72 percent of bureaus in compliance with Federal Financial Management Improvement Act (FFMIA) financial systems requirements, the same as its FY 2001 level. In addition, the Department implemented the “3-day Close” initiative to close its financial books within three working days after the close of the month.

***Make Wise Capital Investments and Effectively Manage Treasury’s Assets.*** Treasury’s capital investment portfolio consists of a number of major projects that include both bureau and enterprise initiatives. In FY 2002, Treasury implemented a standardized review and monitoring process for all major projects. Emphasis was on making the business case; monitoring investment control phase data; and, improving the associated scores in the President’s Management Agenda. Treasury’s system for tracking cost, schedule, and performance data required by the Clinger-Cohen Act is the Information Technology Investment Portfolio System (I-TIPS). For the FY 2004 budget cycle (during FY 2002), all major projects followed new OMB Circular A-11 requirements and re-baselined their cost, schedule and performance data. Data from major projects was entered into I-TIPS and included in the FY 2004 budget submission. Because the major projects were re-baselined on September 16, 2002, 100 percent are meeting targets. Results and actuals will be measured against the new baseline and will be updated in I-TIPS on a quarterly basis.

***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 \$3.1 billion annually for the acquisition of contractor goods and services in support of critical program missions. During FY 2002, Treasury exceeded its 80 percent goal for competition on contract dollars awarded in excess of \$25,000 with an actual result at 83 percent. Achievement of the competition 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. In addition, the Central Contract Registration (CCR) was implemented in May 1, 2002. Treasury usage monitoring of CCR indicates 98 percent usage among all bureaus within Treasury.

***Ensure Continuity of Treasury Operations.*** Treasury’s efforts during FY 2002 were focused on training, protection of critical assets, policy refinement and compliance with the Government Information Security Act (GISRA). Treasury formulated Critical Infrastructure Protection (CIP) policy, updated and issued its CIP Plan and an Interdependency Analysis methodology was developed to assess interdependencies of Treasury’s 32 critical assets. In addition, Project Matrix Step 2 function analysis was completed for one Treasury asset. Treasury implemented an enterprise-wide 24x7 Computer Security Incident Reporting Capability, ensuring all bureaus receive Federal Computer Incident Response Center and National Infrastructure Protection Center timely alerts and advisories. Treasury initiated a major project to update Treasury’s IT security policy for both sensitive and national security systems. Standards for evaluating the security training were developed and key personnel were identified to make these assessments. In FY 2003, a survey will be administered to these key people to determine the current level of effectiveness and areas for improvement for security training. Treasury met with all of the bureaus to discuss their FY 2001 GISRA report submissions and their plans of action and milestones, and conducted reviews of two bureaus’ information technology security oversight programs.

### Management Challenges/High-Risk Areas

A number of management challenges and high-risk areas have been identified by Treasury's Inspectors General and the General Accounting Office. These issues primarily relate to needed improvements in financial management and financial management systems, information and physical security, and human capital management. Treasury has been working at both the Departmental level, and the affected bureau(s) level to make necessary improvements. For example:

- Treasury overall has maintained its compliance with FFMIA financial systems requirements at 72 percent.
- The Department reduced its FY 2002 baseline to 23 material weaknesses, with 10 of those closed or downgraded by the end of the fiscal year.
- IRS, FMS, and Customs continued efforts to reduce information systems security risks and the costs related to mitigating them.
- The Department declared a new material weakness for the lack of substantial compliance with GISRA.
- In the human resources area, Treasury drafted its first-ever human capital strategic plan, which serves as a framework for human capital management for FY 2002 and beyond, and continued to improve workforce management through implementation of its department-wide *HR Connect* system.

More detailed descriptions of actions taken during FY 2002, as well as planned future actions to address these issues, are presented in the "Treasury FY 2002 Activities to Address Challenges" section.

### Partners

In achieving the objectives of this goal, Treasury works closely with various organizations to ensure coordination on cross-cutting activities. These organizations include, among others, the 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.

### Next Steps

Treasury will continue to focus on ways to become a world-class organization, and work to effectively implement the goals of the President's Management Agenda. Among other efforts in FY 2003, the Department will do the following.

- Begin implementation of a competency-based approach to recruit, develop, and retain a high-quality diverse workforce.
- Effectively implement Treasury's *Human Capital Strategic Plan* to ensure human capital decisions are data-driven, results-oriented, and strategically aligned with the Department's mission/goals and the President's Management Agenda.
- Develop strategies for dispute prevention and marketing and increasing the use of alternative dispute resolution mechanisms.
- Continue to enhance the Department's diversity strategy through partnerships with citizen-centered organizations that provide services to minorities, women, and individuals with disabilities.
- Continue complaint management efficiencies through the use of e-government, early intervention strategies, and the implementation of best practices.
- Maintain the three-working-days close of its financial books and work toward completing its audited annual financial statements within 45 days after year-end.
- Improve data concerning cost, performance, and schedule for its capital investments, and will work to strengthen and improve processes related to asset management.

- Focus on Government-wide management priorities to increase competition for various activities, to make greater use of performance-based service contracts, and to expand the applications of electronic procurement.
- Continue to focus efforts on systems certification and accreditation, Treasury's first line of defense against threats and attacks on critical financial and law enforcement computer systems.

## Enabling Goal M2: Improve Customer Satisfaction

### Results

Treasury bureaus continued progress in improving customer satisfaction with their services and products.

### 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/Key Measures

Presented below are strategies and results of several Treasury bureaus to measure and improve customer satisfaction during FY 2002.

**IRS.** Taxpayers, via the American Customer Satisfaction Index Survey, gave the IRS an overall score of 62, an 11 percent increase in satisfaction among individual tax filers since 2000, and 22 percent since 1999. Additionally, the Roper Starch survey shows that public approval was 44 percent in 2002. While this is down slightly from the 2001 score of 46 percent, it is a significant improvement from the all-time low score of 32 percent in 1998. The benefits of reorganization, electronic filing, and the emphasis on customer service all contributed to these improved results.

In addition to the valuable customer satisfaction survey data collected through external surveys, IRS is using 24 transaction-based customer satisfaction surveys for key taxpayer contact programs to help gauge the effectiveness of IRS service. These transaction-based surveys collect feedback on IRS staff in many service components. In almost all surveys, respondents consistently rate IRS representatives' courtesy, professionalism and attitude as the highest characteristics of interactions with the taxpayer. Just as consistently, time spent on audit and length of process are cited as areas needing greatest improvement.

**Customs.** Due to the re-deployment of personnel to border security initiatives, Customs suspended the use of all surveys in FY 2002. However, efforts continued to enhance customer service and efficiency for both its passenger and trade operations. These included the implementation of a new automated comment card program for all passengers to allow for a more comprehensive analysis and dissemination of customer feedback, enhanced Passenger Service Representative efforts at key U.S. airports and land borders, and extended outreach to commercial importers to promote new initiatives.

**ATF.** An American Customer Satisfaction Index Survey was conducted of ATF's Youth Crime Gun Interdiction Initiative (YCGII) customers with a resulting benchmark rating of 70 out of 100. The survey identified needed improvements in YCGII training that are now being addressed. Individual ATF program offices are getting customer input and developing customer service standards for improving the efficiency of processes and delivery of services to law enforcement and industry customers.

**FinCEN.** FinCEN conducted a baseline customer satisfaction survey of law enforcement officials for whom FinCEN has prepared case reports over the past six months. 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 79 percent of its customers were satisfied, overall, with the service provided by FinCEN. Users gave high performance ratings to FinCEN with regard to understanding customer needs, level of detail in case reports, and relevance of information. A lower rating was given for the timeliness of the reports. FinCEN plans to administer this survey on an annual basis.

**FMS.** FMS assessed the satisfaction of its customers with both check and electronic payment services. 99 percent of respondents reported an overall satisfaction level of "satisfied" or better, meeting FMS' performance target.

**OCC.** Bank officials and applicants regularly rate bank examinations and corporate applications completed by the OCC. Products and services are rated on attributes such as quality, timeliness, professionalism, and communications, using a five-point scale with one as the highest rating. During FY 2002, respondents rated the examination process between 1.21 and 1.36 (the target was  $\leq 1.75$ ) and the licensing process between 1.11 and 1.28 (the target was  $\leq 1.5$ ).

**BPD.** Using its website, BPD began collecting customer satisfaction information from its savings bonds and marketable securities customers in FY 2002. While customers' responses have been very favorable, it is too early to establish a baseline for this measure. BPD will continue to refine the survey and begin reporting results in FY 2004.

### **Next Steps**

Customer satisfaction measurement will continue in several Treasury bureaus. IRS will expand the transaction-based surveys to cover additional taxpayer contact programs. IRS will also baseline data for the strategic measure of burden (time and dollars) to obtain information and affect change in the time and out of pocket costs taxpayers incur in meeting their tax responsibilities. ATF will conduct a survey of National Integrated Ballistics Information Network customers, and will initiate a sample survey of all industry and law enforcement customers as part of an environmental scan in preparation for the September 2003 revision of the Bureau strategic plan. And other bureaus will work to improve services and improve measurement techniques related to customer satisfaction feedback. FinCEN plans to introduce a second customer survey to measure the satisfaction of individuals who have queried FinCEN for information on regulatory matters. FinCEN is also planning to develop a methodology for surveying users of FinCEN's analytical products that provide feedback on the use and utility of Bank Secrecy Act data. FLETC will administer its biannual survey to Partner Organizations.

### Enabling Goal M3: Improve Employee Satisfaction

#### Results

Several Treasury bureaus worked to both survey their employees and to improve the workplace environment during FY 2002.

#### 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/Key Measures

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

**DO.** DO contracted with the Gallup Organization to conduct their first-ever employee engagement survey, which uses a set of highly focused questions that measure what is important in a highly productive work environment, and a structured follow-up intervention designed to increase employee engagement. The survey was administered bureau-wide, with a 72 percent response rate (exceeding the DO goal of 70 percent and Gallup's average of 67 percent for organizations conducting the survey for the first time). During the latter part of FY 2002 and continuing into early FY 2003, DO began rolling out the results to managers and employees, with managers conducting feedback and action planning sessions with their workgroups. This process will provide the basis for real and measurable improvements in the workplace. In addition, DO employees participated in an Office of Personnel Management (OPM)-administered survey on employee satisfaction; results are still pending. The results from both surveys will be used to measure progress toward meeting the goals of the President's Management Agenda, and Treasury's *Human Capital Strategic Plan*.

**IRS.** Employee satisfaction is one of the three components to IRS' balanced measures. The IRS Commissioner holds Executives accountable for setting improvement targets and measuring progress toward meeting goals. The overall level of IRS employee satisfaction reached 55 percent in FY 2002, exceeding FY 2001 by 4 percent and the FY 2002 target by 1 percent. This year a record 82,027 employees responded to the annual survey. Improvement was most notable in the areas of overall job satisfaction, recent recognition or praise for doing a good job, and increased feelings of job importance. IRS' strongest performance was in the areas of ensuring employees know what is expected of them, creating a caring environment, and engendering a commitment to quality work. Results of SURVEY2002 were provided to employees for discussions in workgroups with subsequent action plans developed to ensure continued improved working conditions.

**FinCEN.** FinCEN conducted a baseline employee satisfaction survey in FY 2002. The survey showed that 66 percent of the employees were satisfied overall with their job, 68 percent of the employees felt that they were treated with dignity and respect at work, and 75 percent were proud to work at FinCEN. The survey had a response rate of 83 percent. Focus groups were conducted to explore, in-depth, several areas of the survey and to recommend changes. Work is in progress on implementing those recommendations. FinCEN plans to administer the survey again in FY 2004 to assess progress.

**FLETC.** FLETC administered over 800 surveys to FLETC employees at their various facilities. A total of 482 employees responded to the survey for an approximate return rate of 60 percent. The overall job satisfaction rate was 82 percent, up from 78 percent in FY 2001 (and exceeding the goal of 70 percent). The area of recognition and rewards continued to be rated low, although the rating had improved over the FY 2001 results. FLETC will continue to address this area through the various strategies.

**FMS.** An OPM-administered survey in FY 2002 found FMS' level of employee satisfaction higher than Government and private sector averages. Based on the survey results, FMS continued working in FY 2002 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.

### **Next Steps**

Efforts will continue during FY 2002 to improve in this area. DO will continue action planning and implementation to address results of the Gallup survey, and will review results of the OPM survey. IRS plans to improve the readability of the survey, and will expand the use of electronic (telephone and web-based) survey tools to make it easier for employees to participate. ATF will conduct an all-employee survey in preparation for the September 2003 revision of their strategic plan. Through participation in OPM's future surveys, FMS will assess the success of its ongoing effort to maintain a high level of employee satisfaction, and will conduct another survey of several employee sectors in FY 2004.



## TREASURY INSPECTORS GENERAL

Treasury's two independent Inspectors General 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 Department's programs and operations, except for the IRS. TIGTA conducts audits and investigations involving IRS programs and operations. Highlights of their performance during FY 2002 are presented below. It should be noted that OIG did not have a published Annual Performance Plan for FY 2002. TIGTA did have a published Annual Performance Plan for FY 2002; data on their performance measures are presented in Volume II, Appendix A.

### Office of the Inspector General

#### Strategies/Key Measures

**Audit.** During FY 2002, the OIG reported approximately \$785 million in potential dollar savings identified from its audit recommendations. This amount exceeded last year's potential savings by approximately \$600 million, and is primarily attributed to an audit of Customs' inspections over international mail that identified a potential revenue enhancement over 3 years of \$681 million. OIG issued a total of 130 audit and evaluation reports during the fiscal year, compared to 97 reports during the prior year. The increase was primarily due to: (1) reporting the results of our work in a timelier manner through delegation of report signatory authority and (2) conducting more narrowly focused local projects.

The OIG continued to work with the Department and its bureaus to strengthen their financial management systems. Through a combination of annual financial statement audits and advice and consultation, the OIG helped the Department identify material weaknesses and analyze and interpret the Federal accounting standards and the new and expanding financial statement reporting requirements. Its efforts helped the Department reduce the number of material weaknesses related to financial statement reporting from 24 in FY 1997 to 11 in FY 2001. The OIG also committed, as a priority, the necessary contractor and staff audit resources to support the Secretary of the Treasury's goal to issue the FY 2002 Performance and Accountability Report by November 15, 2002. OIG also performed other significant audit work, including addressing the Customs' Automated Commercial Environment (ACE) system initiative and Treasury's information security program. Furthermore, the OIG completed a mandated material loss review of a failed thrift institution, Superior Bank, FSB that was supervised by OTS.

**Investigations.** In the Investigations area, the OIG closed 199 investigations and obtained penalties and other monetary recoveries of \$1,872,784 in FY 2002. The OIG opened an additional 200 cases in FY 2002 and continues to expand the program for reviewing the internal affairs and inspection functions of the three law enforcement functions that are under Treasury OIG jurisdiction (ATF, Customs, and Secret Service). Additionally, the OIG reviews the handling of employee integrity issues at the other non-law enforcement Treasury bureaus. In FY 2002, OIG completed reviews at ATF, Customs, and Secret Service, and at three non-law enforcement bureaus. Recommendations were made that will help strengthen employee integrity programs in these bureaus.

The OIG has also been proactive in providing investigative assistance in the wake of the tragic events of September 11, 2001, participating in the terrorist investigations in both New York City and at the Pentagon. Additionally, the OIG provided two special agents for six months for the Federal Aviation Administration's Federal Air Marshal Program and one special agent was called to active duty in the U.S. Armed Forces for the entire fiscal year.

### Next Steps

For FY 2003, the Inspector General established three Audit priorities: (1) audit products mandated by law, (2) audit products that support the President's Management Agenda, and (3) audit products that address material weaknesses and other known serious deficiencies in the Department's programs and operations. In this regard, the OIG plans to complete 17 audits and evaluations that were in process at the beginning of the fiscal year and undertake 111 new audit and evaluation projects during the fiscal year. Also the OIG will continue its emphasis on conducting reviews of the internal affairs functions of the Treasury law enforcement bureaus and the employee integrity programs and policies in the other Treasury bureaus.

### **Treasury Inspector General for Tax Administration**

#### Strategies/Key Measures

**Audit.** In FY 2002, TIGTA issued 159 audit reports (compared to 162 in FY 2001) with a combination of real and potential cost savings (if TIGTA recommendations are implemented) totaling over \$70.5 million. Additionally, almost \$730 million was captured in increased revenue or revenue protected. TIGTA made significant strides in meeting its overall mission to promote economy, efficiency and integrity in the administration of the internal revenue laws. The Office of Audit made recommendations that helped to improve the tax administration for over 7.5 million taxpaying entities in such areas as taxpayer rights and entitlements, burden and privacy, and security.

**Investigations.** Additionally, TIGTA closed 4,601 cases and referred 2,020 cases for criminal prosecution. TIGTA's Office of Investigations obtained penalties and other monetary recoveries totaling almost \$12.9 million as compared to \$16.5 million in FY 2001. TIGTA exceeded its FY 2002 goals related to referring criminal and misconduct investigations, referring 89 percent of its criminal investigations to the U.S. Attorney, state or local authorities for prosecution within one year of case initiation. Eighty-one percent of TIGTA's misconduct investigations were referred to IRS management for administrative adjudication within four months of case initiation, exceeding FY 2001 performance of 71 percent.

**Support to Task Force.** TIGTA has adapted to the challenges placed on its staff and resources as a result of the tragic events of September 11, 2001. TIGTA continues to provide assistance to the Joint Terrorism Task Force. In addition, TIGTA continues to be an integral part of the President's Council on Integrity and Efficiency.

### Next Steps

During FY 2003, TIGTA will continue to adhere to its mission and purpose, providing timely and high-quality products that provide a good investment for the American taxpayer while ensuring an excellent and efficient tax administration. Specifically, TIGTA plans to meet its strategic goal of improving the efficiency and effectiveness of tax administration by focusing its audit program and resources on the fundamental goals related to the IRS' mission to administer its programs. To achieve this goal, the majority of the TIGTA audit program focuses on the major management challenges facing the IRS and the IRS' progress in achieving its strategic goals. Emphasis is also placed on the statutory coverage imposed by the *IRS Restructuring and Reform Act of 1998*, as well as areas of concern to the Congress and the IRS Commissioner.

---

During FY 2003, the Office of Investigations will focus resources on its' core investigative missions: employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. In light of the ongoing specter of terrorist attacks on the nation's critical infrastructure, they will continue to perfect its counter-terrorism program in order to protect the IRS from potential terrorist strikes targeted at IRS employees, facilities or computer infrastructure. In addition, they will leverage computer technology in proactive investigative initiatives that include detecting unauthorized access to, and misuse of, sensitive taxpayer information



**FINANCIAL HIGHLIGHTS**

*Financial Statement Highlights*

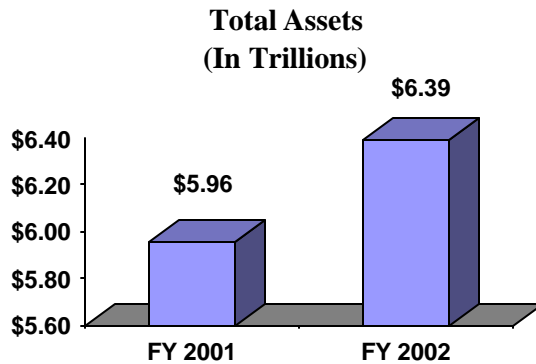
The financial statements contained in Part 3 have been prepared from the accounting records of Treasury in conformity with the accounting principles generally accepted in the United States, and the form and content of entity financial statements specified by the Office of Management and Budget (OMB) 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.

**Assets**

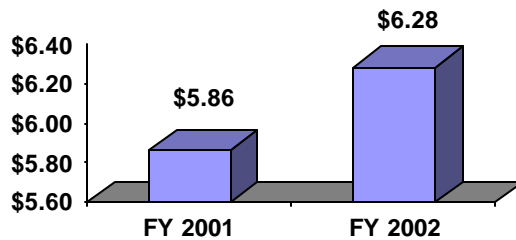
Treasury’s total assets as of September 30, 2002 included \$5.9 trillion due from the General Fund of the Federal government to pay the principal and interest on the public debt and tax refunds. In FY 2001, \$5.5 trillion was due from the General Fund to pay the principal and interest on the public debt and tax refunds.



**Liabilities**

In FY 2002, Intra-governmental liabilities totaled \$2.7 trillion, including interest payable, in borrowing from various Federal agencies. However, they 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 \$3.55 trillion; the majority of this debt was issued as Treasury Bills. In FY 2001, borrowing from various Federal agencies totaled \$2.49 trillion, and Federal debt held by the public, including interest, totaled \$3.33 trillion.

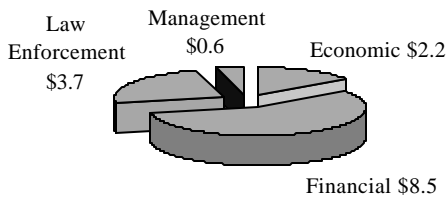
**Total Liabilities  
(In Trillions)**



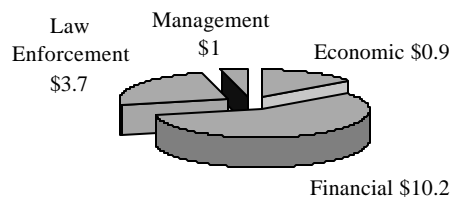
**Net Cost of Treasury Operations**

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.

**Net Cost of Treasury Operations  
FY 2001 (In Billions)**

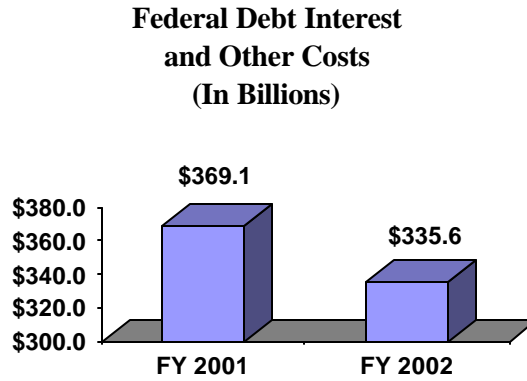


**Net Cost of Treasury Operations  
FY 2002 (In Billions)**



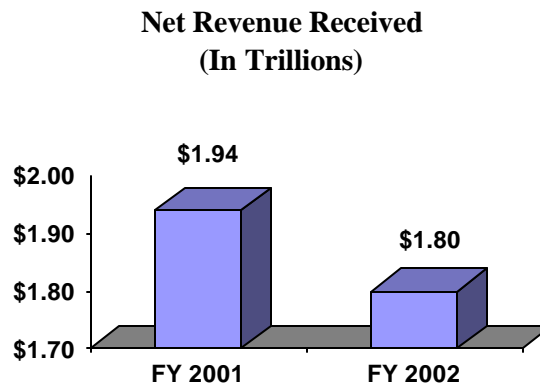
**Federal Debt Interest and Other Costs**

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.



**Custodial Revenue**

Total net revenue collected by Treasury on behalf of the Federal government includes various taxes, tariff duties, user fees, fines and penalties, and other revenue.







## OTHER FINANCIAL HIGHLIGHTS

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

Treasury Bureau	Appropriations Enacted (in Millions)		Full Time Equivalent Employees (Actual)	
	FY 2002	FY 2001	FY 2002	FY 2001
Alcohol, Tobacco and Firearms (ATF)	\$855	\$771	4,967	4,648
Office of the Comptroller of the Currency (OCC)	*	*	2,792	2,837
U.S. Customs Service (Customs)	\$3,116	\$2,279	20,008	19,577
Departmental Offices (DO) **	\$683	\$881	3,156	3,266
Bureau of Engraving and Printing (BEP)	*	*	2,400	2,490
Federal Law Enforcement Training Center (FLETC)	\$171	\$153	727	616
Financial Crime Enforcement Network (FinCEN)***	\$48	N/A	205	N/A
Financial Management Service (FMS)	\$213	\$206	1,986	1,978
Internal Revenue Service (IRS)	\$9,471	\$8,696	100,217	98,574
U.S. Mint	*	*	2,421	2,760
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	\$187	\$183	1,460	1,472
U.S. Secret Service (SS)	\$1,066	\$834	5,760	5,556
Office of Thrift Supervision (OTS)	*	*	1,087	1,211
<b>TOTAL</b>	<b>\$15,810</b>	<b>\$14,003</b>	<b>147,186</b>	<b>144,985</b>

Treasury Bureau	Total Resources (in Millions)		Total Outlays (in Millions)	
	FY 2002	FY 2001	FY 2002	FY 2001
Alcohol, Tobacco and Firearms (ATF)	\$938	\$863	\$879	\$694
Office of the Comptroller of the Currency (OCC)	\$730	\$688	(\$36)	(\$16)
U.S. Customs Service (Customs)	\$5,211	\$4,272	\$3,070	\$2,507
Departmental Offices (DO) **	\$69,059	\$41,573	\$1,668	\$2,255
Bureau of Engraving and Printing (BEP)	\$598	\$572	\$101	\$3
Federal Law Enforcement Training Center (FLETC)	\$295	\$235	\$167	\$127
Financial Crime Enforcement Network (FinCEN)***	\$58	N/A	\$44	N/A
Financial Management Service (FMS)	\$9,732	\$8,785	\$8,096	\$8,081
Internal Revenue Service (IRS)	\$10,193	\$9,948	\$9,889	\$8,881
U.S. Mint	\$802	\$1,090	(\$63)	\$61
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	\$340,535	\$372,735	\$454,511	\$380,165
U.S. Secret Service (SS)	\$1,281	\$1,165	\$1,075	\$952
Office of Thrift Supervision (OTS)	\$284	\$239	(\$10)	(\$7)
<b>TOTAL</b>	<b>\$439,716</b>	<b>\$442,165</b>	<b>\$479,391</b>	<b>\$403,703</b>

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

\*\* Departmental Offices also includes the Office of Inspector General, Treasury Inspector General for Tax Administration, Working Capital Fund, Exchange Stabilization Fund, Air Transportation Stabilization Board, International Assistance Programs, Federal Financing Bank, Treasury Forfeiture Fund, Community Development Financial Institutions Fund, Office of D.C. Pensions, and Treasury Franchise Fund.

\*\*\* Financial Crimes Enforcement Network became a Treasury bureau in FY 2002. It was a part of DO in FY 2001.





**PART 2**

**MANAGEMENT  
AND  
PERFORMANCE CHALLENGES**

**TREASURY FY 2002 ACTIVITIES TO ADDRESS CHALLENGES**

The following table summarizes 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/bureau during FY 2002 to address the particular challenge.

Sources:

- General Accounting Office (GAO): “Major Management Challenges and Program Risks: Department of the Treasury,” GAO-01-254, January 2001.
- Office of the Inspector General (OIG): Memorandum for Secretary O’Neill from Treasury Inspector General Jeffrey Rush, Jr., January 30, 2002.
- Treasury Inspector General for Tax Administration (TIGTA): Memorandum for Secretary O’Neill from Treasury Inspector General for Tax Administration David C. Williams, January 29, 2002.

<b>Management Challenge/ High-Risk Area</b>	<i>FY 2002 Actions</i>
<i>E2: Maintain U.S. Leadership on Global Economic Issues</i>	
<p><b>Need to Improve Customs Service’s Regulation of Commercial Trade while Protecting Against Entry of Illegal Goods at U.S. Borders (GAO)</b></p> <p>The automated system Customs uses to process merchandise is outdated and unable to keep up with trade demands.</p>	<p>Customs is currently developing an information management system called Automated Commercial Environment (ACE). ACE will integrate and modernize the Customs risk management processes in the commercial environment to make it more efficient and effective. This will be achieved by improving targeting and selectivity results, and providing compliance assessments, which will improve Customs capability to enforce trade laws. ACE will also provide an extensive analytical capability, both within Customs, and in cooperation with other enforcement agencies. The Government-wide International Trade Data System (ITDS) is being integrated into ACE as the front-end, forming a single-point of entry for the collection and dissemination of trade data providing efficiencies both to the trading community and to other Federal regulatory agencies that require this information for regulatory enforcement.</p> <p>A combined ACE/ITDS program will implement an "account" view of the trade community, so that companies can be evaluated in terms of their compliance risk, not just individual transactions. This will be a key tool in detecting patterns of non-compliance or criminal activity. It will also allow Customs to focus its resources on individuals/companies/industries with poor records, rather than those that are highly compliant.</p>

Management Challenge/ High-Risk Area	FY 2002 Actions
<b>F4: Collect Revenue Due to the Federal Government</b>	
<p><b>Internal Revenue Service Modernization (GAO)</b></p> <p>The Internal Revenue Service's operations are facing various issues and challenges in transitioning to its new structure. Substantial work remains for IRS' modernization before expected results are achieved.</p>	<p>During FY 2002, IRS centralized employment tax processing to two Submission Processing sites, provided new tools and information such as the Remittance Transaction Research (RTR) system, Notice Viewing, and Correspondence Imaging to employees, improved training to Toll-free/Adjustments workforce by determining skill gaps, integrated business systems such as Automated Offer in Compromise, Automated Lien System, Inventory Delivery System and Automated Trust Fund Recovery System onto a single platform, provided a single-point for electronic filing and test prototype solutions for the combined electronic transmission of Federal and state employer quarterly tax and wage reports, prototyped an application to provide employers a quicker method to securely access, apply for, and receive a Federal Electronic Identification Number (EIN) on-line, reconfigured the Practitioner Hotline to a centralized system, centralized the processing of Offers in Compromise, and implemented standardized criteria to reassign compliance cases to the proper operating division.</p> <p>In FY 2003, IRS will continue to respond to this challenge through establishing customer liaisons for media and publications, working with industry to enable online tax return entry and submission at no cost, expanding electronic tax products for business, continuing to deploy the Integrated Case Processing system, redesigning business processes to provide service around an industry rather than geographically to provide better service for each taxpayer, moving to an issue-driven examination process for large and midsize businesses, and re-engineering the Published Guidance process.</p>
<p><b>Financial Management Affecting Treasury's Role as Fiscal Agent (GAO)</b></p> <p>Improvements are needed in collecting delinquent debt owed to the Government, computer security controls, and preparing reliable U. S. financial statements.</p>	<p><b>Collecting Delinquent Debt Owed to the Government:</b> FMS no longer considers this to be a management challenge for FMS. FMS has expanded, strengthened and improved the debt collection program over the last three years by setting priorities and then accomplishing them. FY 2002 efforts resulted in collections of more than \$2.8 billion in delinquent debt using all of FMS' collection tools, and significant increases in agencies' referral of tax debt, non tax-debt, child support debt, state tax debt and Federal non-tax debt. In addition, there was program growth in administrative offset of Social Security benefit payments, offset of state tax debt, and offset of tax rebates (\$465 million).</p> <p><b>Computer Security Controls:</b> see "Information Security: FMS" challenge below.</p> <p><b>Preparing Financial Statements for the Government:</b> FMS continues to face challenges in preparing the <u>Financial Report of the U.S. Government</u>. Overcoming these challenges requires the cooperation and support of program agencies. FMS has begun a multi-year effort to rebuild the processes it uses to prepare the <u>Financial Report of the U.S. Government</u>. The new process is projected to be used in preparing the FY 2004 financial statements, scheduled for publication in December 2004. FMS also worked closely with OMB in developing intra-governmental business rules. When implemented, the new process and business rules will mitigate the material weaknesses in the current process.</p>

<b>Management Challenge/ High-Risk Area</b>	<b><i>FY 2002 Actions</i></b>
<p><b>Processing Returns and Implementing Tax Law Changes During the Tax Filing Season (TIGTA)</b></p> <p>Implementation of computer programming changes, reduction of tax form complexity and taxpayer burden, and other related issues remain a challenge for the IRS.</p>	<p>IRS implemented a secure transaction-based web site; incorporated new processes and procedures required by the Economic Growth and Tax Relief Reconciliation Act of 2001; and completed the consolidation of employment tax processing, including information returns, in two Submission Processing sites. In FY 2003, IRS will conduct the pilot and roll out the Remittance Transaction Research (RTR) system; implement registered user access to enable authorized third parties and practitioners to request and receive transcripts, submit account inquiries, powers of attorney and disclosure authorizations electronically; expand taxpayer identification number (TIN) matching with payers; and expand e-filing options by adding and converting additional forms.</p>
<p><b>Providing Quality Customer Service Operations (TIGTA)</b></p> <p>Quality service at IRS Taxpayer Assistance Centers continues to be a major concern.</p> <p><b>Internal Revenue Service Modernization (GAO)</b></p> <p>The IRS will need to develop measures of its progress toward improving customer service.</p>	<p>IRS combined adjustment notice and refund check mailings with a bar coding system; developed a formal employee training plan and schedule; targeted and built quality relationships with internal and external partners and intermediaries to educate and support taxpayer and practitioner programs; reconfigured hours of operation; provided employers with access to on-line employment tax and wage information through the Simplified Tax and Wage Reporting System; centralized the Practitioner Hotline system; and analyzed and trained the volunteer workforce to create subject matter experts both internally and externally.</p> <p>In FY 2003, IRS will expand electronic filing for seven additional forms; implement the Service's Multilingual Initiative; improve quality and clarity of computer-generated correspondence; configure Toll-Free service to relate directly to taxpayers' inquiries; and provide new and expanded Internet Refund/Fact of Filing services.</p>
<p><b>Taxpayer Protection and Rights (TIGTA)</b></p> <p>Compliance with taxpayer rights requirements of the IRS Restructuring and Reform Act of 1998 (RRA 98) remains a challenge.</p>	<p>IRS implemented a secure transaction-based web site; ensured alternative signature initiatives comply with IRS authentication policy; implemented the next phase of the Checkbox initiative allowing taxpayers to designate an individual preparer to serve as their designee to discuss tax matters with IRS; eliminated the need for taxpayers to request multiple third party authorizations for numerous issues by centralizing Authorization Files; linked Critical Job Elements and performance expectations to organizational quality goals; redesigned examination work processes and assessed legal requirements; and redesigned internal Collection processes, policies and procedures, and updated workload selection and inventory delivery systems.</p> <p>In FY 2003, IRS will reduce the volume of paper jurats, expand alternative methods of signature; review and assess implementation of Title VI of the Civil Rights Act of 1964 to certify that all tax preparation sites provide equal access and non-discriminatory services; eliminate from all documents any specific labeling of taxpayers arguments as "frivolous;" and develop a standard practice for Internal Revenue Code Section 7803 (c)(4)(iv), which states that local taxpayer advocates may choose not to disclose contact with or information provided by a taxpayer.</p>

<b>Management Challenge/ High-Risk Area</b>	<i>FY 2002 Actions</i>
<p><b>Complexity of the Tax Law (TIGTA)</b></p> <p>Tax law complexity is the highest-ranking problem individual and business taxpayers had with the IRS.</p>	<p>IRS integrated Probe and Response methodology into IRS publications for use as the standard tool for Field Assistance technical employees and trained Customer Service Representatives in one or more technical and account topics, enabling them to be more proficient in assisting customers quickly and accurately. In FY 2003, the IRS will continue to support the efforts of the National Taxpayer Advocate to identify complexities and propose legislative solutions.</p>
<p><b>Tax Compliance Initiatives (TIGTA)</b></p> <p>IRS should establish a tax compliance program that identifies those citizens who do not meet their tax obligations.</p>	<p>IRS developed a new process for Correspondence Examination to determine non-compliance issues that can be addressed using soft notice and math error treatments; developed strategies to reduce open Offers in Compromise inventory within six to twelve months; enhanced and realigned the current Examination legacy systems to help identify the most productive returns to increase examiner effectiveness; and expanded the range of Corporate information documents and returns that may be filed electronically.</p> <p>In FY 2003, IRS will deploy new education and outreach initiatives to improve voluntary compliance; advance the use of Voluntary Compliance Agreements; fully implement K-1 matching program to target abusive tax schemes; implement a more productive, issue-driven compliance process; explore the use of limited scope examination processes to improve case resolution; and apply alternative dispute resolution procedures and other issue resolution programs to resolve tax shelter issues in timely and consistent manner.</p>
<p><b>Erroneous Payments (TIGTA)</b></p> <p>Decreasing erroneous payments continues to be a challenge, particularly for the Earned Income Credit Program.</p> <p><b>Improving Earned Income Credit Compliance (GAO)</b></p> <p>IRS needs to continue efforts to minimize filing fraud, especially in the Earned Income Credit program.</p>	<p>IRS built EITC Referral cases into the Dependent Database to improve early identification of non-entitlement; implemented an integrated trust fund compliance strategy; matched Forms 1041 and 1065 Schedule K-1; expanded examinations of the Duplicate TIN repeater population; developed the Transcript Delivery System for taxpayers; reengineered Account Management to provide employees more complete, timely, and accurate taxpayer information; expanded use of Examination Operational Automation Data Base/Classification Issue Tracking data to identify non-compliance; improved audit guidelines to achieve greater tailoring through risk-driven determinations; piloted a BMF Questionable Refund Program; and expanded the Electronic Fraud Detection System to include Forms 1120, 1065, and 720.</p> <p>In FY 2003, IRS will assess marketing/awareness campaigns that target eligible EITC non-claimant population; analyze 2002 audit results to refine existing DDb business rules; develop and implement the Business Master File Questionable Refund Program; and finalize a Memorandum of Understanding that will allow for expedited resolution of civil issues on taxpayer's returns involved in preparer schemes.</p>

Management Challenge/ High-Risk Area	FY 2002 Actions
<i>LE1: Reduce Violent Crime and the Threat of Terrorism</i>	
<p><b>Need to Improve ATF's Performance Measures to Better Determine Progress in Denying Criminals' Access to Firearms (GAO)</b></p> <p>Limitations in ATF's performance measures make it difficult to determine progress in carrying out its mission.</p>	<p>ATF developed a new set of cross-cutting performance measures to replace the current measures. In FY 2004, ATF will use performance measures based on data provided by the Department of Justice via Uniform Crime Reports from state and local law enforcement agencies. The new measures will compare the crime rate trend in metropolitan areas with three or more ATF enforcement or outreach programs in place with other metropolitan areas of similar demographics that do not have ATF programs in place. This data will more fully reflect the impact of ATF Integrated Firearms Violence Reduction Strategy and its component projects.</p>
<i>MI: Support the Achievement of Business Results</i>	
<p><b>Information Security (GAO, OIG and TIGTA)</b></p> <p>Treasury needs to improve the security of its information technology to protect information and data from physical and electronic threats.</p>	<p><b>Treasury CIO:</b> Treasury continued to work to protect the Department's critical cyber assets, implementing and overseeing the 12 focus areas of the GISRA (i.e., material weaknesses, security life cycle, program integration, Critical Infrastructure Protection [CIP], incident response, program officials performance measures, bureau contractor IT services, IT security capital planning, etc.). Treasury formulated CIP policy, updated and issued its CIP Plan and an Interdependency Analysis methodology was developed to assess interdependencies of Treasury's 32 critical assets. In addition, Project Matrix Step 2 function analysis was completed for one Treasury asset. Treasury implemented an enterprise-wide 24x7 Computer Security Incident Reporting Capability, ensuring all bureaus receive Federal Computer Incident Response Center and National Infrastructure Protection Center timely alerts and advisories. Treasury initiated a major project to update Treasury's IT security policy for both sensitive and national security systems. A mechanism for evaluating IT security training was developed and key personnel were identified to make these assessments. In FY 2003, specific efforts will be focused on developing/ implementing a state-of-the-art IT security policy, establishing IT security self-assessment capabilities in all our bureaus concentrating on the GISRA deficiencies, completing Interdependency Analyses for seven cyber CIP assets, and an IT security training forum outreach to bureaus. IT security training standards for key security personnel will be defined. Additionally, the IT security training assessment process will be vetted through the Treasury IT security-training forum for future adoption. The Department plans to develop mission sustainability criteria for each of the three top levels of the Threat Warning System issued by the Homeland Security Office. Treasury's management goal is for senior bureau officials to provide leadership and take responsibility for cyber security within their respective bureaus. Treasury will assist in developing a framework for this effort with particular focus on ensuring the GISRA requirements are properly addressed.</p> <p><b>FMS:</b> FMS has taken a number of steps to address computer security controls and strengthen FMS' IT entity-wide security program. Efforts included appointing Deputy Information Officers in each of FMS' business areas; assigning a senior executive responsibility for oversight of audit findings and FMS' security program; revising and publishing IT security policies and standards; developing business and project risk assessment methodologies; completing an entity-wide risk assessment; and updating background investigations and reinvestigations.</p>



Management Challenge/ High-Risk Area	<i>FY 2002 Actions</i>
	<p><b>IRS:</b> IRS established a Security Services organization to create corporate security solutions, conducted reviews and tests of security controls at facilities and in programs, assisted IRS organizations to set up internal security review processes, and monitored IRS networks to prevent cyber attacks. In FY 2003, IRS will close material weaknesses at campuses, Computing Centers, and other offices; complete improvement of the sensitive systems certification process and implement plan for prioritized completion of certification backlog; develop a business resumption strategy consistent with the disaster recovery plan; and complete the build-out of Computer Security Incident Response Center.</p> <p><b>Customs:</b> Customs has continued to expand and extend its enterprise-wide information security program. Information systems security processes and procedures were formally documented as part of a major process improvement effort to assess against the standards within the Software Engineering Institute's Systems Engineering Capability Maturity Model. Further, formal project life cycle gate reviews were instituted to ensure compliance with the Systems Development Life Cycle. As part of these reviews, each project completed all appropriate security documentation. In addition, the Customs security program instituted an organization-wide management structure, deployed Security Design Officers in the development environment, conducted risk assessments, and established a significantly improved security awareness program.</p>
<p><b>Linking Resources to Results (OIG)</b></p> <p>Treasury has not integrated managerial cost accounting into its business activities.</p>	<p>Treasury established department-wide managerial cost accounting goals to align strategic plans, budgets, and accounting data to provide timely and accurate cost data for internal program management and macro-level external reporting. While most of Treasury's major sub-organizations (bureaus) have cost accounting systems, the degree of sophistication and integration with business activities varies because of the diversity of operating environments and the different sizes of the sub-organizations. During FY 2002, a CFO Council subcommittee was established to address department-wide cost accounting and labor distribution issues. The work of this committee will move the Department toward meeting this primary managerial cost accounting goal.</p> <p>In addition, Treasury established the Office of Performance Budgeting (combining the strategic planning and budget offices), and submitted its first-ever performance budget to OMB for FY 2004. Treasury significantly modernized its budget structure and process and presented budgets programmatically -- a key step in determining the full cost of programs and how increases/decreases affect program performance. This process will continue and will be refined during FY 2003.</p>

<b>Management Challenge/ High-Risk Area</b>	<b><i>FY 2002 Actions</i></b>
<p><b>Compliance with Federal Financial Management Improvement Act (FFMIA) of 1996 (GAO, OIG, and TIGTA)</b></p> <p>Treasury is not in substantial compliance with the requirements of FFMIA. Financial systems are not adequately integrated to support fiscal management of program delivery as well as budget execution functions and internal and external financial reporting requirements.</p>	<p>Treasury is working at both the Departmental level and affected bureaus level to make necessary improvements. However, while progress has been made in several bureaus, the Department was not able to increase its FFMIA compliance rate above the FY 2001 level of 72 percent.</p>
<p><b>Prompt Correction Action (OIG)</b></p> <p>Treasury has not promptly corrected material weaknesses and other serious deficiencies in programs and operations.</p>	<p>The Department’s increased emphasis on reducing material weaknesses during the year has resulted in a reduction to 20 from 29 at the beginning of FY 2002. During the year, Treasury consolidated three FMS material weaknesses tied to the Government consolidated financial statement into one. Similarly, we consolidated five IRS material weaknesses tied to systems security into one. Combined, these actions reduced our FY 2002 baseline to 23 material weaknesses. Of these, 10 were closed or downgraded by September 30, 2002, and seven new material weaknesses were identified leaving the Department with a total of 20.</p>
<p><b>Duplicated, Wasteful Practices (OIG)</b></p> <p>Treasury has not adapted enterprise solutions to its core business activities, particularly the cost of bureau-wide personnel, payroll, travel, and procurement activities.</p>	<p>Work continues on several systems that will address the need to coordinate enterprise solutions. The Treasury Information Executive Repository (TIER) receives financial information from Treasury bureaus and consolidates it to produce financial statements through CFO Vision. The FAIR Act system captures data from Treasury entities and is used for A-76 activities and reporting. The Joint Audit Management Enterprise Systems (JAMES), Treasury’s new audit report tracking system, is a web-enabled enterprise system currently being tested, with implementation expected in early 2003.</p> <p>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 in HR service delivery. Efforts include significant reengineering of bureau HR business practices and a move to an Internet-based service delivery platform. The HR Connect program reached a major milestone this year with introduction of the first web-based version of the enterprise software. This paves the way for dramatic changes in HR service delivery through an integrated suite of on-line manager and self-service functions. Self-service functionality is already in some stage of production in four Treasury bureaus.</p>

<b>Management Challenge/ High-Risk Area</b>	<b><i>FY 2002 Actions</i></b>
	<p>Treasury also procured, configured and deployed new web-based Customer Relationship Management software that fully automates the HR Connect help desk and provides for web-based initiation, routing, disposition, and tracking of system problems and issues. Two additional Treasury bureaus moved to HR Connect (Mint and BEP) and work has begun with IRS for deployment. On the payroll side, Treasury chartered and provided leadership to a joint Treasury/National Finance Center improvement team, which to date has drafted a new Service Level Agreement, performance standards and issued escalation processes to govern our payroll provider relationship.</p> <p>The totality of these new functions and support systems has positioned Treasury for a quantum leap in service delivery and places the Department at the forefront of Government-wide HR reform. The results of these efforts are already being evidenced in the bureaus implementing new self-service features and will lead to cost savings of exponential proportions as the capabilities are expanded to other bureaus and fully utilized to sunset current paper-based processes.</p>
<p><b>Performance Management at IRS (TIGTA):</b></p> <p>Continued improvements need to be made in implementing the Government Performance and Results Act and similar management and accountability processes.</p>	<p>IRS developed user and system needs to support the Business Performance Management Model; established a baseline for improvement projects and initiated a project tracking mechanism to ensure projects deliver proposed benefits; and fully implemented performance reporting for key managerial cost accounting measures. In FY 2003, IRS will undertake an ambitious, comprehensive, activity-based cost accounting system that will provide the ability to develop meaningful measures in the future and fully implement data reporting for all IRS-wide Strategic Measures.</p>
<p><b>Internal Revenue Service Modernization (GAO and TIGTA)</b></p> <p>Correct ongoing financial management weaknesses. IRS current financial systems alone cannot produce reliable information necessary to prepare financial statements in accordance with Federal accounting standards. In addition, the current financial systems cannot provide reliable cost accounting information.</p>	<p>To improve overall financial management, IRS is implementing two major systems: the Custodial Accounting Project (CAP) and the Integrated Financial System (IFS). CAP will provide an integrated repository of taxpayer account and collections information. It will resolve many long-standing financial management weaknesses. IRS is currently reworking its approach to developing CAP and the associated Enterprise Data Warehouse. Release 1 will deliver the data repository of taxpayer account information and integrated it with the general ledger. By December 2002, IRS will have a revised development and deployment schedule in place, and full system development is anticipated by September 2006.</p> <p>IFS addresses material weaknesses in financial reporting and FFMIA compliance. In FY 2002, the PRIME awarded a sub-contract for a JFMIP certified, commercial package. Release one, scheduled for late 2003, includes the Core Financial System (General Ledger, Accounts Payable and Receivable, Funds and Cost Management, and Financial Reporting) and Budget Formulation. Release two, scheduled for deployment in 2005, will include Administrative Datamarts and Travel, Procurement, Management, Property and Performance Management.</p>

<b>Management Challenge/ High-Risk Area</b>	<b><i>FY 2002 Actions</i></b>
<p><b>Internal Revenue Service Modernization (GAO and TIGTA)</b></p> <p>Implement effective systems modernization management controls and establish a stable program management organization for the IRS' systems modernization efforts.</p>	<p>IRS aligned ongoing projects with the Enterprise Architecture using a compliance certification process; fully implemented a risk management program; established a centralized Configuration Management repository; fully defined and institutionalized standard configuration management procedures; identified configuration issues as near-term modernization project releases integrate with the current production environment. In FY 2003, IRS will work with the PRIME to refine cost estimates; identify and correct inconsistencies in implementing key systems, focusing on 14 key management processes; strengthen executive focus in acquisition and contracting areas; and implement a monthly reporting process.</p>
<p><b>Treasury's Asset Forfeiture Program (GAO)</b></p> <p>The Asset Forfeiture Program faces inadequate information systems and financial management weaknesses, including problems with accountability over seized assets.</p>	<p>For FY 2001, the auditors of the Treasury Forfeiture Fund asserted that the Fund is free of any material weaknesses. In addition, FY 2001 was the second consecutive year that Fund managers asserted compliance with the Federal Managers' Financial Integrity Act in the Annual Assurance Statements. As a result of that progress, as well as the completion of the majority of the corrective actions established in response to audit recommendations, the Office of the Under Secretary (Enforcement) of the Department of the Treasury has formally requested the removal of the Treasury Forfeiture Fund from GAO's major challenges/high risk list. As Fund managers anticipate that no material weaknesses will be discovered in the FY 2002 audit, no actions have been taken in FY 2002 to address this GAO challenge.</p>
<p><b>Security of the IRS: Employees and Facilities (TIGTA)</b></p> <p>Security of IRS employees and facilities should be addressed.</p>	<p>IRS developed National Physical Standards covering guard services, blast mitigation, and IRS infrastructure. IRS consolidated all mail-opening facilities and implemented the first stages of isolating them from other units. Contingency plans for hazardous materials threats at all IRS facilities are in place, managers and employees have been informed and trained, and protective equipment has been distributed.</p> <p>In FY 2003, IRS will complete security risk assessments of all level 1, 2, and 3 buildings and implement corrective measures, implement a plan to upgrade communications systems.</p>

Management Challenge/ High-Risk Area	FY 2002 Actions
<p><b>Strategic Human Capital Management (GAO and TIGTA)</b></p> <p>Short-comings involve lack of human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skill, and deployment meet agency needs; and creating results-oriented organizational cultures.</p>	<p>In FY 2002, Treasury developed a Treasury Human Capital Strategic Plan that will serve as a frame work for FY 2002 and beyond, and will 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 to address skill imbalances in mission critical occupations; that bureaus fully utilize HR flexibilities and enterprise-wide technological solutions and data support HR service delivery; that effective performance management is emphasized; and that bureaus have leadership development and succession plans in place. The Plan also includes a set of challenging measures to provide comprehensive feedback on bureau progress toward strategic objectives. The Department is also taking steps to improve HR services by implementing a competency-based approach to recruit, develop and retain a high-quality, diverse workforce; redesigning and improving the SES performance management system; implementing discrimination complaint processing efficiencies to improve timely processing, increasing resolution rates for complaints of discrimination.</p> <p>Treasury will continue efforts to refine implementation of the Human Capital Strategic Plan and measures. In addition, as a component of the Treasury Human Resources Advisory Counsel (HRAC), Treasury established four Leadership Teams comprised of Bureau representatives to assist, critique, and assess each other's input to the Plan's measures; to act as sounding boards and make recommendations to the HRAC; and to identify and share innovative methods and "best practices" with each other and the HRAC.</p> <p><b>IRS:</b> IRS has established a strategic human capital strategy that consists of four principal elements: Renewal, Training and Development, Performance, and Transition. In FY 2002, IRS expanded the pay band system to all front-line and mid-level managers. IRS also continued to offer an extensive array of web- and computer-based training for employees via the Internet, Intranet, and by CD-ROM covering subjects such as communications, customer service, project management, finance, accounting, and leadership. IRS partnered with employee organizations to help recruiters establish relationships with community-based organizations and employed a state-of-the-art recruitment advertising campaign.</p> <p>In FY 2003, IRS will implement a mid-career recruiting strategy; implement an IRS-wide learning strategy, including additional investment in e-learning; continue expansion of pay-for-performance system to all remaining front-line managers; and capitalize future transition efforts on past experience; coordinate efforts such as workload realignment to maximize placement of employees while addressing business needs.</p>



DEPARTMENT OF THE TREASURY  
WASHINGTON

*Inspector General*

November 5, 2002

**MEMORANDUM FOR SECRETARY O'NEILL**

**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 January 1, 2003, I am providing it to you now in recognition of the Department's accelerated reporting initiative.

Last year we identified five challenges that we believe seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. Although some progress has been made, these same challenges remain in place and must be overcome to realize the goals and objectives of the President's Management Agenda. This year we have identified an additional challenge related to the proposed creation of a Department of Homeland Security. The six challenges are summarized as follows:

**Challenge 1 – Prompt Corrective Action**

Treasury has not taken sufficient action to address longstanding material weaknesses and other serious deficiencies in programs and operations. The number of longstanding material weaknesses has been reduced; however, in several cases this was accomplished through consolidation of several material weaknesses that had been reported separately. While some progress has been made, it is likely that additional material weaknesses will be reported as a result of our audit of fiscal year 2002 operations.

**Challenge 2 – Linking Resources to Results**

Treasury has not integrated managerial cost accounting into its business activities, and thus resources cannot be linked to results. This undermines the accuracy, reliability, and usefulness of program performance reporting and precludes meaningful cost benefit analysis of the Department's program activities. Very little progress has been made in this area during the past year.

Page 2

### Challenge 3 – Financial Management Systems

Treasury continues to operate financial management systems that are not capable of producing timely, accurate, and reliable information. Some progress was made as a result of the “3-day close” initiative for monthly financial reporting. This was a significant accomplishment in producing more timely financial data; however this data needs to be reviewed, analyzed, refined, and correlated with other financial and non-financial data in order to be reliable and useful for managing operations. More fundamentally, core integrated financial systems must be implemented to replace outdated, inefficient and unreliable systems.

### Challenge 4 – Information Security

Treasury has not corrected longstanding information security problems. Our recent work under the Government Information Security Reform Act disclosed numerous vulnerabilities that have not received adequate attention. Most of the Department’s systems have been allowed to operate without a reasonable assurance of secure operations or adequate safeguards. Only 32 percent of the Department’s systems have been accredited, including 9 percent that only have interim authority to operate. Although this represents some progress over the 18 percent reported last year, it is far short of the Department’s FY 2002 performance goal of 65 percent of its systems accredited.

### Challenge 5 – Duplicated, Wasteful Practices

Treasury has not adapted enterprise solutions to its core business activities. Thus, rather than realize the economy, efficiency, and effectiveness of consolidation and sharing, Treasury bureaus and offices continue to operate as autonomous agencies. We reiterate that Treasury should consider the cost of inter-bureau personnel, payroll, travel, and procurement activities and look for opportunities to eliminate duplicate systems and business processes.

### Challenge 6 – Homeland Security Divestiture

The Administration and the Congress have proposed legislation to create a Department of Homeland Security. The proposals are likely to result in the divestiture of certain Treasury law enforcement bureaus. Treasury will need to plan for a smooth transition of these functions while at the same time ensuring that the bureaus and components slated for divestiture stay mission-focused. Although the weaknesses and systems deficiencies don’t change with divestiture, the solutions must be re-evaluated. These expected changes further highlight the need for enterprise solutions.

Page 3

We would be pleased to discuss our views on these management and performance challenges in more detail.

Attachment

cc: Ed Kingman, ASM/CFO







DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

October 15, 2002

MEMORANDUM FOR SECRETARY O'NEILL

Handwritten signature of Pamela J. Gardiner in cursive.

FROM: Pamela J. Gardiner  
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service

**SUMMARY**

The Reports Consolidation Act of 2000<sup>1</sup> requires that we summarize for you, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2002*, 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) 2003 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 believes the major management challenges, in order of priority, facing the IRS in FY 2003 are:

- Systems Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
- Security of the Internal Revenue Service
  - Employees and Facilities
  - Information Systems
- Integrating Performance and Financial Management
  - Performance Management
  - Financial Management

<sup>1</sup> Pub. L. No. 106-531.

- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Complexity of the Tax Law
- Providing Quality Customer Service Operations
- Erroneous Payments
- 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 IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>2</sup> mandated that the IRS place a greater emphasis on serving taxpayers and meeting their needs in its new structure organized around four major groups of taxpayers – wage and investment taxpayers, the self-employed and small businesses, middle and large corporations, and exempt organizations. To achieve this mission, high-quality, efficient, and responsive information services are required. Thus, dramatic improvements in service to taxpayers are heavily dependent on modernizing IRS' core computer business systems.

Modernizing technology has been an ongoing challenge for the IRS, and will continue for years to come. The current Business Systems Modernization (BSM) effort began in 1999 and, through FY 2002, the IRS will have spent nearly \$1 billion. The IRS has requested another \$436 million in funding for FY 2003. Progress has been slow, but some projects, including improved telephone capacity, intelligent call routing, and refund information on the Internet, were deployed in FY 2002. These projects were, however, substantially over cost, were delayed an average of 12 months, and delivered less functionality than originally planned. TIGTA audits showed that BSM is still struggling with contracting processes, and BSM project teams do not consistently follow the defined key development processes.

However, other TIGTA audits reported that progress has been made in establishing the fundamental management disciplines necessary to guide the modernization effort. For example, the Enterprise Architecture has been updated; an Integrated Master Schedule to help sequence projects and identify dependencies between projects has been developed; an annual funding process has been stabilized; most key development processes in the Enterprise Life Cycle have been defined; private industry experts have been hired to manage BSM; and the role of the PRIME<sup>3</sup> contractor has been clarified. Despite these successes, BSM remains at risk. Continued delays, failure to provide anticipated benefits,

---

<sup>2</sup> 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.).

<sup>3</sup> 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.

and cost overruns could cause the Congress to withhold funds, and too many ongoing projects and the increasing complexity of BSM could exceed the Business Systems Modernization Office's capacity for oversight.

### **Tax Compliance Initiatives**

The IRS' goal of providing world-class service to taxpayers hinges on the theory that, if the 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 challenge to the IRS management is to establish a tax compliance program (examining tax returns and collecting tax liabilities) 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, and that effectively brings them into compliance. As part of the reorganization, the IRS embarked on a mission to revamp its business processes to stabilize the traditional compliance activities.

The Examination function examines tax returns to ascertain whether taxpayers have correctly determined their tax liability. The overall percentage of tax returns examined<sup>4</sup> increased slightly in FY 2001, due to increases in the number of correspondence examinations of individual income tax returns, primarily for verification of the Earned Income Tax Credit. However, the number and percent of examinations of corporate and other business returns continued to decrease, as did the field examinations of all types of individual and miscellaneous tax returns, such as estate and gift, fiduciary, excise, and employment tax returns. Because of the concerns around declining program results, the Small Business/Self-Employed (SB/SE) Division initiated an in-depth effort to reengineer its examination processes, products, and services. Expected project deliverables include streamlining the examination process, increasing the effectiveness and timeliness in examining tax returns, and decreasing and redirecting expenditures within the SB/SE Division. Assisting in the reengineering of the examination processes is a consulting contractor and a contractor with auditing and accounting expertise.

A TIGTA audit of the Examination reengineering project determined that many of the proposed recommendations might improve the control environment. However, the TIGTA identified some recommendations where a more careful consideration of the impact on taxpayer relations and taxpayer rights is needed. In addition, the procurement of automated examination workpaper software needs management's oversight. The TIGTA also believes management will have difficulty measuring the effectiveness of the recommendations on examination productivity.

The Collection function is responsible for promptly collecting the proper amount of federal tax due from taxpayers, including securing tax returns that are not filed in order to determine the tax due. The level of compliance activities and the results obtained in most

---

<sup>4</sup> Percent of Examination coverage is calculated by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.

Collection areas in FY 2001 showed a slight reversal of the downward trend of the preceding years. Although they have not returned to pre-1998 levels, enforcement actions and case closures were higher in FY 2001 than in FY 2000. While enforcement revenue collected increased slightly in FY 2000 and remained the same in FY 2001, the inventory of delinquent accounts and the total amount of uncollected liabilities has continued to grow. The use of Collection enforcement tools including liens, levies, and seizures all increased from FY 2000 to FY 2001.

In an effort to improve operations, the Commissioner, SB/SE Division, established teams staffed with employees of the IRS and an outside consulting agency to review Collection function operations and suggest methods for improvement. One of the Collection Reengineering teams is the Collection Process Improvement Team. The objective of the Collection Process Improvement Team was to stabilize and improve the Collection function's operational performance by identifying and implementing high-impact, near-term improvements to case assignment, processing, and resolution processes.

A TIGTA audit determined that the Team has been proactive in identifying risks and working to reduce them, has involved other appropriate IRS functions on an ongoing basis, and has considered communication and training needs to be addressed for successful implementation of the recommendations. There are, however, risks, including the feasibility of getting managers more involved in case guidance, the difficulty in measuring the impact that changes will have on collection effectiveness, and potential security risks when using Microsoft Outlook Calendar to schedule meetings.

### **Security of the Internal Revenue Service**

As stated in last year's report, the terrorist attacks on September 11, 2001, and the subsequent anthrax scare highlighted vulnerabilities in many businesses and government agencies. Like other organizations, the IRS should remain vigilant to all opportunities to enhance the safety of its employees and the security of its information systems and taxpayer data. For this reason, security of IRS employees, facilities, and information systems continues to be a significant challenge facing IRS management for FY 2003.

#### **Security of the Internal Revenue Service – The Employees and the Facilities**

During FY 2002, the IRS issued, both via memo and voice mail, numerous safety and security updates and revised procedures. For instance, special instructions for opening mail and accepting deliveries and packages were implemented. In addition, the IRS issued guidance to employees in dealing with heightened security at the IRS workplace as well as safety concerns while working away from the office or at taxpayer facilities.

TIGTA's Office of Investigations played an important role in the investigation surrounding the terrorist events in late 2001. That work continued throughout FY 2002. The special agents were also alert to "copy cat" threats throughout the year and worked several cases involving anthrax and bomb threats and other fear tactics that threatened to interrupt business or destroy property.

### **Security of the Internal Revenue Service – The Information Systems**

The security of the IRS' information systems has been reported as a material weakness for many years, and the IRS continues to face challenges in this area. Considering the amount and sensitivity of the data the IRS is charged with protecting and the amount of revenue it collects, the IRS is a highly visible target for hackers, unhappy taxpayers, disgruntled employees, and other types of dissatisfied people. Access to the Internet and the linking of internal computer systems have greatly increased the risk of loss or theft. In addition, business continuity, disaster recovery, asset management, and stored data became key concerns after the events of September 11, 2001. Loss of tax processing systems for extended periods would have a major economic impact and would result in lost productivity for many IRS functions that are totally dependent on these systems.

The TIGTA's assessment of the security of IRS systems during FYs 2001 and 2002 revealed that overall security was not adequate primarily because of a lack of responsibility and awareness. In addition, employees with key security responsibilities had not been adequately trained and many systems had not been properly certified. Internet gateways were vulnerable to persistent hackers. Additionally, password controls were inadequate and activity logs, configuration changes, and audit trails were not maintained. Recent TIGTA reviews, however, have noted some improvements. For example, virus protection has improved, management expertise has increased, and an Intrusion Detection System is being installed.

The Disaster Recovery Plans define the resources, actions, tasks, and data required to manage the business recovery process in the event of a business interruption and are generally geared toward restoring the required computer systems. The IRS has now identified some of the most critical business processes plus administrative resumption processes, and plans to have a complete business resumption plan by early FY 2003.

### **Integrating Performance and Financial Management**

Improving Government performance is an overall goal of the current Administration. Both the President and the Secretary of Treasury have expressed concern about the financial management of Government agencies and believe 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<sup>5</sup> (GPRA) 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

---

<sup>5</sup> 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.).

goal setting, customer satisfaction, and results measurement. Federal agencies are required to prepare multi-year strategic plans, annual performance plans, and annual program performance reports. The President's Management Reform Agenda addresses integrating performance review with budget decisions. This is designed 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 cost.

In conducting its FY 2002 audits, the TIGTA found that the 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. For example, TIGTA found that Criminal Investigations (CI) Division measures do not address mission accomplishment. CI Division developed outcome-neutral measures because of its concern about Regulation 26 CFR 801,<sup>6</sup> which prohibits the use of enforcement statistics. As a result, CI Division's business results measures and its sole GPRA measure of cases initiated are not outcome oriented and do little to quantify the results of CI Division's activities. In order to meet the President's agenda, TIGTA recommended that the IRS develop new performance measures, or include existing performance measures in its list of critical performance measures, to ensure that it addresses each of the major strategies and budgeted areas of the IRS.

### **Financial Management**

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 or "clean" audit opinion from the General Accounting Office (GAO) on all financial statements for FY 2001. According to the FY 2001 GAO audit report, the IRS continues to face most of the pervasive systems and internal control weaknesses that have been reported each year since GAO began auditing the IRS' financial statements in FY 1992.

Furthermore, the IRS' approach to obtain this unqualified opinion relied heavily on costly, time-consuming processes; statistical projections; external contractors; substantial adjustments; and monumental human efforts that extended well after the fiscal year end. These costly efforts would not have been necessary if the IRS' systems and controls operated effectively. In addition, the absence of effective systems and controls means that the IRS lacks, on an ongoing basis, the timely, accurate, and useful information needed to make informed management decisions.<sup>7</sup>

---

<sup>6</sup> Code of Federal Regulations.

<sup>7</sup> *United States General Accounting Office Report to the Secretary of the Treasury – IRS's Fiscal Years 2001 and 2000 Financial Statements*, February 2002.

### **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 the American taxpayers, the IRS must coordinate tax law changes, programs, activities, and resources to effectively plan and manage each filing season.

Overall, the 2002 filing season was a great success, and, in spite of a short time frame for making changes, the IRS had successfully revised the 39 tax products the TIGTA selected in a review of the Economic Growth and Tax Relief Reconciliation Act of 2001<sup>8</sup> changes to the rate reduction and child tax credits. The IRS also took immediate action to correct an error the TIGTA identified during the review.

Furthermore, the IRS worked quickly, following the terrorist attacks of September 11, 2001, to assist the approximately 785,000 business taxpayers located within the Presidentially-declared disaster areas by providing as much administrative tax relief as possible and minimizing the burden of tax issues during the aftermath. The IRS created multiple ways for business taxpayers affected by the terrorist attacks to easily get tax-related answers and assistance. The IRS also worked diligently to ensure that business taxpayers were aware of special tax considerations available to help them, e.g., extensions of filing deadlines, relief from certain penalties, and early refunds of estimated tax payments. In addition, the IRS provided special handling for the accounts of the victims of the terrorist attacks. Killed in Terrorist Action Coordinators were available nationwide to expedite the processing of any returns, claims, or correspondence and to answer questions related to any tax issues surrounding these accounts.

The TIGTA, however, did identify some problems in processing tax returns. For example, the IRS miscalculated the Rate Reduction Credit (RRC) for some 535,000 taxpayers. Another 132,000 taxpayers may not have been given some \$26 million in Additional Child Tax Credit (ACTC) after the IRS adjusted their RRC during the tax return processing. TIGTA reviews also identified over 479,000 taxpayers, entitled to approximately \$212 million in ACTC, who did not claim the credit on their returns. The IRS had planned an outreach program to notify these taxpayers of their eligibility but subsequently cancelled those plans. As the result of another TIGTA review, the IRS identified some 34,000 undelivered refund checks even though the IRS had addresses for the taxpayers that were more current.

The TIGTA also found that the processing of small business corporate returns needs to be simplified to better enable small businesses to successfully file their U.S. Income Tax Return for an S Corporation (Forms 1120S). Each year an estimated 46,000 small businesses are not successful in filing Forms 1120S because the IRS does not have valid elections on file to allow their returns to be processed. Consequently, these taxpayers spend an estimated 3.2 million hours each year preparing returns that cannot be successfully processed.

---

<sup>8</sup> Pub. L. No. 107-16, 115 Stat. 38 (2001).



In addition, each year an estimated 9,000 returns for small business corporations are processed as regular corporate returns even after the taxpayers verify that their election requests were granted. This causes a potential erroneous assessment of taxes on \$41.0 million of profits and the inability of taxpayers to claim \$100.3 million in losses.

Furthermore, because of unclear IRS procedures, approximately 3,700 taxpayers who file unprocessable Forms 1120S may have their rights violated when the IRS assesses taxes on an estimated \$6.7 million in profits without sending a statutory notice of deficiency.<sup>9</sup>

### **Complexity of the Tax Law**

Tax law complexity is the highest-ranking problem individual and business taxpayers had with the IRS, according to the *FY 2000 Taxpayer Advocate's Annual Report to the Congress*. The National Taxpayer Advocate also identified tax law complexity as the root cause of many of the other problems on the Top 20 list. In its *FY 2001 Annual Report to Congress*, the National Taxpayer Advocate takes tax law simplification a step further, focusing on key legislative proposals that create a more burdensome and confusing voluntary tax system for even the most compliant taxpayers. The report outlines proposals to simplify or clarify six areas of tax law – family status issues, joint and several liability, alternative minimum tax for individuals, penalty and interest issues, home-based service workers, and IRS collection procedures.

Small businesses, particularly, are affected by the complexity of tax law because they typically lack the resources to employ accountants to work their problems. The Taxpayer Advocate Service established the Office of Business Advocacy to focus on specific issues relating to small business and self-employed taxpayers. These problems might be related to IRS processes, communications, policies, training, or the underlying tax law. The Office of Business Advocacy will work with the Small Business Administration and other outside stakeholders to identify small business concerns with the IRS, partner in various operation task forces that address process improvements, and make recommendations on changes to taxpayer correspondence.

In a recent audit, the TIGTA determined that the IRS has recognized the importance and sensitivity of tax law complexity, has elevated the concerns to the highest levels within the IRS, and has invested significant resources throughout the organization to address the problems. The TIGTA also concluded that the IRS' Legislative Implementation Tracking System will be an effective control to monitor the implementation of new tax legislation. The system is designed to provide timely, useful information to management and quickly elevate any delays in implementing new tax laws to a level of management high enough to address the problem.

---

<sup>9</sup> A statutory notice of deficiency allows the taxpayer to respond to the proposed assessment before taxes are actually assessed.

### **Providing Quality Customer Service Operations**

Providing top quality service to every taxpayer in every transaction is integral to the IRS' modernization plans. 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 these services in a high-quality manner can also be a challenge to the IRS.

Quality service at IRS Taxpayer Assistance Centers (TAC) continues to be a major concern. During FY 2002, the TIGTA initiated several reviews of the quality of walk-in service to taxpayers in the IRS TACs. These reviews were conducted as a result of an amendment to the Treasury spending bill<sup>10</sup> for FY 2002, proposed by Senator Byron Dorgan, Chairman of the Subcommittee on Treasury and General Government. The amendment requires the TIGTA to conduct visits to all TACs and report to the Congress on whether taxpayers are provided correct and prompt answers to their questions. These reviews continue to show that the accuracy rates on tax law questions could be improved. Additionally, the reviews conclude that some taxpayers were not satisfactorily assisted because they were referred to publications rather than having their questions answered. The TIGTA also identified issues with taxpayer privacy at some sites because office configurations allowed conversations between the assistor and taxpayers to be overheard. IRS employees, however, were generally professional and courteous, and wait time for assistance was usually only about 30 minutes.

### **Erroneous 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 payments made by Federal agencies. Improper 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 Earned Income Credit (EIC) Program continues to be a highly visible area of potential fraud. The IRS established the EIC Program Office to administer the EIC appropriation and oversee the EIC-related activities of IRS functions involved in efforts to ensure the efficient application of the law; to increase participation of eligible taxpayers; and to reduce fraud, waste, and abuse. Each year, the IRS spends over \$100 million to help ensure that eligible taxpayers claim the EIC and to reduce overclaims and fraud, waste, and abuse. Yet, in late

---

<sup>10</sup> Pub. L. No. 107-67.

FY 2001 the TIGTA found that the IRS does not have a process to identify and stop refunds on many tax returns using nonwork social security numbers<sup>11</sup> and erroneously claiming the EIC. In FY 2002, the TIGTA found that taxpayers did not receive consistent treatment when the IRS audited their EIC claims. Specifically, some taxpayers were allowed the EIC without having to provide required documentation during the audit to justify the EIC claim.

In addition, TIGTA identified erroneous payment issues in other program areas. For example, since the early 1990s, thousands of taxpayers have filed specious tax claims with the IRS for reparations credits payable to descendants of slaves. Although the vast majority of these claims are manually identified by IRS employees before any data are input to the IRS' computer systems and refunds issued, the process is subject to human error plus some employees may knowingly allow these illegal claims to be processed. In another program area, the TIGTA found IRS controls were not adequate to ensure that Treasury Communications System charges were appropriate and credits received. As a result, the IRS was charged for circuits and equipment after the items were removed from service. In another audit, the TIGTA found that the IRS was billed monthly for the yearly costs of maintenance coverage for nine contract line items, causing an over billing for services.

The TIGTA recently established a Procurement Fraud Section, which may help identify other areas of erroneous payments. This section, a joint endeavor involving both the Office of Investigations and the Office of Audit, is comprised of special agents and auditors, and dedicates its resources to investigating civil and criminal matters involving vendors and suppliers, as well as IRS employees or non-employees involved in IRS procurements. In addition, the Office of Audit may issue reports to appropriate IRS managers on issues involving internal control weaknesses or non-adherence to established procedures or sound business practices. This section also focuses its efforts on promoting fraud awareness in the public and private sector contracting communities and within the IRS.

### **Taxpayer Protection and Rights**

The RRA 98, which was signed into law on July 22, 1998, contains 71 provisions that increase or help protect taxpayers' rights. TIGTA reviews during FY 2002 show that the IRS has made progress in complying with the RRA 98. For example: the IRS adhered to legal provisions in all seizures reviewed; the TIGTA did not identify any instances of potential violations of using tax enforcement results in employee evaluations or to suggest production quotas or goals; Appeals Officers generally complied with the requirements of the law for the filing of a notice of lien or a notice of intent to levy and the right of the taxpayer to appeal; and the IRS has removed the Illegal Tax Protesters (ITP) codes from the Master File<sup>12</sup> and two inventory management systems and has made obsolete two publications with ITP references.

---

<sup>11</sup> Nonwork social security numbers are issued to individuals to obtain federal benefits but are not valid for work.

<sup>12</sup> The Master File is an IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organization data.

The IRS, however, is not yet in full compliance with all provisions of the RRA 98 and taxpayer rights remain at risk. For example, the IRS did not always timely mail the Notices of Federal Tax Lien to notify taxpayers of the lien notices, as required by law, and improvements around levies issued outside of the systemic controls of the automated systems are still needed. In addition, IRS employees may not have always advised taxpayers of their rights to refuse or restrict the scope of the statute extension, and case files did not always document that both spouses on joint returns and taxpayer representatives received this information. The TIGTA also found that the IRS improperly withheld information from requesters in 10.6 percent of the denied, partially denied, or no responsive record Freedom of Information Act (FOIA)<sup>13</sup> and Privacy Act (PA) of 1974<sup>14</sup> requests and 12.2 percent of the Internal Revenue Code (I.R.C.) § 6103<sup>15</sup> requests where information was partially or fully denied or requesters were told that records could not be located. In addition, responses to FOIA and PA requesters were not timely in 22.7 percent of the cases in this year's sample. In addition, the TIGTA identified potential taxpayer rights violations and increased taxpayer burden caused by discrepant computer programs and lax internal controls over applying the suspension of interest provision of the RRA 98. The TIGTA identified approximately 4,600 taxpayers that were over assessed an estimated \$536,000 in interest because the IRS did not correctly input the date the taxpayer was notified of the additional assessment and an additional 2,000 taxpayers that were over assessed interest of approximately \$26,000 for adjustments to the EIC.

In addition, IRS management information systems do not separately record or monitor direct contact requirements or IRS responses to written information requests from joint filers. Therefore, the TIGTA could not determine if the IRS fully complied with the requirements. The IRS uses the Integrated Complaint Tracking and Reporting System to integrate complaints of employee misconduct from two systems, and determined that it would not integrate complaints from all other existing systems. Until the IRS is able to track and integrate the complaint information from all systems and eliminate duplicate complaints contained in more than one system, it will not be able to determine the total number of taxpayer complaints received.

### **Human Capital**

Many Federal departments and agencies are moving towards becoming results-based organizations, and leading results-based organizations understand that human capital planning must be an integral part of an organization's strategic and program planning. Inadequate attention to strategic human capital management perpetuates a government-wide risk of some agencies not performing their missions economically, efficiently, and effectively. The GAO considers strategic human capital management as a high-risk area for the Government, and the President, in his FY 2001 budget request, added human capital to the list of Priority Management Objectives.

---

<sup>13</sup> 5 U.S.C. § 552 (1994 & Supp. IV 1998).

<sup>14</sup> 5 U.S.C. § 552a (1994 & Supp. IV 1998).

<sup>15</sup> I.R.C. § 6103, Confidentiality and Disclosure of Returns and Return Information.

Like many other government agencies, the IRS continues to face a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with the IRS' recent reorganization and modernization efforts. In FY 2002, however, the IRS initiated actions to incorporate a workforce planning process into its strategic planning processes. For example, the overall strategic direction for workforce planning has been set and the process of establishing organizational goals has generally been completed.

The IRS management, however, has not established a project plan that assigns responsibilities and includes milestones for each of the steps in an overall workforce planning process. Workforce planning guidance documents do not currently focus on long-term planning, i.e., beyond three years. In addition, the workforce planning process being developed may not effectively address long-term (three to five years) workforce planning goals. The current focus on a three-year planning process is the result of IRS plans to integrate its workforce planning process with the ongoing strategic planning and budgeting processes. Although the process requires management to develop and report actual workload and resource estimates for the short-term (i.e., the current fiscal year and the two future years being planned), quantitative measures for long-term planning are not always required. Expanding the workforce planning process and guidance to encompass five years would increase the IRS' ability to identify risks and provide necessary data to key stakeholders.

---

## FUTURE EFFECTS ON EXISTING, CURRENTLY-KNOWN DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS, AND TRENDS

### Alcohol, Tobacco and Firearms (ATF)

***Disaster Recovery.*** Quickly recovering the Bureau's mission-critical applications to support our three major missions is the highest priority in the information technology area. ATF has acquired the necessary computer storage and communication devices to replicate mission-critical applications and databases between ATF Headquarters and an off-sight data center. In the event of a loss of the Headquarters locations, the off-sight location can host all operations. This will ensure the continuity of major business processes in the event of a natural disaster, act of terrorism, or war. When fully implemented in the fall of 2002, ATF will have the capability to fail-over operations from the off-sight location to ATF Headquarters.

***Relocation of the National Laboratory Center.*** ATF is continuing to address the unique challenges of relocating the National Laboratory Center (NLC) to Ammendale, Maryland. The NLC includes three ATF laboratories: the Forensic Science Laboratory – Washington (FSL-W), the Alcohol and Tobacco Laboratory (ATL), and the new Fire Research Laboratory (FRL). A 5-year effort has culminated in the construction and ownership of this world-class facility to support ATF's regulatory and investigative requirements and to support fire investigations.

The NLC will relocate from its Rockville leased space in January 2003. The objective is to make the relocation transition as seamless as possible for our internal and external customers, while continuing to provide high-quality and timely service. Some of the hurdles include relocating and recalibrating a range of sophisticated instruments, and installing custom-designed fire measurement equipment. In addition, the commissioning of Fire Center burn cells and pollution abatement equipment to ensure safe fire testing performance adds additional challenges. The FSL-W and ATL are expected to be fully operational shortly after the move. Fire Center commissioning is scheduled to begin in late spring, and the entire NLC will be fully operational by the end of FY 2003.

### U. S. Customs Service (Customs)

Customs faces a transition in its goals, priorities, and day-to-day operations with its proposed transfer to a new Department of Homeland Security. If the new Department is created and begins operation sometime during FY 2003, there will be a reevaluation of Customs strategic goals and objectives, along with potentially significant changes in organization, reporting, human resource management, budgeting, and information systems. Customs staff may be faced with new functions and challenges, and modes of operation may have to be changed to further integration and cooperation with other parts of the new Department. Even if the proposed transfer does not take place, there has been a significant change in Customs major goals and priorities, with Homeland Defense now being the number one priority of the agency. The operational goals and objectives of Customs offices are in the process of being modified to reflect this new reality.

### Financial Management Service (FMS)

FMS provides a wide range of financial services, as well as timely and accurate financial information, to assist Federal officials when making financial decisions. These services include making the vast majority of Federal payments, facilitating programs and systems that collect Government receipts, collecting delinquent non-tax Federal debt, managing the Federal government's daily cash flow, and issuing various reports on the financial results and operations of the Federal government. The quality and timeliness of these services depend largely on the performance and cooperation of other Federal agencies, Federal Reserve Banks, and financial institutions.

FMS is strengthening its approach to information technology (IT) through an IT transformation that will improve our ability to develop and deploy web-based application systems that meet our customers' needs. The Investment Review Board and capital investment processes have been revamped to ensure that clear priorities are established for application development projects and system enhancements. In addition, when the transformation is complete, program offices will be responsible for managing IT projects, establishing business and technical requirements, selecting and managing contractors, and working with FMS' central IT organization to ensure that applications are compatible with FMS' platform and architecture. This shift in responsibility for application systems development projects to program offices is consistent with private sector best practices.

### **Office of the Comptroller of the Currency (OCC)**

The OCC believes a major challenge and risk to maintaining a strong banking industry is ensuring adequate and equitable funding for bank supervision. The OCC will continue its efforts to bring attention and focus to this issue.

The current funding arrangement is unfair to national banks and disrupts the constructive competition between state and Federal bank regulators that is a cornerstone of the dual banking system. It also compromises the safety and soundness of all U.S. Banks.

National banks pay the full costs of their supervision through assessments to the OCC. Conversely, state banks pay only the portion of their supervision costs that is provided by state supervisory agencies. In 2001, for example, national banks paid 100 percent of their supervision costs, while state banks paid just 22 percent of their supervision costs.

This inequity is compounded because the FDIC uses a substantial portion of the income generated from national banks' accumulated deposit insurance premiums to supervise state nonmember banks. The Federal Reserve System's supervision costs are borne by all taxpayers, because operating expenses are subtracted from earnings on government securities before paying the remainder to the U.S. Treasury for the benefit of taxpayers.

Historically, the choice between a national or state charter centered on such things as supervisory philosophy and responsiveness, examination quality, and the scope of permissible activities. Today, the cost of supervision has become an increasingly more important factor in a bank's choice of charter, rather than those factors that enhance the overall quality of bank supervision.

The most serious concern is that the current funding system works to reduce supervisory resources when they are most likely to be needed. During times of widespread stress in the banking system, healthy national banks are asked to pay higher assessments so that the OCC can deal with a rising number of problem banks. As a result, the financial incentive for healthy national banks to convert to a state charter increases, depleting the revenue needed to protect safety and soundness.

### **U.S. Secret Service**

The Secret Service fully supports the national strategy for homeland security and participates in various homeland security efforts that emanated from the September 11, 2001 terrorist attacks. Such efforts include designing and executing operational security plans for an increasing number of National Special Security Events (NSSE) and implementing new protective security details at the direction of the President. To effectively support homeland security efforts, the Service must rely on the strength and versatility of employees assigned to its two core program areas – protective and investigative operations. The integration

of the skills necessary to support the protective and investigative program areas assures success in homeland security efforts. For example, the Service's Electronic Crimes Special Agent Program (ECSAP) plays a large role in protecting critical network systems at NSSEs. The protective and investigative program areas are interrelated and complementary, both fostering the development of skills and abilities that are critical to the protection of this nation's physical and cyber infrastructure.

The Secret Service does not anticipate an impact upon the FY 2004 budget process or FTE assumptions as a result of the movement to the current NSSE designation process. However, the Secret Service would like to see a permanent funding mechanism established for security operations relative to NSSE designated events. The establishment of a stand-alone fund specifically for NSSEs, where the amount of budget authority and its availability are not fixed, and thus is flexible enough to meet the requirements for events that are ad hoc and vary in size, is needed. The Treasury Department's Counter-terrorism Fund has proven to be a good mechanism for funding the resource requirements relative to events designated as National Special Security Events.

Another issue that requires management's attention is that in FY 2001, the Secret Service purchased financial system software and hardware to modernize, consolidate, and replace our current financial systems. Due to the impending move to the new Homeland Security Department, the implementation timetable and funding is at significant risk. The potential of our current systems failing grows daily. This also impedes our ability to meet new mandates issued by the Department of the Treasury and the Office of Management and Budget.

### **Internal Revenue Service (IRS)**

***Modernizing Systems and Business Processes.*** The modernization of the IRS' tax administration and internal management systems and processes is the greatest long-term challenge we face. Successful implementation of new systems and processes will increase: (1) customer satisfaction through more timely and accurate handling of taxpayer returns, refunds and accounts management; (2) employee satisfaction through a more productive workforce that will, for example, reduce rework caused by errors inherent in the current manual processes; and (3) business results as greater accuracy will increase quality and greater efficiencies will increase quantity. Systems modernization will take approximately ten years to accomplish. In FY 2003, our plans project the following accomplishments: (1) implementation of a new Integrated Financial System, (2) an Enterprise Systems Management strategy to provide network and systems management to improve information technology infrastructure availability and performance, (3) the deployment of Customer Account Data Engine Release 1, authoritative computations and data stores for individual taxpayer account and return data, (4) the deployment of Enterprise Data Warehouse / Custodial Accounting Project Release 1, integrated, reliable tax operations and internal management information, (5) the implementation of Security and Technology Infrastructure Release, a technical infrastructure for secure phone and electronic communication, and (6) the deployment of HR Connect, which allows employees to manage their human resources information online.

***Compliance and Enforcement.*** The most current projection of our nation's gross tax gap (i.e., Federal taxes owed but not paid voluntarily and timely) is about \$300 billion. Some of the most serious and current compliance problem areas include: promoters of tax schemes of all varieties; the misuse of devices such as trusts and offshore accounts to hide or improperly reduce income; abusive corporate tax shelters; underreporting of tax by higher-income individuals; and the failure to file and pay large amounts of employment taxes by some employers. Efforts in FY 2003 and beyond will address these compliance areas through better education of the public; systematically identifying promoters and participants; improving the efficiency of exam and collection efforts through reengineering; and reinvigorating enforcement actions such



as summons enforcement, injunctions and criminal investigation of promoters. We must continue to make significant progress in collecting better compliance and noncompliance data, as well as in quantifying our corporate level strategic compliance measures. These two goals will be achieved in large part through our new National Research Program (NRP). The first available data on payment compliance and return filing compliance recently became available. Initial data on reporting compliance will be available in October 2003.

*Customer Service.* Over the past several years, the IRS has achieved an increase in public perception scores on both American Customer Satisfaction Index and the Roper Starch surveys. The most recent data from Roper Starch, however, shows a slight decrease in 2002 below 2001. Although the Roper Starch score remains above the levels recorded in 1998 through 1999, the drop must be taken seriously.

The volume of requests for tax assistance, taxpayer correspondence, and telephone assistance is increasing. Customer expectations for services tailored to specific needs continue to rise. To effectively address these demands, IRS must further reduce the burden on taxpayers by improving level of service, increasing electronic interactions with businesses and using customer feedback to identify improvement opportunities.



**PART 3**

# **FINANCIAL INFORMATION**

**Audit of the Department of the Treasury's  
Fiscal Years 2002 and 2001  
Financial Statements**

*OIG-03-014*

*November 15, 2002*



**Office of Inspector General**

\*\*\*\*\*

**The Department of the Treasury**

## Contents

---

Memorandum for the Secretary.....	1
<b><i>Report of the Office of Inspector General on the Financial Statements for Fiscal Years 2002 and 2001</i></b>	
Results in Brief.....	4
Management's Responsibilities.....	5
Scope of Audit.....	6
Results of Audit .....	8
Opinion on the Financial Statements.....	8
Internal Control .....	9
Compliance with Laws and Regulations .....	19
Appendix 1 – Management’s Response .....	25
Appendix 2 – Report Distribution .....	26



DEPARTMENT OF THE TREASURY  
WASHINGTON

*Inspector General*

November 15, 2002

**MEMORANDUM FOR SECRETARY O'NEILL**

**FROM:** Jeffrey Rush, Jr.  
Inspector General

A handwritten signature in blue ink, appearing to be "JR", written over a horizontal line.

**SUBJECT:** Report on the Department of the Treasury's Financial Statements  
for Fiscal Years 2002 and 2001

**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, 2002 and 2001. 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 2002 and 2001 financial statements, and our audit report thereon, are incorporated in the accompanying *Department of the Treasury Performance and Accountability Report for Fiscal Year 2002*.

We have issued unqualified opinions on the Department's FY 2002 and 2001 financial statements.

Our report discusses four material weaknesses in internal control identified during our audit. The material weaknesses relate to: 1) financial management and reporting at the Internal Revenue Service (IRS); 2) electronic data processing (EDP) controls, most notably at the IRS, United States Customs Service (Customs), the Financial Management Service (FMS) and the United States Mint; 3) management of trade activities and related systems at Customs; and, 4) FMS' controls over outstanding checks.

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 generally accepted government auditing standards, the Report of the Office of Inspector General is dated November 8, 2002, the last date of audit field work.

## **DISCUSSION**

The Department is to be congratulated for its extraordinary accomplishment in accelerating the issuance of its report to November 15, 2002, while maintaining an unqualified audit opinion. This is more than three months ahead of last year's schedule, and two years in advance of the Office of Management and Budget's requirement that FY 2004 reports be submitted by November 15. This achievement has clearly established the Department as a leader in this regard.

While this is a truly remarkable accomplishment, costly and labor-intensive procedures were still necessary to produce reliable financial statements, albeit within a shorter time frame. Only limited progress has been made in addressing major longstanding financial management and systems deficiencies that persist at key bureaus. Also, new material weaknesses were identified at Customs and FMS.

The Department has taken steps to address material weaknesses and other deficiencies, however, these efforts need to be intensified and broadened. In addition to focusing on correcting conditions identified in prior years, the Department should take a proactive approach and assess controls throughout the year. A rigorous ongoing program of evaluating internal controls should be an integral part of management's overall internal control structure. Stated another way, one of management's goals should be to discover and correct internal control problems before they are reported by the auditors.

Achieving the financial management objectives of the President's Management Agenda continues to be a formidable challenge that will require determined leadership by the Department, full commitment of bureau heads, and highly focused efforts by financial managers and staff. Your personal support is essential for the Department to meet these challenges and achieve true financial management excellence. We are strongly committed to working with you to achieve this goal.

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. We recognize that certain corrective actions have already been undertaken. We encourage these efforts and will continue to provide advice and assistance to the Department in this regard.

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 Audit, at (202) 927-5430.

Attachments

cc: Edward R. Kingman, Jr.  
Assistant Secretary for Management and Chief Financial Officer



## 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, 2002 and 2001, the related Consolidated Statements of Net Cost and Custodial Activity for the years then ended, and the related Consolidated Statements of Changes in Net Position and Financing, and Combined Statement of Budgetary Resources for the year ended September 30, 2002. These financial statements are incorporated in the accompanying *Department of the Treasury Performance and Accountability Report Fiscal Year 2002 (FY 2002 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).
- Management of Trade Activities and Related Systems at Customs Needs Improvement (Repeat Condition).
- Financial Management Services' (FMS) Controls Over Outstanding Checks Need Improvement.



---

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 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.
- Customs did not make recommendations on revising the fees and charges for its reimbursable projects as required by the Chief Financial Officers Act of 1990 (CFO Act) (Repeat Condition).
- Customs did not report to Congress recommendations for fee adjustments as required by Title 19 of the U.S. Code, Section 58c(f)(4) (Repeat Condition).
- The Air Transportation Stabilization Board (ATSB) obligated funds for a Federal loan guarantee in violation of the Anti-Deficiency Act.

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:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America.
- Preparing the Management Discussion and Analysis (MD&A) of the Department, Supplemental Information, Other

Accompanying Information and the Full Report of  
Treasury's FY 2002 Measures by Strategic Goal.

- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.
- Complying with laws and regulations applicable to the Department.

## Scope of Audit

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the years ended September 30, 2002 and 2001, the accounts for which are included in the Department's financial statements. The IRS' financial statements for the years ended September 30, 2002 and 2001 included custodial revenues of \$2.0 trillion and \$2.1 trillion, total assets of \$24.7 billion and \$25.2 billion, and net costs of operations of \$10.0 billion and \$9.3 billion, respectively. BPD's Schedules of Federal Debt for the years ended September 30, 2002 and 2001 included Federal debt and interest payable of \$6.2 trillion and \$5.8 trillion, and interest expense of \$334 billion and \$362 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 the years ended September 30, 2002 and 2001, 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 the Federal Managers' Financial Integrity Act, 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 the MD&A and the Full Report of Treasury's FY 2002 Measures by 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, 2002 and 2001, its net costs and custodial activities for the years then ended, and the changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 32 to the Department's financial statements, adjustments of \$3.1 billion to restate cash, foreign currency & other monetary assets; and, \$1.0 billion to restate unexpended appropriations, were made to the previously reported balances as of September 30, 2001.

The MD&A and Supplemental Information 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 Supplemental Information. However, we did not audit the MD&A and Supplemental Information 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. The Other Accompanying Information and the Full Report of Treasury's FY 2002 Measures by Strategic Goal are presented for purposes of additional analysis and are 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 as defined above. Weaknesses that we identified in our report, *Audit of the Department of the Treasury's Fiscal Year 2001 and 2000 Financial Statements* (OIG-02-054, issued February 27, 2002) that continued to exist during fiscal year (FY) 2002, 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 fiscal year 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, because of

serious systems and internal control weaknesses, IRS had to rely 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, it will be difficult for IRS personnel to sustain the level of effort needed to produce reliable financial statements timely without addressing 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 challenge for IRS will be to continue the improvements made in recent years and to develop and implement the fundamental long-term solutions that are needed to address its internal control weaknesses. Some of these solutions can be addressed in the near term, however, others, which involve modernizing IRS' financial and operational systems, will take years to fully achieve.

The material weaknesses in internal control identified during the fiscal year 2002 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 or (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 potentially billions of dollars in improper payments and lost revenue to the Federal government;

- Weaknesses in controls over property and equipment, resulting in IRS' inability to have reliable and timely information on its balance of property and equipment throughout the year and to reasonably ensure that its property and equipment are safeguarded and used only in accordance with management policy; 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 budget and 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) budgetary activity, and (2) hard-copy tax receipts and taxpayer data. In prior audits, the deficiency in controls over budgetary activity was reported as a material weakness, but based upon improvements identified during the fiscal year 2002 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 ensures that IRS develops and implements an appropriate corrective action plan that will fully address the



material weaknesses and reportable condition 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, FMS, Customs, and the U.S. Mint (Mint). In addition, other reportable conditions related to EDP controls were identified at the Bureau of Alcohol, Tobacco and Firearms (ATF), and the Office of the Comptroller of the Currency (OCC). The details of these EDP weaknesses and audit recommendations were, or will be, provided to respective bureau management separately, and in some instances, due to the sensitive nature of the weaknesses, in separate reports with limited official distribution.

### **General Controls**

EDP general controls, which provide the structure, policies and procedures that apply to the Department's overall computer operations, need to be strengthened. The absence of effective general controls over computer based financial systems makes the Department vulnerable to losses, fraud, delays, or interruptions in service, and compromises the integrity and reliability of the information systems and data. Significant EDP general control weaknesses by major category are summarized below.

#### Entity-wide security program planning and management

Specific control weaknesses included (1) inadequate security planning and implementation, (2) insufficient technical security-related training for key personnel, and (3) inadequate follow-up monitoring to ensure that internal control deficiencies are considered and addressed entity-wide. The entity-wide security program planning and management process provides for identifying and assessing risks, deciding what policies and controls are needed, periodically evaluating the effectiveness of these policies and controls, and acting to address any identified weaknesses.

### Access control

Deficiencies existed in physical and logical access controls over computer resources (data files, application programs, and computer-related facilities and equipment) that protect against unauthorized modification, disclosure, loss, or impairment. Access control weaknesses make systems vulnerable to damage and misuse by allowing individuals and groups to inappropriately modify, destroy, or disclose sensitive data or computer programs for purposes such as personal gain or sabotage.

### Application software development and change control

Policies and procedures to identify, select, install, and modify software were not followed, and controls over infrastructure changes were not fully documented. Application software development and change controls prevent unauthorized software programs or modifications to programs from being implemented.

### System software

System software control weaknesses included (1) policies and procedures for restricting access to system software and monitoring the use of system utilities had not been developed, (2) review of system utility logs were not always performed, and (3) key networks and systems were not routinely monitored. System software controls limit and monitor access to the powerful programs and sensitive files associated with the computer systems operation.

### Segregation of duties

Segregation of duties weaknesses related to system and security administration. Segregation of duties refers to the policies, procedures, and organizational structure that help ensure that one individual cannot independently control key aspects of a processor computer-related operation, and thereby conduct unauthorized actions or gain unauthorized access to assets or records without detection.

### Service continuity

Several significant deficiencies, including insufficient planning and testing, could impair timely restoration of mission-critical systems. Service continuity controls ensure that when unexpected events occur, critical operations continue without undue interruption and critical and sensitive data are protected.

### **Application Controls**

Application controls provide assurance that transactions are valid, properly authorized, and completely and accurately processed and reported, and include (1) programmed control techniques, such as automated edits, and (2) manual follow-up of computer-generated reports, such as reviews of reports identifying rejected or unusual items.

Based on limited testing of application controls at certain bureaus, additional weaknesses were identified related to (1) the completeness, integrity, and availability of internal financial reports, (2) logical user access rights and privileges for business applications that were not sufficiently defined based on appropriate job duties or responsibilities, (3) ascertaining the validity and authority of changes to inventory valuation, and (4) segregating critical financial applications and information systems duties.

### **Recommendations:**

Recommendations were, or will be, provided to bureau management to address these conditions. We reaffirm our prior year audit recommendation that the Department's Chief Information Officer should 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.

### **Management of Trade Activities and Related Systems at Customs Needs Improvement (Repeat Condition)**

Ongoing weaknesses in the design and operation of Customs' controls over trade activities and financial management and

information systems continue to inhibit the effective management of these activities and protection of trade revenue. Many of these weaknesses have been reported since Customs' financial statements were first subjected to audit in FY 1992. Material weaknesses identified during the FY 2002 audit work at Customs are summarized below:

- Customs' core financial systems did not provide certain critical financial information necessary for managing operations. Also, the financial systems did not capture all transactions as they occurred during the year, did not record all transactions properly, and were not fully integrated. Additionally, the systems did not always provide for essential controls with respect to override capabilities and changes to system data. As a result, extensive manual procedures and analyses were required to process certain routine transactions and prepare year-end financial statements.
- IT system logical access and software maintenance security controls need improvement. Network and host based system configuration vulnerabilities exist that can potentially be used to compromise system security. Also, deficiencies were identified in logical access controls over data files, application programs, and computer-related facilities and equipment.
- Controls over the entry process need improvement. Compliance measurement was not performed during the majority of FY 2002. Consequently, Customs lacked a statistically valid measurement of the effectiveness of its system of internal controls over the entire entry process. In addition, inspections of merchandise and reviews of importer and/or broker submitted entry documentation were non-statistical and could not be used to measure the overall extent of trade compliance. The lack of statistical measurement hindered Customs ability to determine the extent of Customs compliance with laws and regulations, and to measure the revenue gap (i.e., the difference between the what was and what should have been collected). There

were also deficiencies in manual control activities performed by various port personnel.

- Drawback controls need to be strengthened. The system that handles drawback claims cannot perform critical comparisons of key information, or detect duplicate drawbacks. In addition, the process used to select drawback claims for review, as implemented, cannot produce a statistically valid projection of the results or a measure of the effectiveness of controls.

In addition, four other reportable conditions were identified related to (1) bonded warehouse and foreign trade zones operations reviews, (2) monitoring and measuring compliance of in-bond movements, (3) the impact of the events of September 11, 2001 on internal controls over the drawback process, and (4) entity-wide security program documentation.

### **Recommendations**

Recommendations to address the weaknesses discussed above have been provided to Customs. We recommend that the Assistant Secretary for Management and Chief Financial Officer ensures that Customs develops and implements appropriate corrective action plans that will fully address the conditions noted above.

### **FMS' Controls Over Outstanding Checks Need Improvement**

FMS did not have adequate controls over the summary dollar totals of outstanding checks (i.e. checks issued that have not been paid or cancelled). As a result, the operating cash of the Federal government was overstated by \$3.1 billion. The following specific matters pertaining to outstanding checks were noted:

- Until recently, FMS was unable to produce a detail of outstanding checks as of a given date. Such detail is necessary to maintain an adequate audit trail over these items, and for reconciliation purposes.

- FMS did not reconcile the balance of outstanding checks in STAR (the general ledger) to the amount contained in the Check Payment and Reconciliation (CP&R) system, which records the details of check issuance and payments.
- The Check Issue Audit Reconciliation Report is used to reconcile the total of checks issued as recorded in STAR to the total contained in CP&R and identify all timing differences between the two systems. However, not all reconciling items affecting STAR were investigated and adjusted in the proper period.
- 
- There are insufficient reconciliation procedures between CP&R and the Payments, Claims and Enhanced Reconciliation (PACER) system, a system that contains check status related data.

FMS has not been able to determine the cause of the misstatement or when it first occurred. However, it has been determined that the understatement of outstanding checks dates back at least to September 30, 2000. Consequently, a prior period adjustment reducing the operating cash of the Federal government by \$3.1 billion was posted to correct this error.

**Recommendations:**

Recommendations to address this weakness have been provided to FMS. We recommend that the Assistant Secretary for Management and Chief Financial Officer ensures that FMS develops and implements an appropriate corrective action plan that will fully address this material weakness.

\* \* \* \* \*

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, has become legally unenforceable, or the Secretary of the Treasury has accepted a bond for the assessed tax. The FY 2002 audit identified instances in which taxpayers' total outstanding tax liabilities were either paid off or abated and IRS did not release the applicable Federal tax lien within the 30 day requirement stipulated 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 2002 audit, instances were identified where installment agreements were not structured to provide for full payment of the tax liability within the statutory collection period. Audits prior to FY 2001 also identified similar noncompliance.
- The CFO Act requires that a biennial review be performed of fees and other charges imposed for services and things of value, and that recommendations be made to the head of the agency on revising those charges to reflect costs incurred in providing those services and things of value. During FY 2001, Customs conducted a review and analysis of these fees, but did not make recommendations for revising the fees. In FY 2002, recommendation was made that legislation be introduced to revise user fees to reflect actual costs related to providing services. However, specific fee recommendations were not made for each activity.
- (Repeat Condition)

- Title 19 of the U.S. Code, Section 58c(f)(4), requires a biennial review, for each even-numbered fiscal year, of the adequacy of the fees charged for the provision of certain Customs services, as well as the fees charged for the processing of merchandise. The statute requires that Customs prepare a report for Congress, based on its review, that makes recommendations on how the fees should be adjusted. Customs has not reported to Congress recommendations on adjustments to the fees. (Repeat Condition)
- The Anti-Deficiency Act prohibits obligating funds in advance of available appropriations. ATSB violated the Anti-Deficiency Act when it obligated funds for a Federal Loan guarantee before the Presidential designation of these budgetary resources as “emergency requirements” had been effected pursuant to the Balanced Budget and Emergency Deficit Control Acts. As a result, budget authority was not available for obligation by ATSB. This violation was subsequently remedied when the President executed the necessary designation.

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*, and 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. In addition, IRS lacks



a subsidiary ledger for its unpaid assessments; lacks a reliable subsidiary ledger for its property and equipment; and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances.

- Customs' core financial systems do not provide complete and accurate information for financial reporting and preparation of financial statements. Extensive manual procedures and analyses were required to process certain routine transactions and prepare year-end financial statements. Furthermore, certain feeder systems are not fully integrated or electronically interfaced with Customs' general ledger system.
- The material weakness *EDP Controls Over Financial Systems Should be Strengthened* related to EDP controls at IRS, Customs, FMS and Mint, discussed above.

Instances of noncompliance with Federal accounting standards are summarized below:

- Material weaknesses at IRS related to controls over unpaid tax assessments, tax revenue and refunds, and property and equipment.
- Material weaknesses at Customs related to controls over the entry process and drawback claims.
- Material weakness at FMS related to controls over outstanding checks.

Instances of noncompliance with the SGL at the transaction level requirements are described 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.

- Certain Customs' transactions are not properly recorded in the general ledger as they occur. For example, (1) reimbursable transactions were initially recorded in the general ledger as though they were appropriated transactions, and (2) liabilities were not recorded in the general ledger upon receipt of goods and services.

The Secretary of the Treasury also has determined in the Secretary's Letter of Assurance, in Part 4 of the accompanying *FY 2002 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 4.

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 with the FFMIA no later than three years after a determination of noncompliance is made. The Department received a waiver from OMB for Customs and IRS for the requirement to bring financial management systems into substantial compliance within the three year timeframe.

Customs' FFMIA remediation plan includes planned remedial actions and associated target dates. Since OMB's waiver was received, funding for two of the key remedial actions has been insufficient. Therefore, Customs has extended its remediation plan completion date further, without consent of the Department and OMB. We believe that Customs should develop alternative actions and plans wherever possible to address the funding uncertainties and extended timeframes related to these remedial actions. Modification to Customs' remediation plan should be reviewed and approved by the Department and submitted to OMB for concurrence.

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.

#### **Recommendations:**

We recommend that the Assistant Secretary for Management and Chief Financial Officer: (1) ensures that IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; (2) ensures that IRS addresses the noncompliance with Section 6159 of the IRC; (3) ensures that Customs is in full compliance with the requirements of the CFO Act and Title 19 of the U.S. Code, Section 58c(f)(4); (4) ensures that ATSB implements controls to ensure budget authority is available before funds are obligated; and (5) continues to monitor and assess progress of the 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 to the public as a matter of public record.



William H. Pugh  
Deputy Assistant Inspector General for Financial Management  
and Information Technology Audits  
November 8, 2002

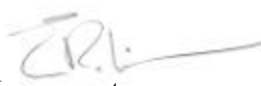


Department of the Treasury  
Washington, D.C.

Assistant Secretary

November 13, 2002

**MEMORANDUM FOR JEFFREY RUSH, JR.**  
**INSPECTOR GENERAL**

**FROM:** Edward R. Kingman, Jr.   
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) 2002 Financial Statements

On behalf of Secretary O'Neill, I am responding to your audit report on the Department's FY 2002 financial statements included in Treasury's FY 2002 Performance and Accountability Report.

We appreciate your highly successful efforts to audit the Department's fiscal year 2002 financial statements and provide timely, objective advice on how to improve our financial reporting processes. Over the past several years, our offices have worked diligently together to achieve significant results – the initial unqualified opinion the Department received on its financial statements for fiscal year 2000, followed by unqualified opinions for FYs 2001 and 2002, and, equally significant, the acceleration of the Department's report issuance date from five months for FY 2001 to forty-five days for FY 2002.

As noted in your report, accelerating the issuance of the Department's Performance and Accountability Report to November 15, 2002, while maintaining an unqualified audit opinion, is an extraordinary accomplishment. All of our bureaus played a key role in this accomplishment, and we are especially appreciative of the dedicated level of professional assistance, enthusiasm, and plain hard work demonstrated by your office throughout the audit process. Completing the Department's audit on such an extremely compressed schedule is a testimony to that dedication.

We recognize that achieving an unqualified audit opinion was accomplished only by employing, in several critical areas, labor intensive procedures in order to compensate for systems deficiencies. We agree that we still have much work to do to improve our financial reporting and financial management, and that several of our financial systems need to be upgraded or replaced in order to allow for the production of timely, reliable financial data throughout the year. These systems improvements are also necessary to reduce the heavy workload on our respective staffs that is currently necessary to produce the financial statements, especially on an accelerated basis. To this end, we need to place even greater emphasis on addressing our management control deficiencies, especially as they relate to financial systems.

We concur with the four Departmental level material weaknesses and the instances of noncompliance with laws and regulations contained in your report. We have already initiated corrective actions to address several of these matters, especially with regards to financial management and reporting at the IRS, EDP controls, and noncompliance with the Federal Financial Management Improvement Act. We will strive to continue and improve our efforts in these areas, and will provide you with corrective action plans to address all the findings contained in your report.

I am confident that the professional, positive working relationship between our offices, and also with the Treasury Inspector General for Tax Administration and the General Accounting Office, will allow us to build on this year's successes and continue to improve financial management across the Department.

**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, 2002 and 2001**  
**(In Millions)**

	FY 2002	Restated FY 2001
<b>ASSETS</b>		
<b>Intra-governmental Assets</b>		
Fund Balance (Note 2)	\$54,752	\$56,645
Loans and Interest Receivable (Note 3)	229,937	223,098
Advances to the Black Lung Trust Fund (Note 4)	7,719	7,254
Due from the General Fund, Net (Note 5)	5,919,329	5,531,026
Accounts Receivable and Related Interest (Note 11)	715	746
Other Intra-governmental Assets	26	26
<b>Total Intra-governmental Assets</b>	<b>\$6,212,478</b>	<b>\$5,818,795</b>
Cash, Foreign Currency & Other Monetary Assets (Note 6)	101,781	70,164
Gold and Silver Reserves (Note 7)	10,933	10,933
Loans and Interest Receivable (Note 3)	1,342	1,486
Investments and Related Interest (Note 8)	8,153	6,902
Reserve Position in International Monetary Fund (Note 9)	20,864	18,407
Investments in International Financial Institutions (Note 10)	5,254	5,154
Tax/Trade, Other Receivables, and Related Interest, Net (Note 11)	22,014	21,365
Inventory and Related Property, Net (Note 12)	543	643
Property, Plant and Equipment, Net (Note 13)	3,838	3,290
Other Assets	60	162
<b>Total Assets</b>	<b>\$6,387,260</b>	<b>\$5,957,301</b>
<b>LIABILITIES</b>		
<b>Intra-governmental Liabilities</b>		
Federal Debt and Interest Payable (Note 15)	\$2,684,929	\$2,472,037
Loans Payable and Interest (Note 16)	15,337	15,337
Other Intra-governmental Liabilities	664	770
<b>Total Intra-governmental Liabilities</b>	<b>\$2,700,930</b>	<b>\$2,488,144</b>
Federal Debt and Interest Payable (Note 15)	3,546,780	3,332,796
Certificates Issued to Federal Reserve Banks (Note 18)	2,200	2,200
Allocation of Special Drawing Rights (Note 6)	6,481	6,316
Gold Certificates Issued to Federal Reserve Banks (Note 7)	10,924	10,924
Refunds and Drawbacks (Note 30)	1,896	1,552
DC Pension Liability (Note 19)	8,345	8,196
Other Liabilities	6,229	5,102
<b>Total Liabilities</b>	<b>\$6,283,785</b>	<b>\$5,855,230</b>
<b>Net Position (Note 22 and Note 32)</b>		
Unexpended Appropriations	49,828	51,907
Cumulative Results of Operations	53,647	50,164
<b>Total Net Position</b>	<b>\$103,475</b>	<b>\$102,071</b>
<b>Total Liabilities and Net Position</b>	<b>\$6,387,260</b>	<b>\$5,957,301</b>

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

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

<b>Cost of Treasury Operations:</b>	<b>Intra-governmental</b>	<b>With the Public</b>	<b>Total</b>
<i>Economic Program: Promote Prosperous and Stable American and World Economics</i>			
Production	\$172	\$2,597	\$2,769
Less Earned Revenue	(3)	(1,907)	(1,910)
<b>Net Program Cost</b>	<b>\$169</b>	<b>\$690</b>	<b>\$859</b>
<i>Financial Program: Manage the Government's Finances</i>			
Production	\$5,108	\$10,753	\$15,861
Less Earned Revenue	(3,234)	(2,414)	(5,648)
<b>Net Program Cost</b>	<b>\$1,874</b>	<b>\$8,339</b>	<b>\$10,213</b>
<i>Law Enforcement Program: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug Free America</i>			
Production	\$856	\$2,900	\$3,756
Less Earned Revenue	(55)	(30)	(85)
<b>Net Program Cost</b>	<b>\$801</b>	<b>\$2,870</b>	<b>\$3,671</b>
<b>Total Programs Costs, Net</b>	<b>\$2,844</b>	<b>\$11,899</b>	<b>\$14,743</b>
Costs Not Assigned to Programs	152	1,130	1,282
Less Earned Revenue Not Assigned to Programs	(265)	(2)	(267)
<b>NET COST OF TREASURY OPERATIONS</b>	<b>\$2,731</b>	<b>\$13,027</b>	<b>\$15,758</b>
<b>Federal Costs:</b>			
Federal Debt Interest			\$334,151
Less Interest Revenue From Loans			(11,260)
<b>Net Federal Debt Interest Costs</b>			<b>\$322,891</b>
Federal Debt Buyback Loss			3,800
Other Federal Costs			8,953
<b>NET FEDERAL COSTS</b>			<b>\$335,644</b>
<b>NET COST OF TREASURY OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS</b>			<b>\$351,402</b>

The accompanying notes are an integral part of these statements.  
Note 23 provides additional cost information by Treasury component.



**Consolidated Statement of Net Cost  
For the Year Ended September 30, 2001  
(In Millions)**

<b>Cost of Treasury Operations:</b>	<b>Intra-governmental</b>	<b>With the Public</b>	<b>Total</b>
<i><b>Economic Program: Promote Prosperous and Stable American and World Economics</b></i>			
Production	\$181	\$3,348	\$3,529
Less Earned Revenue	(2)	(1,300)	(1,302)
<b>Net Program Cost</b>	<b>\$179</b>	<b>\$2,048</b>	<b>\$2,227</b>
<i><b>Financial Program: Manage the Government's Finances</b></i>			
Production	\$4,053	\$10,658	\$14,711
Non-Production		1	1
Less Earned Revenue	(3,385)	(2,845)	(6,230)
<b>Net Program Cost</b>	<b>\$668</b>	<b>\$7,814</b>	<b>\$8,482</b>
<i><b>Law Enforcement Program: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug Free America</b></i>			
Production	\$691	\$3,148	\$3,839
Less Earned Revenue	(26)	(121)	(147)
<b>Net Program Cost</b>	<b>\$665</b>	<b>\$3,027</b>	<b>\$3,692</b>
<b>Total Programs Costs, Net</b>	<b>\$1,512</b>	<b>\$12,889</b>	<b>\$14,401</b>
Costs Not Assigned to Programs	141	664	805
Less Earned Revenue Not Assigned to Programs	(191)	(3)	(194)
<b>NET COST OF TREASURY OPERATIONS</b>	<b>\$1,462</b>	<b>\$13,550</b>	<b>\$15,012</b>
<b>Federal Costs:</b>			
Federal Debt Interest			\$362,062
Less Interest Revenue From Loans			(11,360)
<b>Net Federal Debt Interest Costs</b>			<b>\$350,702</b>
Federal Debt Buyback Loss			10,715
Other Federal Costs			7,733
<b>NET FEDERAL COSTS</b>			<b>\$369,150</b>
<b>NET COST OF TREASURY OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS</b>			<b>\$384,162</b>

The accompanying notes are an integral part of these statements.  
Note 23 provides additional cost information by Treasury component.

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

	<b>Cumulative Results of Operations</b>	<b>Unexpended Appropriations</b>
Beginning Balance as Restated - 10/1/2001 (Note 32)	\$50,164	\$51,907
Prior Period Adjustments	(44)	56
<b>Beginning Balance, as Adjusted</b>	<b>\$50,120</b>	<b>\$51,963</b>
 <b>Budgetary Financing Sources:</b>		
Appropriations Received		18,351
Appropriations Transferred In/Out		178
Other Adjustments		(474)
Appropriations Used	371,687	(20,190)
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)	
 <b>Other Financing Sources:</b>		
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	(14,040)	
 <b>Total Financing Sources</b>	<b>\$354,929</b>	<b>(\$2,135)</b>
 <b>Net Cost of Operations</b>	<b>(351,402)</b>	
 <b>Ending Balances</b>	<b>\$53,647</b>	<b>\$49,828</b>

The accompanying notes are an integral part of these statements.

Note 25 provides the Combining Statement of Changes in Net Position by each Treasury reporting component.

**Combined Statement of Budgetary Resources**  
**For the Year Ended September 30, 2002**  
(In Millions)

**BUDGETARY RESOURCES**

Budget Authority:	
Appropriations Received	\$486,885
Borrowing Authority	6
Net Transfers	114,103
Unobligated Balance:	
Beginning of Period	37,032
Change in Accounting for IAP Budgetary Accounting (Note 9)	26,550
Net Transfers	102
Spending Authority from Offsetting Collections:	
Earned:	
Collected	7,753
Receivable from Federal Sources	(114,015)
Change in Unfilled Customer Orders:	
Advance Received	13
Without Advance From Federal Sources	30
Transfers from Trust Funds	3
Subtotal	\$(106,216)
Recoveries of Prior Year Obligations	447
Temporarily Not Available Pursuant to Public Law	(274)
Permanently Not Available	(118,919)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$439,716</b>

**STATUS OF BUDGETARY RESOURCES**

Obligations Incurred:	
Direct	\$370,682
Reimbursable	3,446
Subtotal	\$374,128
Unobligated Balance:	
Apportioned	13,832
Exempt from Apportionment	41,459
Unobligated Balance Not Available	10,297
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$439,716</b>

The accompanying notes are an integral part of these statements.

The Combined Statement of Budgetary Resources does not include intra-agency eliminations.

**Combined Statement of Budgetary Resources**  
**For the Year Ended September 30, 2002**  
**(In Millions)**

**(Continued)****RELATIONSHIP OF OBLIGATIONS TO OUTLAYS**

Obligated Balance, Net, Beginning of Period	\$8,469
Change in Accounting for IAP Budgetary Accounting (Note 9)	29,443
Obligated Balance, Net, End of Period:	
Accounts Receivable	(207)
Unfilled Customer Orders from Federal Sources	(241)
Undelivered Orders	34,412
Accounts Payable	2,881
Outlays:	
Disbursements	488,573
Collections	(7,612)
Subtotal	\$480,961
Less: Offsetting Receipts	(1,570)
<b>NET OUTLAYS</b>	<b>\$479,391</b>

The accompanying notes are an integral part of these statements.

The Combined Statement of Budgetary Resources does not include intra-agency eliminations.

**Consolidated Statement of Financing**  
**For the Year Ended September 30, 2002**  
(In Millions)

**Budgetary Resources Obligated**

Obligations Incurred	\$374,128
Spending Authority from Offsetting Collections and Recoveries	105,769
Obligations Net of Offsetting Collections and Recoveries	\$479,897
Less: Offsetting Receipts	(1,570)
<b>Net Obligations</b>	<b>\$478,327</b>

**Other Resources**

Donations and Forfeiture of Property	(\$42)
Financing Sources for Accrued Interest & Discount on the Debt	(4,748)
Transfers In/Out Without Reimbursement	44
Imputed Financing from Costs Absorbed by Others	688
Other	(14,105)
<b>Net Other Resources Used to Finance Activities</b>	<b>(\$18,163)</b>

**Total Resources Used to Finance Activities****\$460,164****Resources Used to Finance Items Not Part of the Net Cost of Operations**

Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(\$1,371)
Resources that Fund Expenses Recognized in Prior Periods	121
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	(201)
Other	(1,400)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,298
Adjustment to Accrued Interest & Discount on the Debt	111,094
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(143)

**Total Resources Used to Finance Items Not Part of the Net Cost of Operations****\$109,398****Total Resources Used to Finance the Net Cost of Operations****\$350,766****Components of Net Cost Operations that will Require or Generate Resources in Future Periods**

Increase in Annual Leave Liability	\$35
Upward/Downward Re-estimates of Credit Subsidy Expense	122
Increase in Exchange Revenue Receivable from the Public	122
Other	206

**Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods****\$485****Components of Net Cost Operations that will not Require or Generate Resources**

Depreciation and Amortization	\$674
Revaluation of Assets or Liabilities	(512)
Other	(11)

**Total Components of Net Cost of Operations that will not Require or Generate Resources****\$151****Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period****\$636****Net Cost of Operations****\$351,402**

The accompanying notes are an integral part of these statements.

**Statement of Custodial Activity**  
**For the Years Ended September 30, 2002 and 2001**  
(In Millions)

	<b>FY 2002</b>	<b>FY 2001</b>
<b>Sources of Custodial Revenue &amp; Collections:</b>		
<b>Revenue Received (Note 29)</b>		
Individual Income and FICA Taxes	\$1,713,335	\$1,843,774
Corporate Income Taxes	211,046	186,468
Estate and Gift Taxes	27,241	29,248
Excise Taxes	69,020	68,193
Railroad Retirement Taxes	4,573	4,703
Duties	19,788	19,655
Fees & Licenses	935	856
Unemployment Taxes	6,740	7,064
Deposit of Earnings, Federal Reserve System	23,683	26,124
Fines, Penalties, Interest & Other Revenue	2,022	2,681
<b>Total Revenue Received</b>	<b>\$2,078,383</b>	<b>\$2,188,766</b>
Less Payments from permanent, in definite appropriations for refunds of taxes and duties (including related interest), duty drawback, and earned income credit (Note 30)	(283,303)	(251,842)
<b>Net Revenue Received</b>	<b>\$1,795,080</b>	<b>\$1,936,924</b>
Accrual Adjustment	1,320	(2,958)
<b>Total Source of Custodial Revenue &amp; Collections</b>	<b>\$1,796,400</b>	<b>\$1,933,966</b>
<b>Disposition of Custodial Revenue &amp; Collections:</b>		
Amounts Provided to Non Federal Entities	\$407	\$382
Amounts Provided to Fund the Federal Government (Note 29)	1,794,673	1,936,542
Accrual Adjustment- (See Same Line Item Above)	1,320	(2,958)
<b>Total Disposition of Custodial Revenue &amp; Collections</b>	<b>\$1,796,400</b>	<b>\$1,933,966</b>
<b>NET CUSTODIAL REVENUE ACTIVITY</b>	<b>\$0</b>	<b>\$0</b>

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 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 is comprised of the Departmental Offices, International Assistance Programs, 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), and Treasury Inspector General for Tax Administration (TIGTA). Federal Financing Bank (FFB) and Air Transportation Stabilization Board (ATSB), which was established in FY 2002 (See Note 17), are included as reporting entities of the Department for financial statement purposes only. In addition, the Department has the following twelve operating bureaus: Bureau of Alcohol, Tobacco and Firearms (ATF); Office of the Comptroller of the Currency (OCC); U.S. Customs Service (Customs); Bureau of Engraving and Printing (BEP); Financial Crimes Enforcement Network (FINCEN); Federal Law Enforcement Training Center (FLETC); Financial Management Service (FMS); Internal Revenue Service (IRS); U.S. Mint (Mint); Bureau of the Public Debt (BPD); U.S. Secret Service (USSS); and Office of Thrift Supervision (OTS).

The accompanying financial statements reflect the activities of the U.S. Department of the Treasury. 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 various Treasury 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 \$14.7 billion as of September 30, 2002 (\$14.9 billion as of September 30, 2001). It also includes loans and borrowings of \$25 billion as of September 30, 2002 (\$31 billion as of September 30, 2001.) In terms of revenue and expenses, \$2.7 billion was eliminated between entity and non-entity activities for fiscal year ended September 30, 2002 (\$2.8 billion for fiscal year ended September 30, 2001).

### ***B. Basis of Accounting & Presentation***

The financial statements have been prepared from the accounting records of Treasury 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), the official accounting standards-setting body of the Federal Government recognized by the American Institute of Certified Public Accountants.

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 consolidated statement of custodial activity. Of these, the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of custodial activity, and the related notes are prepared in a comparative form to present both FY 2002 and FY 2001 information as prescribed by OMB guidelines. Certain FY 2001 financial statement and note amounts have been reclassified for comparative purposes.

While these financial statements have been prepared from the books and records of the entity 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 2002 was not published at the time that these financial statements were issued. The President's Budget is expected to be published in January 2003. It will be available from the United States Government Printing Office. The offsetting receipts on the Statement of Budgetary Resources only include accounts under Treasury management control. Accordingly, the accounts managed by other agencies are not included in the Department's statement, and should not be expected to agree with the President's budget.

### ***C. Tax/Trade and Other Non-Entity Receivables***

Tax/Trade 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/trade receivables through the balance sheet date. Further, there are differences in recording assessments that should be reported on the balance sheet (tax/trade receivables) and those that should be disclosed as compliance assessments and write-offs. A summary of each category follows:

**Tax/Trade 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/Trade 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 uncollectable.

**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 uncollectable. 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. Also recorded as other non-entity receivables are certain loans made to foreign governments.

#### ***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 Treasury intends to sell the security prior to maturity and there is a reduction in the security 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 approximates 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. The Department also has four multi-use heritage assets located in Puerto Rico. 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. 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. These discounts and premiums are 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 effective interest method, for other securities.

In FY 2001, permanent indefinite appropriations used to pay the interest expense of the public debt were recognized only to the extent of the cash disbursement on the Statement of Changes in Net Position. Because the Department recognized appropriations used only to the extent of the cash disbursement, the Department reported in a similar fashion the obligations incurred for the interest expense on the Statement of Budgetary Resources. This differed from the amounts that the Department reported to the Office of Management and Budget on the SF 133, Report on Budget Execution. On this OMB report the Department reported obligations incurred for the cash disbursement and the accrual of interest expense.

In FY 2002, OMB provided clarification with regard to reporting interest expense of the public debt on the Statement of Budgetary Resources. As a result, while treatment of appropriations used remains the same on the Statement of Changes in Net Position, the Department reported obligations incurred for the cash disbursement and the accrual of interest expense consistent with the SF 133.

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

The Department recognizes the full costs of its employees' pension benefits, however, the liability 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 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. D.C. Pensions Program***

Title XI of the Balanced Budget Act of 1997, as amended, which became effective on October 1, 1997, provides that the Secretary of the Treasury assume certain responsibilities for the District of Columbia pension system, including administration of fund assets and distribution of pension benefits. To varying degrees the Secretary is responsible for three District retirement programs: 1) Police Officers' and Firefighters' Retirement Program; 2) Teachers' Retirement Program; and 3) Judges' Retirement Program.

### ***K. 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.

### ***L. Allocations of Special Drawing Rights***

Allocations of Special Drawing Rights are valued as of September 30, 2002 and September 30, 2001, 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.

### ***M. 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.

### ***N. 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.

### *O. 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.

### *P. 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**

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.

**Fees and Licenses** -- The Department collects various fees. These are mainly collected by Customs, ATF, and BPD.

**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. Interest revenue is from the loans provided on behalf of the General Fund to other Federal agencies. Other revenue includes 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.

#### ***Q. Permanent and 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 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 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 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.

### ***R. 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 2002 and 2001 to the extent directed by the OMB.

## ***2. Fund Balance with Treasury***

### **A. Fund Balances**

As of September 30, 2002 and September 30, 2001, fund balance consisted of the following (in millions):

	<b>2002</b>			<b>2001</b>		
	<u>Entity</u>	<u>Non-Entity</u>	<u>Total</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Total</u>
Appropriated Funds	\$50,316	\$1,107	<b>\$51,423</b>	\$52,533	\$687	\$53,220
Trust Funds	79	0	<b>79</b>	128	0	128
Revolving Funds	1,492	11	<b>1,503</b>	1,346	14	1,360
Other Fund Types	<u>764</u>	<u>983</u>	<b><u>1,747</u></b>	<u>837</u>	<u>1,100</u>	<u>1,937</u>
Total	<u>\$52,651</u>	<u>\$2,101</u>	<b><u>\$54,752</u></b>	<u>\$54,844</u>	<u>\$1,801</u>	<u>\$56,645</u>

### **B. Status of Fund Balance with Treasury**

As of September 30, 2002 and September 30, 2001, the status of fund balance with Treasury consisted of the following (in millions):

	<b>2002</b>	<b>2001</b>
Unobligated Balance - Available	<b>\$36,390</b>	\$35,793
Unobligated Balance - Unavailable	<b>10,297</b>	1,239
Obligated Balance Not Yet Disbursed	<b><u>8,065</u></b>	<u>19,613</u>
Total	<b><u>\$54,752</u></b>	<u>\$56,645</u>

The above balances do not include unobligated and obligated balances related to the Exchange Stabilization Fund (ESF). While ESF balances are included on the 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).

### 3. Loans and Interest Receivable

#### Intra-governmental

As of September 30, 2002 and September 30, 2001, intra-governmental loans and interest receivable consisted of the following (in millions):

	Loans Receivable	Interest Receivable	2002 Total	Loans Receivable	Interest Receivable	2001 Total
<b>Entity:</b>						
Agency Loans Purchased	\$8,125	---	<b>\$8,125</b>	\$11,080	---	\$11,080
Direct Loans Purchased	11,114	---	<b>11,114</b>	11,313	---	11,313
Guaranteed Loans	20,469	---	<b>20,469</b>	20,554	---	20,554
Interest Receivable	---	\$529	<b>529</b>	---	\$873	873
Less: Discount and Allowance	(478)	---	<b>(478)</b>	(338)	---	(338)
Subtotal - Entity	<u>\$39,230</u>	<u>\$529</u>	<u><b>\$39,759</b></u>	<u>\$42,609</u>	<u>\$873</u>	<u>\$43,482</u>
<b>Non-Entity:</b>						
Federal Direct Student Loan Program	\$89,498	\$0	<b>\$89,498</b>	\$77,189	\$0	\$77,189
Disaster Loan Fund	9,742	0	<b>9,742</b>	9,650	590	10,240
Rural Electrification & Telecommunication Fund	11,070	0	<b>11,070</b>	10,293	(2)	10,291
Commodity Credit Corporation	19,234	65	<b>19,299</b>	23,896	127	24,023
Rural Housing Insurance Fund	9,708	0	<b>9,708</b>	9,267	0	9,267
Federal Housing Administration	7,553	0	<b>7,553</b>	4,544	0	4,544
Housing for the Elderly and Handicapped	2,640	127	<b>2,767</b>	3,103	149	3,252
Export Import Bank	6,657	0	<b>6,657</b>	7,045	0	7,045
Other	<u>32,732</u>	<u>1,152</u>	<u><b>33,884</b></u>	<u>32,458</u>	<u>1,307</u>	<u>33,765</u>
Subtotal - Non-Entity	<u>\$188,834</u>	<u>\$1,344</u>	<u><b>\$190,178</b></u>	<u>\$177,445</u>	<u>\$2,171</u>	<u>\$179,616</u>
<b>Total Intra-governmental Loans &amp; Interest Receivable</b>	<u><b>\$228,064</b></u>	<u><b>\$1,873</b></u>	<u><b>\$229,937</b></u>	<u><b>\$220,054</b></u>	<u><b>\$3,044</b></u>	<u><b>\$223,098</b></u>

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, 2002 and September 30, 2001, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	Non-Entity	2002 Total	Entity	Non-Entity	2001 Total
Direct Loans	\$41	\$956	<b>\$997</b>	\$23	\$1,027	\$1,050
Interest	---	361	<b>361</b>	---	445	445
Less: Allowance and Subsidy Cost	(16)	---	<b>(16)</b>	(9)	---	(9)
<b>Total Non-Federal Loans &amp; Interest Receivable</b>	<u><b>\$25</b></u>	<u><b>\$1,317</b></u>	<u><b>\$1,342</b></u>	<u><b>\$14</b></u>	<u><b>\$1,472</b></u>	<u><b>\$1,486</b></u>

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.

#### 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/trade 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, 2002 and September 30, 2001, Due from the General Fund (Net) included the following (in millions):

	<u>2002</u>	2001 (Restated)
<b>Liabilities Requiring Funding From the General Fund</b>		
Federal Debt & Interest Payable	<b>\$3,546,780</b>	\$3,332,796
Federal Debt & Interest Payable - Intra-governmental	<b>2,684,929</b>	2,472,037
Refunds & Drawbacks	<b>1,863</b>	1,443
Other Liabilities	<b>2</b>	1
Adjustment for Eliminated Investments	<b><u>14,689</u></b>	<u>14,932</u>
Total - Due From the General Fund	<b><u>\$6,248,263</u></b>	<u>\$5,821,209</u>
<b>Less Amounts to be Distributed to the General Fund</b>		
Fund Balance	<b>\$242</b>	\$1,117
Advances to the Black Lung Trust Fund	<b>7,719</b>	7,254
Cash, Foreign Currency and Other Monetary Assets	<b>81,619</b>	50,231
Gold & Silver Reserves	<b>9</b>	9
Loans & Interest Receivable - Intra-governmental (Entity & Non-Entity)	<b>215,516</b>	208,475
Loans & Interest Receivable	<b>1,317</b>	1,472
Accounts Receivable - Intra-governmental	<b>667</b>	666
Tax/Trade and Other Non-Entity Receivables	<b>21,837</b>	20,908
Other Assets	<b><u>8</u></b>	<u>51</u>
Total - Due To the General Fund	<b><u>\$328,934</u></b>	<u>\$290,183</u>
<b>Due From the General Fund, Net</b>	<b><u>\$5,919,329</u></b>	<u>\$5,531,026</u>

The \$14,689 million Adjustment for Eliminated Investments in FY 2002 (and \$14,932 million in FY 2001) represent investments held by ESF and other reporting entities that were eliminated against Federal Debt.



On the balance sheet the Department reported \$22,014 million in Tax/Trade, Other Receivables, and Related Interest as of September 30, 2002 (\$21,365 million as of September 30, 2001). However, only \$21,837 million is reported as due to the General Fund (\$20,908 million as of September 30, 2001). 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 \$190 billion in intra-governmental non-entity loans and interest receivable as of September 30, 2002 (\$179 billion as of September 30, 2001). However, on the chart above \$216 billion is reflected as due to the General Fund (\$208 billion as of September 30, 2001). The difference is attributed to \$26 billion in intra-Treasury loans and borrowings being eliminated on the balance sheet. Because this amount was eliminated, the Department is reporting \$26 billion in entity intra-governmental receivables as a payable to the General Fund (for FY 2001, the amount reported was \$31 billion).

### 6. Cash, Foreign Currency, and Other Monetary Assets

The amounts held as of September 30, 2002 and September 30, 2001 were as follows (in millions):

	<u>2002</u>	2001 (Restated)
<b>Entity:</b>		
Cash	\$17	\$16
Foreign Currency:		
Japanese Yen	1,297	2,267
European Euro	6,683	6,181
Other	31	36
Other Monetary Assets:		
Special Drawing Rights	11,753	10,979
Other	<u>149</u>	<u>121</u>
Subtotal – Entity	<u>\$19,930</u>	<u>\$19,600</u>
<b>Non-Entity:</b>		
Operating Cash of the Federal Government	\$81,623	\$50,222
Undistributed Cash/Offers in Compromise	18	26
Seized Monetary Instruments	20	7
Foreign Currency	40	54
Other	<u>150</u>	<u>255</u>
Subtotal - Non-Entity	<u>\$81,851</u>	<u>\$50,564</u>
<b>Total Cash, Foreign Currency, and other Monetary Assets</b>	<b><u>\$101,781</u></b>	<b><u>\$70,164</u></b>

### 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, 2002 and September 30, 2001, 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 \$5.1 billion as of September 30, 2002 (\$5.9 billion as of September 30, 2001). Other FCDA's 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, 2002, FCDA's with maturities greater than three months were valued at \$2.9 billion (\$2.6 billion as of September 30, 2001).

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 2002, the Department purchased, at the prevailing rates, \$371.8 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 (\$491.7 million equivalent of SDRs during fiscal year 2001), and paid the General Fund \$1.7 million in FY 2002 (and \$3.0 million in FY 2001), in interest on dollars due the General Fund in return for SDRs received as remuneration. As of September 30, 2002, the Department had no remaining outstanding payable equivalent of SDRs and interest to the General Fund. (As of September 30, 2001, the Department had an outstanding payable of \$109.4 million equivalent of SDRs and \$0.7 million in 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, 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. (As of September 30, 2001, the amount of SDR holdings of the United States was the equivalent of \$10.9 billion and the amount of SDR allocations to the United States was the equivalent of \$6.3 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 compromise 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 includes compensating balances, totaling \$27 billion as of September 30, 2002 (and \$13 billion as of September 30, 2001). These balances 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 collateralized 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 \$1.292929 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, 2002 and September 30, 2001, the Gold and Silver Reserves consisted of the following:

<b>As of September 30, 2002:</b>		9/30/2002 Statutory Value (Millions)	9/30/2002 Market Value per FTO	9/30/2002 Market Value (Millions)	
	FTO's	Rate			
Gold	245,262,897	\$42.2222	\$10,356	\$323.70	\$79,392
Gold Held by Federal Reserve Bank & in Transit	<u>13,450,413</u>	\$42.2222	<u>568</u>	\$323.70	<u>4,354</u>
Subtotal - Gold	258,713,310		<b>\$10,924</b>		<b>\$83,746</b>
Silver	7,075,171	\$1.2929	<u>9</u>	\$4.53	<u>32</u>
Total Gold and Silver Reserves			<b><u>\$10,933</u></b>		<b><u>\$83,778</u></b>

<b>As of September 30, 2001:</b>		9/30/2001 Statutory Value (Millions)	9/30/2001 Market Value per FTO	9/30/2001 Market Value (Millions)	
	FTO's	Rate			
Gold	245,262,897	\$42.2222	\$10,356	\$293.10	\$71,887
Gold Held by Federal Reserve Bank & in Transit	<u>13,450,413</u>	\$42.2222	<u>568</u>	\$293.10	<u>3,942</u>
Subtotal - Gold	258,713,310		\$10,924		\$75,829
Silver	7,075,171	\$1.2929	<u>9</u>	\$4.58	<u>32</u>
Total Gold and Silver Reserves			<b><u>\$10,933</u></b>		<b><u>\$75,861</u></b>

### 8. Investments and Related Interest

Most of the Department investments are held by the Exchange Stabilization Fund. 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, 2002 and September 30, 2001, entity investments consisted of the following (in millions):

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

<b>As of 9/30/2001:</b>		Amortize	Net	Interest	9/30/2001	9/30/2001
Type of Investment	Cost	(Premium Discount	Investment	Receivable	Investment Balance	Market Value
German Bonds	\$936	\$33	\$969	\$29	\$998	<i>\$1,006</i>
German BUBills	226	(2)	224	0	224	<i>224</i>
Japanese Financing Bills	2,912	0	2,912	0	2,912	<i>2,912</i>
Japanese T- Bills	<u>2,768</u>	<u>0</u>	<u>2,768</u>	<u>0</u>	<u>2,768</u>	<u><i>2,768</i></u>
Total Non-Federal	<u>\$6,84</u>	<u>\$31</u>	<u>\$6,873</u>	<u>\$29</u>	<u>\$6,902</u>	<u><i>\$6,910</i></u>

### 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 transfers dollars to the United States, no net budget receipt results because the U.S. reserve position declines simultaneously by an equal amount. Similarly, when the IMF draws dollars from the letter of credit to help finance its operations and expenses, it also results in a commensurate increase in the U.S. reserve position.

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 2001 and the end of fiscal year 2002, the U.S. experienced a valuation gain on the reserve position of approximately \$446 million. (Between the end of fiscal year 2000 and the end of fiscal year 2001, a valuation loss of \$47 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, 2002, the U.S. quota in the IMF was SDR 37.1 billion, valued at approximately \$49.1 billion. (The quota as of September 30, 2001 was SDR 37.1 billion, valued at approximately \$47.9 billion.) The quota consisted of the following (in millions):

	<u>2002</u>	<u>2001</u>
Letter of Credit /1.	<b>\$28,160</b>	\$29,358
U.S. Dollars Held in Cash by the IMF /1.	<b>113</b>	121
Reserve Position /2.	<u><b>20,864</b></u>	<u>18,407</u>
U.S. Quota in the IMF	<u><b>\$49,137</b></u>	<u><b>\$47,886</b></u>

/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, 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. (At April 30, 2001, the appreciation of the dollar against the SDR since April 30, 2000, called for a downward adjustment of the letter of credit by \$1.4 billion.) 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 2002 and FY 2001 was \$19.1 million and \$20.9 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 2002 and FY 2001. 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, 2002 and September 30, 2001, this amounted to \$8.9 billion and \$8.7 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. 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 accounts.”

### ***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 and the Global Environment Facility.

As of September 30, 2002 and September 30, 2001, investments in international financial institutions consisted of the following (in millions):

	<u>2002</u>	<u>2001</u>
African Development Bank	<b>\$150</b>	\$145
Asian Development Bank	<b>434</b>	420
European Bank for Reconstruction & Development	<b>486</b>	450
Inter-American Development Bank	<b>1,414</b>	1,385
International Bank for Reconstruction & Development	<b>1,985</b>	1,985
International Finance Corporation	<b>570</b>	570
Multilateral Investment Guarantee Agency	<b>41</b>	25
North American Development Bank	<b>174</b>	174
Total	<b><u>\$5,254</u></b>	<u>\$5,154</u>

## 11. Accounts Receivable

### A. Tax/Trade and Other Receivables, and Related Interest, Net

Tax/trade and other receivables include receivables from tax assessments, custom duties, 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, 2002 and September 30, 2001, tax/trade and other receivables consisted of the following (in millions):

	<u>2002</u>	<u>2001</u>
<b>Non-Entity:</b>		
Tax/Trade Receivables, Gross	\$88,599	\$80,390
Receivable, Deposit of Earnings, Federal Reserve	646	405
Other Receivables & Interest	<u>85</u>	<u>88</u>
Total Tax/Trade and Other Non-Entity Receivables - Gross	\$89,330	\$80,883
Less: Allowance	<u>(67,487)</u>	<u>(59,630)</u>
<b>Total Tax/Trade and Other Non-Entity Receivables, Net*</b>	<b>\$21,843</b>	<b>\$21,253</b>
<b>Entity: Miscellaneous Receivables and Related Interest</b>	<u>171</u>	<u>112</u>
<b>Total Tax/Trade, Other Receivables &amp; Related Interest</b>	<b><u>\$22,014</u></b>	<b><u>\$21,365</u></b>

\* 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/trade 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 the Service, 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 (\$667 million of the \$715 million and \$663 million of the \$746 million displayed for 2002 and 2001, 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, 2002 and September 30, 2001, inventory and related property consisted of the following (in millions):

	<u>2002</u>	<u>2001</u>
<b><u>Inventory</u></b>		
Inventory Held for Current Sale	\$402	\$539
Less: Allowance for Losses	<u>(0)</u>	<u>(14)</u>
<b>Total Inventory, Net</b>	<b><u>\$402</u></b>	<b><u>\$525</u></b>
<i>[Composition of Inventory]:</i>		
Raw Materials & Supplies	\$132	\$213
Work in Process	178	210
Finished Goods	<u>92</u>	<u>102</u>
<b>Total</b>	<b><u>\$402</u></b>	<b><u>\$525</u></b>
<b><u>Operating Materials and Supplies</u></b>		
Held for Use	\$108	\$99
Excess, Obsolete, and Unserviceable	<u>(0)</u>	<u>(7)</u>
<b>Total Operating Materials and Supplies, Net</b>	<b><u>\$108</u></b>	<b><u>\$92</u></b>
<b><u>Forfeited Property, Net</u></b>		
Property Held for Sale	\$35	\$28
Property to be shared with other governments	--	--
Less: Allowance for Mortgages and Claims on Property Held for Sale	<u>(2)</u>	<u>(2)</u>
<b>Total Forfeited Property, Net</b>	<b><u>\$33</u></b>	<b><u>\$26</u></b>
<b>Total Inventory and Related Property, Net</b>	<b><u>\$543</u></b>	<b><u>\$643</u></b>

### 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 primarily consist of aircraft and marine parts used to repair and maintain aircraft and vessels for enforcement related activities. Operating materials and supplies are also 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.

Also included in forfeited and seized property are prohibited items. Prohibited items are items with no legal market value in the United States and which will not be sold for export. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited property are retained by the Department until final disposition.

The following tables provide detailed information about the Department's forfeited and seized property held as of September 30, 2002 and September 30, 2001 (in thousands).



## Analysis of Changes in Forfeited Property, from October 1, 2001 to September 30, 2002 (In Thousands):

	10/1/2001 Financial		Adjustment		10/1/2001		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Statement Balance				Carrying Value							
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$8,634	---	\$0	---	\$8,634	---	\$94,315	---	(\$126,203)	---	(\$0)	---
Other Monetary Instruments	436	---	162	---	598	---	4,535	---	(4,371)	---	(0)	---
Subtotal	<u>\$9,070</u>	---	<u>\$162</u>	---	<u>\$9,232</u>	---	<u>\$98,850</u>	---	<u>(\$130,574)</u>	---	<u>(\$0)</u>	---
Real Property	\$19,806	105	(\$1,256)	0	\$18,550	105	\$15,981	78	(\$14,265)	(75)	(\$0)	(0)
General Property	2,300	4,017	5,417	0	7,717	4,017	21,800	10,871	(14,187)	(2,741)	(1,237)	(503)
Vessels	338	26	261	0	599	26	2,784	57	(1,780)	(49)	(685)	(15)
Aircraft	230	2	5	0	235	2	35	1	(235)	(2)	(0)	(0)
Vehicles	4,469	1,716	2,271	0	6,740	1,716	22,214	5,684	(18,736)	(5,983)	(1,764)	(117)
Subtotal	<u>\$27,143</u>	<u>5,866</u>	<u>\$6,698</u>	<u>0</u>	<u>\$33,841</u>	<u>5,866</u>	<u>\$62,814</u>	<u>16,691</u>	<u>(\$49,203)</u>	<u>(8,850)</u>	<u>(\$3,686)</u>	<u>(635)</u>
Grand Total	<u>\$36,213</u>	<u>5,866</u>	<u>\$6,860</u>	<u>0</u>	<u>\$43,073</u>	<u>5,866</u>	<u>\$161,664</u>	<u>16,691</u>	<u>(\$179,777)</u>	<u>(8,850)</u>	<u>(\$3,686)</u>	<u>(635)</u>

	Victim Restitution		Destroyed		Other Adjustments		Value Change		Fair Value Adjustment		9/30/2002 Financial	
	Statement Balance										Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	(\$634)	---	(\$0)	---	\$33,438	---	\$0	---	\$0	---	\$9,550	---
Other Monetary Instruments	(0)	---	(0)	---	(405)	---	0	---	0	---	357	---
Subtotal	<u>(\$634)</u>	---	<u>(\$0)</u>	---	<u>\$33,033</u>	---	<u>\$0</u>	---	<u>\$0</u>	---	<u>\$9,907</u>	---
Real Property	(\$1,571)	(6)	(\$0)	(0)	\$3,635	12	\$277	---	\$1,550	---	\$24,157	114
General Property	(13)	(34)	(108)	(7,875)	7,895	188	(776)	---	(15,309)	---	5,782	3,923
Vessels	(0)	(0)	(0)	(2)	4	2	(75)	---	(358)	---	489	19
Aircraft	(0)	(0)	(0)	(0)	0	0	0	---	0	---	35	1
Vehicles	(359)	(17)	(3)	(160)	(723)	5	(108)	---	(2,918)	---	4,343	1,128
Subtotal	<u>(\$1,943)</u>	<u>(57)</u>	<u>(\$111)</u>	<u>(8,037)</u>	<u>\$10,811</u>	<u>207</u>	<u>(\$682)</u>	---	<u>(\$17,035)</u>	---	<u>\$34,806</u>	<u>5,185</u>
Grand Total	<u>(\$2,577)</u>	<u>(57)</u>	<u>(\$111)</u>	<u>(8,037)</u>	<u>\$43,844</u>	<u>207</u>	<u>(\$682)</u>	---	<u>(\$17,035)</u>	---	<u>\$44,713</u>	<u>5,185</u>

Note: Value change is an adjustment to reflect the net value of a forfeited asset from the initial appraisal to the latest appraisal. This could result in a positive or negative change. The fair value adjustments are necessary to convert forfeited property from unadjusted carrying value (market value at the time of seizure) to an estimate of the fair value at the time of forfeiture, which is the amount recorded in the financial statements. Other adjustments primarily represent property forfeited in prior fiscal years but reversed to seized status during the current fiscal year. The number of items presented for each class of property represents the number of seizure line items recorded regardless of the unit of measure of quantity.

\* The Grand Total as of 9/30/2001 (\$36,213) does not agree with the amount stated on the FY 2001 Accountability Report (\$34,502) because the allowance amount (\$1,711) is not presented in this table.

**Analysis of Changes in Forfeited Property, from October 1, 2000 to September 30, 2001 (In Thousands):**

	10/1/2000 Financial Statement Balance		Adjustment		10/1/2000 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$16,639	---	\$0	---	\$16,639	---	\$168,273	---	(\$178,916)	---	(\$2,628)	---
Other Monetary Instruments	<u>366</u>	---	<u>172</u>	---	<u>538</u>	---	<u>440</u>	---	<u>(324)</u>	---	<u>0</u>	---
Subtotal	<u>\$17,005</u>	---	<u>\$172</u>	---	<u>\$17,177</u>	---	<u>\$168,713</u>	---	<u>(\$179,240)</u>	---	<u>(\$2,628)</u>	---
Real Property	\$21,464	120	(\$402)	0	\$21,062	120	\$15,566	85	(\$16,270)	(92)	(\$1,118)	(13)
General Property	3,828	4,033	9,799	0	13,627	4,033	16,958	11,143	(19,506)	(2,504)	(2,543)	(1,206)
Vessels	959	43	327	0	1,286	43	2,414	74	(2,644)	(71)	(455)	(10)
Aircraft	65	2	(7)	0	58	2	800	4	(623)	(4)	0	0
Vehicles	<u>4,501</u>	<u>1,582</u>	<u>1,877</u>	<u>0</u>	<u>6,378</u>	<u>1,582</u>	<u>18,684</u>	<u>6,366</u>	<u>(14,476)</u>	<u>(6,064)</u>	<u>(3,213)</u>	<u>(162)</u>
Subtotal	<u>\$30,817</u>	<u>5,780</u>	<u>\$11,594</u>	<u>0</u>	<u>\$42,411</u>	<u>5,780</u>	<u>\$54,422</u>	<u>17,672</u>	<u>(\$53,519)</u>	<u>(8,735)</u>	<u>(\$7,329)</u>	<u>(1,391)</u>
Grand Total	<u>\$47,822</u>	<u>5,780</u>	<u>\$11,766</u>	<u>0</u>	<u>\$59,588</u>	<u>5,780</u>	<u>\$223,135</u>	<u>17,672</u>	<u>(\$232,759)</u>	<u>(8,735)</u>	<u>(\$9,957)</u>	<u>(1,391)</u>

	Victim Restitution		Destroyed		Other Adjustments		Value Change		Fair Value Adjustment		9/30/2001 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$0	---	\$0	---	\$5,209	---	\$57	---	\$0	---	\$8,634	---
Other Monetary Instruments	<u>0</u>	---	<u>0</u>	---	<u>(56)</u>	---	<u>0</u>	---	<u>(162)</u>	---	<u>436</u>	---
Subtotal	<u>\$0</u>	---	<u>\$0</u>	---	<u>\$5,153</u>	---	<u>\$57</u>	---	<u>(\$162)</u>	---	<u>\$9,070</u>	---
Real Property	\$0	0	\$0	0	(\$618)	5	(\$72)	---	\$1,256	---	\$19,806	105
General Property	0	0	(283)	(7,998)	34	549	(570)	---	(5,417)	---	2,300	4,017
Vessels	0	0	0	(8)	1	(2)	(3)	---	(261)	---	338	26
Aircraft	0	0	0	0	0	0	0	---	(5)	---	230	2
Vehicles	<u>0</u>	<u>0</u>	<u>(2)</u>	<u>(72)</u>	<u>(610)</u>	<u>66</u>	<u>(21)</u>	---	<u>(2,271)</u>	---	<u>4,469</u>	<u>1,716</u>
Subtotal	<u>\$0</u>	<u>0</u>	<u>(\$285)</u>	<u>(8,078)</u>	<u>(\$1,193)</u>	<u>618</u>	<u>(\$666)</u>	---	<u>(\$6,698)</u>	---	<u>\$27,143</u>	<u>5,866</u>
Grand Total	<u>\$0</u>	<u>0</u>	<u>(\$285)</u>	<u>(8,078)</u>	<u>\$3,960</u>	<u>618</u>	<u>(\$609)</u>	---	<u>(\$6,860)</u>	---	<u>\$36,213</u>	<u>5,866</u>

\* The Grand Total as of 9/30/2001 (\$36,213) does not agree with the amount stated on the FY 2001 Accountability Report (\$34,502) because the allowance amount (\$1,711) is not presented in this table.

### Analysis of Change in Prohibited (Non-Valued) Forfeited Property

Category	Balance - October 1, 2001			New Forfeitures			Transfers		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	131,244	288,275	---	529,187	1,164,211	---	(1,501)	(3,302)	---
Cocaine	15,356	33,741	---	39,248	86,346	---	(147)	(323)	---
Heroin	2,010	4,420	---	2,794	6,147	---	(64)	(141)	---
Firearms	---	---	5,284	---	---	5,075	---	---	(781)
Pornography	---	---	1,612	---	---	602	---	---	(11)
Other	---	---	0	---	---	3,195	---	---	(74)
<b>Total</b>	<b><u>148,610</u></b>	<b><u>326,436</u></b>	<b><u>6,896</u></b>	<b><u>571,229</u></b>	<b><u>1,256,704</u></b>	<b><u>8,872</u></b>	<b><u>(1,712)</u></b>	<b><u>(3,766)</u></b>	<b><u>(866)</u></b>

Category	Destroyed			Adjustments			Balance - September 30, 2002		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	(0)	(0)	---	(603,391)	(1,326,998)	---	<b>55,539</b>	<b>122,186</b>	---
Cocaine	(0)	(0)	---	(35,033)	(77,031)	---	<b>19,424</b>	<b>42,733</b>	---
Heroin	(0)	(0)	---	(1,519)	(3,340)	---	<b>3,221</b>	<b>7,086</b>	---
Firearms	---	---	(2,993)	---	---	(3,097)	---	---	<b>3,488</b>
Pornography	---	---	(0)	---	---	(2,091)	---	---	<b>112</b>
Other	---	---	<u>(2,253)</u>	---	---	<u>1,552</u>	---	---	<b><u>2,420</u></b>
<b>Total</b>	<b><u>(0)</u></b>	<b><u>(0)</u></b>	<b><u>(5,246)</u></b>	<b><u>(639,943)</u></b>	<b><u>(1,407,369)</u></b>	<b><u>(3,636)</u></b>	<b><u>78,184</u></b>	<b><u>172,005</u></b>	<b><u>6,020</u></b>

Note: This schedule is presented for material prohibited (non-valued) property only.  
The ending balance for firearms includes only those seized items that can actually be used as firearms.

**Analysis of Change in Prohibited (Non-Valued) Forfeited Property**

<u>Category</u>	<u>Balance - October 1, 2000</u>			<u>New Forfeitures</u>			<u>Transfers</u>		
	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>
Cannabis (marijuana)	143,001	314,194	---	558,781	1,231,889	---	(1,018)	(2,244)	---
Cocaine	18,670	41,047	---	39,510	87,104	---	(253)	(558)	---
Heroin	1,765	3,880	---	1,841	4,059	---	(111)	(245)	---
Firearms	---	---	3,428	---	---	11,374	---	---	(1,762)
Pornography	---	---	1,972	---	---	6,442	---	---	(26)
Other	---	---	0	---	---	0	---	---	0
<b>Total</b>	<b><u>163,436</u></b>	<b><u>359,121</u></b>	<b><u>5,400</u></b>	<b><u>600,132</u></b>	<b><u>1,323,052</u></b>	<b><u>17,816</u></b>	<b><u>(1,382)</u></b>	<b><u>(3,047)</u></b>	<b><u>(1,788)</u></b>

<u>Category</u>	<u>Destroyed</u>			<u>Adjustments</u>			<u>Balance - September 30, 2001</u>		
	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>
Cannabis (marijuana)	(563,359)	(1,241,981)	---	(6,161)	(13,583)	---	<b>131,244</b>	<b>288,275</b>	---
Cocaine	(38,143)	(84,090)	---	(4,428)	(9,762)	---	<b>15,356</b>	<b>33,741</b>	---
Heroin	(1,516)	(3,342)	---	31	68	---	<b>2,010</b>	<b>4,420</b>	---
Firearms	---	---	(7,728)	---	---	(28)	---	---	<b>5,284</b>
Pornography	---	---	(7,242)	---	---	466	---	---	<b>1,612</b>
Other	---	---	0	---	---	0	---	---	<b>0</b>
<b>Total</b>	<b><u>(603,018)</u></b>	<b><u>(1,329,413)</u></b>	<b><u>(14,970)</u></b>	<b><u>(10,558)</u></b>	<b><u>(23,277)</u></b>	<b><u>438</u></b>	<b><u>148,610</u></b>	<b><u>326,436</u></b>	<b><u>6,896</u></b>

Note: This schedule is presented for material prohibited (non-valued) property only.  
 The ending balance for firearms includes only those seized items that can actually be used as firearms.

## Analysis of Changes in Seized Property and Currency (In Thousands):

Type of Asset	<u>10/1/2001 Balance</u>		<u>Seizures</u>		<u>Remissions /1.</u>		<u>Forfeitures</u>		<u>Adjustments /2.</u>		<u>Value Change /3.</u>		<u>9/30/2002 Balance</u>	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$263,227	*	\$257,441	-	(\$67,102)	-	(\$94,315)	-	\$3,763	-	\$0	-	<b>\$363,014</b>	*
Other Monetary Instruments	15,699	*	7,465	-	(3,587)	-	(4,535)	-	909	-	0	-	<b>15,951</b>	*
Subtotal	<b>\$278,926</b>	-	<b>\$264,906</b>	-	<b>(\$70,689)</b>	-	<b>(\$98,850)</b>	-	<b>\$4,672</b>	-	<b>\$0</b>	-	<b>\$378,965</b>	-
Real Property	\$89,320	378	\$61,238	161	(\$8,986)	(59)	(\$15,981)	(78)	(\$28,105)	(112)	(\$272)	-	<b>\$97,214</b>	<b>290</b>
General Property	97,754	9,327	127,302	18,992	(99,463)	(5,780)	(21,800)	(10,871)	(3,133)	(2,203)	4,687	-	<b>105,347</b>	<b>9,465</b>
Vessels	2,341	54	7,168	106	(948)	(30)	(2,784)	(57)	(96)	(7)	(90)	-	<b>5,591</b>	<b>66</b>
Aircraft	1,276	7	30,305	20	(24,486)	(11)	(35)	(1)	0	0	0	-	<b>7,060</b>	<b>15</b>
Vehicles	29,792	2,150	49,656	8,116	(33,052)	(2,352)	(22,214)	(5,684)	(1,284)	(502)	(251)	-	<b>22,647</b>	<b>1,728</b>
Subtotal	<b>\$220,483</b>	<b>11,916</b>	<b>\$275,669</b>	<b>27,395</b>	<b>(\$166,935)</b>	<b>(8,232)</b>	<b>(\$62,814)</b>	<b>(16,691)</b>	<b>(\$32,618)</b>	<b>(2,824)</b>	<b>\$4,074</b>	-	<b>\$237,859</b>	<b>11,564</b>
Grand Total	<b>\$499,409</b>	<b>11,916</b>	<b>\$540,575</b>	<b>27,395</b>	<b>(\$237,624)</b>	<b>(8,232)</b>	<b>(\$161,664)</b>	<b>(16,691)</b>	<b>(\$27,946)</b>	<b>(2,824)</b>	<b>\$4,074</b>	-	<b>\$616,824</b>	<b>11,564</b>

Type of Asset	<u>10/1/2000 Balance</u>		<u>Seizures</u>		<u>Remissions /1.</u>		<u>Forfeitures</u>		<u>Adjustments /2.</u>		<u>Value Change /3.</u>		<u>9/30/2001 Balance</u>	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$296,392	*	\$185,413	-	(\$56,213)	-	(\$168,273)	-	\$6,291	-	(\$383)	-	\$263,227	*
Other Monetary Instruments	7,237	*	12,389	-	(704)	-	(440)	-	(2,773)	-	(10)	-	15,699	*
Subtotal	<b>\$303,629</b>	-	<b>\$197,802</b>	-	<b>(\$56,917)</b>	-	<b>(\$168,713)</b>	-	<b>\$3,518</b>	-	<b>(\$393)</b>	-	<b>\$278,926</b>	-
Real Property	\$59,349	306	\$57,970	251	(\$5,576)	(44)	(\$15,566)	(85)	(\$4,875)	(50)	(\$1,982)	-	\$89,320	378
General Property	103,882	9,195	165,529	18,598	(137,366)	(7,061)	(16,958)	(11,143)	(17,070)	(262)	(263)	-	97,754	9,327
Vessels	4,084	67	8,596	109	(5,747)	(37)	(2,414)	(74)	(1,982)	(11)	(196)	-	2,341	54
Aircraft	2,674	9	262	5	(535)	(2)	(800)	(4)	0	(1)	(325)	-	1,276	7
Vehicles	26,370	2,693	55,126	9,856	(33,348)	(3,417)	(18,684)	(6,366)	(1,328)	(616)	1,656	-	29,792	2,150
Subtotal	<b>\$196,359</b>	<b>12,270</b>	<b>\$287,483</b>	<b>28,819</b>	<b>(\$182,572)</b>	<b>(10,561)</b>	<b>(\$54,422)</b>	<b>(17,672)</b>	<b>(25,255)</b>	<b>(940)</b>	<b>(\$1,110)</b>	-	<b>\$220,483</b>	<b>11,916</b>
Grand Total	<b>\$499,988</b>	<b>12,270</b>	<b>\$485,285</b>	<b>28,819</b>	<b>(\$239,489)</b>	<b>(10,561)</b>	<b>(\$223,135)</b>	<b>(17,672)</b>	<b>(\$21,737)</b>	<b>(940)</b>	<b>(\$1,503)</b>	-	<b>\$499,409</b>	<b>11,916</b>

/1. Remissions include seized items which were classified as prohibited, but subsequently returned to the owner once a legal right to possess the item was established.

/2. Adjustments include reclassification of property categories and minor adjustments to beginning balances.

/3. Value Change is an adjustment to reflect the net value change from the initial appraisal to the latest appraisal.

\* Inconsistent methods have been used to record the number of seizures of currency and other monetary instruments. Therefore, numbers provided would not be compiled from a uniform base, and accordingly, are not provided.



**Analysis of Change in Prohibited (Non-Valued) Seized Property**

<u>Category</u>	<u>Balance - October 1, 2001</u>			<u>New Seizures</u>			<u>Remissions</u>		
	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>
Cannabis (marijuana)	1,551	3,412	---	527,867	1,161,307	---	0	0	---
Cocaine	207	450	---	39,512	86,926	---	0	0	---
Heroin	28	61	---	2,784	6,125	---	0	0	---
Firearms	---	---	*41,191	---	---	11,688	---	---	(4,534)
Pornography	---	---	14,797	---	---	658	---	---	(7)
Other	---	---	*3,071	---	---	964,978	---	---	(1,165)
<b>Total</b>	<b><u>1,786</u></b>	<b><u>3,923</u></b>	<b><u>59,059</u></b>	<b><u>570,163</u></b>	<b><u>1,254,358</u></b>	<b><u>977,324</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>(5,706)</u></b>

<u>Category</u>	<u>New Forfeitures</u>			<u>Adjustments</u>			<u>Balance - September 30, 2002</u>		
	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>
Cannabis (marijuana)	(529,187)	(1,164,211)	---	70	154	---	<b>301</b>	<b>662</b>	---
Cocaine	(39,248)	(86,346)	---	(33)	(66)	---	<b>438</b>	<b>964</b>	---
Heroin	(2,794)	(6,147)	---	0	0	---	<b>18</b>	<b>39</b>	---
Firearms	---	---	(5,075)	---	---	(9,530)	---	---	<b>33,740</b>
Pornography	---	---	(602)	---	---	(14,499)	---	---	<b>347</b>
Other	---	---	(3,195)	---	---	1,857,336	---	---	<b>2,821,025</b>
<b>Total</b>	<b><u>(571,229)</u></b>	<b><u>(1,256,704)</u></b>	<b><u>(8,872)</u></b>	<b><u>37</u></b>	<b><u>88</u></b>	<b><u>1,833,307</u></b>	<b><u>757</u></b>	<b><u>1,665</u></b>	<b><u>2,855,112</u></b>

Note: This schedule is presented for material prohibited (non-valued) property only.  
The ending balance for firearms includes only those seized items that can actually be used as firearms.

**Analysis of Change in Prohibited (Non-Valued) Seized Property**

<u>Category</u>	<u>Balance - October 1, 2000</u>			<u>New Seizures</u>			<u>Remissions</u>		
	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>
Cannabis (marijuana)	5,717	12,597	---	558,612	1,231,516	---	0	0	---
Cocaine	2,853	6,283	---	39,529	87,146	---	0	0	---
Heroin	52	115	---	1,839	4,054	---	0	0	---
Firearms	---	---	30,919	---	---	30,690	---	---	(12,091)
Pornography	---	---	22,191	---	---	3,421	---	---	(811)
Other	---	---	<u>3,024</u>	---	---	<u>1,158</u>	---	---	<u>0</u>
<b>Total</b>	<u>8,622</u>	<u>18,995</u>	<u>56,134</u>	<u>599,980</u>	<u>1,322,716</u>	<u>35,269</u>	<u>0</u>	<u>0</u>	<u>(12,902)</u>

<u>Category</u>	<u>New Forfeitures</u>			<u>Adjustments</u>			<u>Balance - September 30, 2001</u>		
	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>	<u>Weight</u> (kg.)	<u>Weight</u> (lbs.)	<u>Quantity</u>
Cannabis (marijuana)	(558,781)	(1,231,889)	---	(3,997)	(8,812)	---	1,551	3,412	---
Cocaine	(39,510)	(87,104)	---	(2,665)	(5,875)	---	207	450	---
Heroin	(1,841)	(4,059)	---	(22)	(49)	---	28	61	---
Firearms	---	---	(11,377)	---	---	3,050	---	---	41,191
Pornography	---	---	(6,442)	---	---	(3,562)	---	---	14,797
Other	---	---	<u>0</u>	---	---	<u>(1,111)</u>	---	---	<u>3,071</u>
<b>Total</b>	<u>(600,132)</u>	<u>(1,323,052)</u>	<u>(17,819)</u>	<u>(6,684)</u>	<u>(14,736)</u>	<u>(1,623)</u>	<u>1,786</u>	<u>3,923</u>	<u>59,059</u>

**13. Property, Plant and Equipment**

As of September 30, 2002 and September 30, 2001, property, plant and equipment consisted of the following (in millions):

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

<b><u>As of September 30, 2001:</u></b>	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	2001 Total
Land	N/A	N/A	\$22	\$0	\$22
Structures, Facilities	S/L	3-50 yrs	700	(239)	461
ADP Software	S/L	2-10 yrs	291	(68)	223
Equipment	S/L	2-20 yrs	1,231	(678)	553
Assets under Capital Lease	S/L	2-25 yrs	177	(18)	159
Construction in Progress	N/A	N/A	299	0	299
Aircraft	S/L	12-20 yrs	413	(229)	184
ADP Equipment	S/L	3-5 yrs	1,734	(692)	1,042
Vessels	S/L	5-10 yrs	19	(17)	2
Vehicles	S/L	6 yrs	92	(43)	49
Other	S/L	2-30 yrs	<u>421</u>	<u>(125)</u>	<u>296</u>
Total	N/A	N/A	<u><b>\$5,399</b></u>	<u><b>(\$2,109)</b></u>	<b><u>\$3,290</u></b>

\* 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. The Department also has four multi-use heritage assets located in Puerto Rico.

**14. Non-Entity Assets**

As of September 30, 2002 and September 30, 2001, non-entity assets consisted of the following (in millions):

	<u>2002</u>	2001 (Restated)
Intra-governmental Assets:		
Fund Balance	<b>\$2,101</b>	\$1,801
Loans and Interest Receivable	<b>190,178</b>	179,616
Investments and Related Interest	-	-
Accounts Receivable and Related Interest	<b>667</b>	666
Advances to the Black Lung Trust Fund	<b>7,719</b>	7,254
Due from the General Fund *	<b><u>5,904,640</u></b>	<u>5,516,094</u>
Total Non-Entity Intra-governmental Assets	<b>\$6,105,305</b>	\$5,705,431
Cash, Foreign Currency and Other Monetary Assets	<b>81,851</b>	50,564
Gold & Silver Reserves	<b>10,933</b>	10,933
Loans and Interest Receivable	<b>1,317</b>	1,472
Tax/Trade and Other Receivables, and Related Interest, Net	<b>21,843</b>	21,253
Other Assets	<b><u>8</u></b>	<u>53</u>
<b>Total Non-Entity Assets</b>	<b><u>\$6,221,257</u></b>	<u>\$5,789,706</u>

\* 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, 2002 and September 30, 2001 were as follows (in millions):

***Intra-governmental***

	<u>2002</u>	<u>2001</u>
Beginning Balance	\$2,438,339	\$2,204,267
New Borrowings*	207,183	234,072
Premium/Discount	(1,605)	(6,217)
Interest Payable Covered by Budgetary Resources	<u>41,012</u>	<u>39,915</u>
Total	<u>\$2,684,929</u>	<u>\$2,472,037</u>

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

***Owed to the Public***

	<u>2002</u>	<u>2001</u>
Beginning Balance	\$3,339,310	\$3,439,022
New Borrowings	3,803,649	2,556,482
Repayments	(3,589,779)	(2,656,194)
Premium/Discount	(39,274)	(46,010)
Interest Payable Covered by Budgetary Resources	<u>32,874</u>	<u>39,496</u>
Total	<u>\$3,546,780</u>	<u>\$3,332,796</u>

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 2002 was 6.0 percent (6.4 percent in FY 2001).

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, 2002 and September 30, 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
SSA: Federal Old-Age and Survivors Insurance Trust Fund	<b>\$1,173,759</b>	\$1,034,113
OPM: Civil Service Retirement and Disability Fund *	<b>558,713</b>	527,608
DOD: Military Retirement Fund	<b>162,396</b>	156,978
HHS: Federal Hospital Insurance Trust Fund	<b>228,906</b>	197,137
SSA: Federal Disability Insurance Trust Fund *	<b>155,287</b>	135,842
DOL: Unemployment Trust Fund *	<b>68,265</b>	88,638
HHS: Federal Supplementary Medical Insurance Trust Fund	<b>38,804</b>	41,978
FDIC: The Bank Insurance Fund	<b>30,542</b>	30,677
DOT: Highway Trust Fund	<b>18,840</b>	24,115
OPM: Employees' Life Insurance Fund	<b>25,350</b>	23,690
RRB: Railroad Retirement Account	<b>23,383</b>	24,983
HUD: FHA Liquidating Account	<b>21,249</b>	17,282
VA: National Service Life Insurance Fund	<b>11,465</b>	11,639
Nuclear Waste Disposal Fund	<b>23,421</b>	21,060
Other Programs and Funds - Consolidated	<b><u>105,142</u></b>	<u>102,599</u>
Total Federal Debt Held By Federal Entities	<b><u>\$2,645,522</u></b>	<b><u>\$2,438,339</u></b>

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

	<u>GAS</u> <u>Securities</u>	<u>Marketable</u> <u>Treasury</u> <u>Securities</u>	<u>2002</u>	<u>2001</u>
Civil Service Retirement and Disability Fund, Par	\$558,433	\$280	<b>\$558,713</b>	\$527,608
Federal Disability Insurance Trust Fund, Par Value	155,257	30	<b>155,287</b>	135,842
Unemployment Trust Fund	68,265	0	<b>68,265</b>	88,638

#### Abbreviations used above:

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Defense (DOD); Department of Health and Human Services (HHS); Department of Labor (DOL); Federal Deposit Insurance Corporation (FDIC); Department of Transportation (DOT); Railroad Retirement Board (RRB); Department of Housing and Urban Development (HUD); and Department of Veterans Affairs (VA).

## Federal Debt Held by the Public

As of September 30, 2002 and September 30, 2001, Federal Debt held by the Public consisted of the following (at par value, in millions):

	<u>Term</u>	<u>Average Interest Rates</u>	<u>2002</u>	<u>2001</u>
Marketable:				
Treasury Bills	<i>1 Year Or Less</i>	1.7%	<b>\$868,220</b>	\$734,856
Treasury Notes	<i>Over 1 Year - 10 Years</i>	4.7%	<b>1,615,310</b>	1,528,095
Treasury Bonds	<i>Over 10 Years</i>	8.0%	<b><u>637,827</u></b>	<u>652,274</u>
Total Marketable			<b>\$3,121,357</b>	\$2,915,225
Non-Marketable	<i>On Demand to Over 10 Years</i>	6.0%	<b><u>431,823</u></b>	<u>424,085</u>
Total Federal Debt (Public)			<b><u>\$3,553,180</u></b>	<u>\$3,339,310</u>

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, 2002, marketable notes included \$93,738 million of Inflation Indexed Notes and the marketable bonds included \$45,132 million of Inflation Indexed Bonds. (As of September 30, 2001, the amounts were \$95,147 million and \$39,744 million, respectively.)

Non-Marketable securities primarily consist of \$193,357 million in U.S. Savings Securities (\$186,509 million as of September 30, 2001), \$144,286 million in securities issued to State and Local Governments (\$146,364 million as of September 30, 2001), \$12,519 million in Foreign Series Securities (\$18,269 million as of September 30, 2001), and \$29,995 million Domestic Series Securities (\$29,995 million as of September 30, 2001 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.

### 16. Loans Payable & Interest

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 8.75 percent to 9.25 percent, and the maturity dates range from June 30, 2003 to June 30, 2005. The outstanding borrowings were paid off subsequent to September 30, 2002 (see Note 33).

### 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 made one loan guarantee in fiscal year 2002, to guarantee \$379.5 million of a \$429 million loan from a commercial lender to an air carrier. The initial subsidy for the loan was \$172 million (40% of the gross loan). The components of the subsidy included the estimated present value of defaults, \$239 million (56% of the gross loan), offset by the estimated present value of fees to be received, \$67 million (16% of the gross loan).

The subsidy was re-estimated upward by \$122 million, at September 30, 2002, primarily because conditions pointed to a greater likelihood of defaults than originally expected, and also because of differences in interest rates assumed in the President's Budget for FY 2002 and the actual interest rates sustained by Treasury. The total subsidy cost for FY 2002, composed of the initial subsidy of \$172 million and the upward re-estimate of \$122 million, was \$294 million. Fees received in FY 2002 totaled \$25 million. The total loan guarantee liability at the end of FY 2002, composed of the initial guarantee of \$172 million, the upward re-estimate of \$122 million, and fees received of \$25 million, was \$319 million. Administrative expenses for FY 2002 were \$3.9 million.

As of November 7, 2002, the ATSB has four applications conditionally approved representing approximately \$1.3 billion in gross loans and \$1.2 billion in loan guarantees. Additionally, another seven applications are pending approval and are currently being processed. These represent approximately \$2.3 billion in gross loans and \$2.1 billion in loan guarantees. Note that all loan terms, including gross loans and 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 \$251.7 million during fiscal year 2002 (and \$197.1 million during FY 2001). The amount paid into the Judicial Retirement Fund from the General Fund was \$6.7 million during fiscal year 2002 (and \$5.1 million during FY 2001).

As of September 30, 2002, the assets of the three funds were approximately \$4 billion, and liabilities were \$8.4 billion, resulting in an unfunded liability of \$4.4 billion. (As of September 30, 2001, the assets of the three funds were approximately \$4 billion, and liabilities were \$8.2 billion, resulting in an unfunded liability of \$4.2 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% in FY 2002 and FY 2001, salary increases at an annual rate of 4% in FY 2002 and FY 2001, and inflation and cost-of-living adjustments at 3% in FY 2002 and FY 2001. The costs incurred by the plans for the year are included in the 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, 2002, the Department accrued \$588.2 million for these matters which represents management's estimation of probable claims that will be assessed. (At September 30, 2001, the Department accrued \$110.2 million.)

At September 30, 2002, contingencies related to proceedings, actions and claims for which it is reasonably possible that a loss may be incurred are estimated to be approximately \$161.8 million. (At September 30, 2001, such contingencies were estimated to be approximately \$732.8 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:

***Carney v. United States:*** This case involves constitutional claims against the government involving criminal prosecution whereby plaintiffs were ultimately acquitted.

***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.

***Leider v. United States:*** Plaintiff seeks interest on creditor distributions paid out by bankruptcy trustees, but which were returned as undeliverable by the Postal Service. Plaintiff seeks to have the matter certified as a class action for similarly situated creditors.

**Moore v. O'Neill:** Current and former Secret Service employees allege that they have been discriminated against on the basis of race through a variety of personnel practices in Secret Service. The employees seek to have the complaint certified as a class action.

**Sueoka v. United States:** A class action suit against Treasury, several of its bureaus, and other agencies. The suit seeks to recover interest on seized currency, other monetary instruments, and claim or cost bonds filed, which were subsequently refunded by the defendant agencies. The suit also seeks recovery of certain deducted expenses which were allegedly improperly withheld.

**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:** Nine 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.

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, 2002 and September 30, 2001 U.S. callable capital in MDBs were as follows (in millions):

	<u>2002</u>	<u>2001</u>
African Development Bank	<b>\$1,189</b>	\$1,109
Asian Development Bank	<b>6,817</b>	6,620
European Bank for Reconstruction and Development	<b>1,310</b>	1,187
Inter-American Development Bank	<b>29,007</b>	29,007
International Bank for Reconstruction & Development	<b>29,966</b>	29,966
Multilateral Investment Guarantee Agency	<b>266</b>	247
North American Development Bank	<b><u>1,275</u></b>	<u>1,275</u>
Total	<b><u>\$69,830</u></b>	<u>\$69,411</u>

**21. Liabilities Not Covered by Budgetary and Other Resources**

As of September 30, 2002 and September 30, 2001, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	<u>2002</u>	<u>2001</u>
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:		
Federal Debt Principle, Premium/Discount	<b>\$2,643,917</b>	\$2,472,037
Other Intra-governmental Liabilities	<u>176</u>	<u>167</u>
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:	<b>\$2,644,093</b>	\$2,472,204
Federal Debt Principle, Premium/Discount	<b>3,513,906</b>	3,332,796
DC Pension Liability	<b>4,366</b>	4,203
Other Liabilities	<u>1,802</u>	<u>1,781</u>
Total Liabilities Not Covered by Budgetary & Other Resources	<b><u>\$6,164,167</u></b>	<b><u>\$5,810,984</u></b>

During FY 2002, the Department received clarification from OMB on the treatment of Federal Debt interest payable. While principle and premium/discount are not covered by budgetary resources, interest payable is covered by budgetary resources. In FY 2001 and prior years, interest payable was treated as a liability that was not covered by budgetary resources.

**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 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.

**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 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.

### **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.

Other than as described below, 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 Federal Law Enforcement Training Center (FLETC) receives appropriated funds to cover the portions of the cost of basic training provided to Federal, state and local law enforcement officers. FLETC charges tuition to recover the full cost of training and labor related to advanced training. FLETC does not recover the full cost of training and labor related to basic training of Federal law enforcement officers. FLETC recovers the full cost of food & lodging and miscellaneous expenses associated with both basic and advanced training. FLETC charges prices, which recover the full cost of training private and foreign law enforcement officers.

The tables appearing in the next several pages present detailed information on the net cost of Treasury's sub-organizations.

**23. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):**

for FYE September 30, 2002	Air Trans. Stabilization Board	Alcohol Tobacco & Firearms	Bureau of Engraving & Printin g	Bureau of Public Debt	Community Development Fin. Inst.	U.S. Customs Service	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Federal Law Enforcement Training Cntr.	Fin. Crimes Enforcement Network	Financial Management Service
<b>Program Costs:</b>													
<i>Economic Program:</i>													
Intra-governmental Gross Costs	\$0	\$19	\$0	\$3	\$6	\$0	\$0	\$8	\$2	\$0	\$0	\$0	\$0
Less: Earned Revenue	0	0	0	0	0	0	0	0	(184)	0	0	0	0
Intra-governmental Net Costs	\$0	\$19	\$0	\$3	\$6	\$0	\$0	\$8	(\$182)	\$0	\$0	\$0	\$0
Gross Costs with the Public	\$0	\$44	\$0	\$12	\$99	\$0	\$0	\$21	\$310	\$0	\$0	\$0	\$0
Less: Earned Revenue	0	0	0	0	(1)	0	0	0	(1,320)	0	0	0	0
Net Costs with the Public	\$0	\$44	\$0	\$12	\$98	\$0	\$0	\$21	(\$1,010)	\$0	\$0	\$0	\$0
<b>Net Cost: Economic Program</b>	<b>\$0</b>	<b>\$63</b>	<b>\$0</b>	<b>\$15</b>	<b>\$104</b>	<b>\$0</b>	<b>\$0</b>	<b>\$29</b>	<b>(\$1,192)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<i>Financial Program:</i>													
Intra-governmental Gross Costs	\$0	\$15	\$70	\$73	\$0	\$575	\$3	\$5	\$0	\$3,260	\$0	\$0	\$144
Less: Earned Revenue	0	0	(47)	(5)	0	(73)	(205)	(3)	0	(3,064)	0	0	(122)
Intra-governmental Net Costs	\$0	\$15	\$23	\$68	\$0	\$502	(\$202)	\$2	\$0	\$196	\$0	\$0	\$22
Gross Costs with the Public	\$0	\$33	\$414	\$237	\$0	\$1,503	\$624	\$21	\$0	\$0	\$0	\$0	\$303
Less: Earned Revenue	0	(1)	(396)	(3)	0	(54)	(1)	0	0	0	0	0	0
Net Costs with the Public	\$0	\$32	\$18	\$234	\$0	\$1,449	\$623	\$21	\$0	\$0	\$0	\$0	\$303
<b>Net Cost: Financial Program</b>	<b>\$0</b>	<b>\$47</b>	<b>\$41</b>	<b>\$302</b>	<b>\$0</b>	<b>\$1,951</b>	<b>\$421</b>	<b>\$23</b>	<b>\$0</b>	<b>\$196</b>	<b>\$0</b>	<b>\$0</b>	<b>\$325</b>
<i>Law Enforcement Program:</i>													
Intra-governmental Gross Costs	\$0	\$167	\$0	\$0	\$0	\$309	\$0	\$179	\$0	\$0	\$23	\$18	\$0
Less: Earned Revenue	0	(22)	0	0	0	(41)	0	(2)	0	0	(55)	(3)	0
Intra-governmental Net Costs	\$0	\$145	\$0	\$0	\$0	\$268	\$0	\$177	\$0	\$0	(\$32)	\$15	\$0
Gross Costs with the Public	\$0	\$492	\$0	\$0	\$0	\$808	\$0	\$22	\$0	\$0	\$162	\$25	\$0
Less: Earned Revenue	0	0	0	0	0	(29)	0	0	0	0	(1)	0	0
Net Costs with the Public	\$0	\$492	\$0	\$0	\$0	\$779	\$0	\$22	\$0	\$0	\$161	\$25	\$0
<b>Net Cost: Law Enforcement</b>	<b>\$0</b>	<b>\$637</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,047</b>	<b>\$0</b>	<b>\$199</b>	<b>\$0</b>	<b>\$0</b>	<b>\$129</b>	<b>\$40</b>	<b>\$0</b>
<b>Total Program Costs, Net</b>	<b>\$0</b>	<b>\$747</b>	<b>\$41</b>	<b>\$317</b>	<b>\$104</b>	<b>\$2,998</b>	<b>\$421</b>	<b>\$251</b>	<b>(\$1,192)</b>	<b>\$196</b>	<b>\$129</b>	<b>\$40</b>	<b>\$325</b>
<b>Costs Not Assigned to Programs:</b>													
Intra-governmental	0	24	0	0	0	0	0	79	0	0	0	0	0
With the Public	298	50	0	0	0	0	0	362	0	0	0	0	0
<b>Less: Earned Revenue Not Attributed to Programs:</b>													
Intra-governmental	0	0	0	0	0	0	0	(245)	0	0	0	0	0
With the Public	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Cost of Operations</b>	<b>\$298</b>	<b>\$821</b>	<b>\$41</b>	<b>\$317</b>	<b>\$104</b>	<b>\$2,998</b>	<b>\$421</b>	<b>\$447</b>	<b>(\$1,192)</b>	<b>\$196</b>	<b>\$129</b>	<b>\$40</b>	<b>\$325</b>

23. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):

for FYE September 30, 2002

	Franchise Fund	Inspector General	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	U.S. Secret Service	Treasury Forfeiture Fund	Treasury I.G. for Tax Admin.	International Assistance Programs	Combined Total	Eliminations and Adjustments	9/30/2002 Consolidated
<b>Program Costs:</b>													
<i>Economic Program:</i>													
Intra-governmental Gross Costs	\$0	\$0	\$0	\$0	\$59	\$17	\$0	\$0	\$0	\$66	\$180	(\$8)	\$172
Less: Earned Revenue	0	0	0	0	(13)	(8)	0	0	0	0	(205)	202	(3)
Intra-governmental Net Costs	\$0	\$0	\$0	\$0	\$46	\$9	\$0	\$0	\$0	\$66	(\$25)	\$194	\$169
Gross Costs with the Public	\$0	\$0	\$0	\$0	\$364	\$144	\$0	\$0	\$0	\$1,603	\$2,597	\$0	\$2,597
Less: Earned Revenue	0	0	0	0	(430)	(156)	0	0	0	0	(1,907)	0	(1,907)
Net Costs with the Public	\$0	\$0	\$0	\$0	(\$66)	(\$12)	\$0	\$0	\$0	\$1,603	\$690	\$0	\$690
<b>Net Cost: Economic Program</b>	\$0	\$0	\$0	\$0	(\$20)	(\$3)	\$0	\$0	\$0	\$1,669	\$665	\$194	\$859
<i>Financial Program:</i>													
Intra-governmental Gross Costs	\$0	\$0	\$2,892	\$57	\$0	\$0	\$0	\$0	\$0	\$0	\$7,094	(\$1,986)	\$5,108
Less: Earned Revenue	0	0	(19)	(3)	0	0	0	0	0	0	(3,541)	307	(3,234)
Intra-governmental Net Costs	\$0	\$0	\$2,873	\$54	\$0	\$0	\$0	\$0	\$0	\$0	\$3,553	(\$1,679)	\$1,874
Gross Costs with the Public	\$0	\$0	\$6,792	\$827	\$0	\$0	\$0	\$0	\$0	\$0	\$10,754	(\$1)	\$10,753
Less: Earned Revenue	0	0	(160)	(1,801)	0	0	0	0	0	0	(2,416)	2	(2,414)
Net Costs with the Public	\$0	\$0	\$6,632	(\$974)	\$0	\$0	\$0	\$0	\$0	\$0	\$8,338	\$1	\$8,339
<b>Net Cost: Financial Program</b>	\$0	\$0	\$9,505	(\$920)	\$0	\$0	\$0	\$0	\$0	\$0	\$11,891	(\$1,678)	\$10,213
<i>Law Enforcement Program:</i>													
Intra-governmental Gross Costs	\$0	\$0	\$106	\$0	\$0	\$0	\$290	\$75	\$0	\$0	\$1,167	(\$311)	\$856
Less: Earned Revenue	0	0	(84)	0	0	0	(44)	0	0	0	(251)	196	(55)
Intra-governmental Net Costs	\$0	\$0	\$22	\$0	\$0	\$0	\$246	\$75	\$0	\$0	\$916	(\$115)	\$801
Gross Costs with the Public	\$0	\$0	\$509	\$0	\$0	\$0	\$840	\$42	\$0	\$0	\$2,900	\$0	\$2,900
Less: Earned Revenue	0	0	0	0	0	0	0	0	0	0	(30)	0	(30)
Net Costs with the Public	\$0	\$0	\$509	\$0	\$0	\$0	\$840	\$42	\$0	\$0	\$2,870	\$0	\$2,870
<b>Net Cost: Law Enforcement</b>	\$0	\$0	\$531	\$0	\$0	\$0	\$1,086	\$117	\$0	\$0	\$3,786	(\$115)	\$3,671
<b>Total Program Costs, Net</b>	<b>\$0</b>	<b>\$0</b>	<b>\$10,036</b>	<b>(\$920)</b>	<b>(\$20)</b>	<b>(\$3)</b>	<b>\$1,086</b>	<b>\$117</b>	<b>\$0</b>	<b>\$1,669</b>	<b>\$16,342</b>	<b>(\$1,599)</b>	<b>\$14,743</b>
<b>Costs Not Assigned to Programs:</b>													
Intra-governmental	17	10	0	0	0	0	0	0	31	0	161	(9)	152
With the Public	287	27	0	0	0	0	0	0	105	0	1,129	1	1,130
<b>Less: Earned Revenue Not Attributed to Programs:</b>													
Intra-governmental	(308)	(1)	0	0	0	0	0	0	(4)	0	(558)	293	(265)
With the Public	(2)	0	0	0	0	0	0	0	0	0	(2)	0	(2)
<b>Net Cost of Operations</b>	<b>(\$6)</b>	<b>\$36</b>	<b>\$10,036</b>	<b>(\$920)</b>	<b>(\$20)</b>	<b>(\$3)</b>	<b>\$1,086</b>	<b>\$117</b>	<b>\$132</b>	<b>\$1,669</b>	<b>\$17,072</b>	<b>(\$1,314)</b>	<b>\$15,758</b>

### 23. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):

for FYE September 30, 2001	Air Trans. Stabilization Board	Alcohol Tobacco & Firearms	Bureau of Engraving & Printing	Bureau of Public Debt	Community Development Fin. Inst.	U.S. Customs Service	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Federal Law Enforcement Training Cntr.	Fin. Crimes Enforcement Network	Financial Management Service
<b>Program Costs:</b>													
<i>Economic Program:</i>													
Intra-governmental Gross Costs	\$0	\$21	\$0	\$3	\$5	\$0	\$0	\$11	\$4	\$0	\$0	\$0	\$0
Less: Earned Revenue	0	0	0	0	0	0	0	0	(510)	0	0	0	0
Intra-governmental Net Costs	\$0	\$21	\$0	\$3	\$5	\$0	\$0	\$11	(\$506)	\$0	\$0	\$0	\$0
Gross Costs with the Public	\$0	\$51	\$0	\$13	\$107	\$0	\$0	\$39	\$918	\$0	\$0	\$0	\$0
Less: Earned Revenue	0	0	0	0	(1)	0	0	0	(753)	0	0	0	0
Net Costs with the Public	\$0	\$51	\$0	\$13	\$106	\$0	\$0	\$39	\$165	\$0	\$0	\$0	\$0
<b>Net Cost: Economic Program</b>	<b>\$0</b>	<b>\$72</b>	<b>\$0</b>	<b>\$16</b>	<b>\$111</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50</b>	<b>(\$341)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<i>Financial Program:</i>													
Intra-governmental Gross Costs	\$0	\$15	\$65	\$66	\$0	\$508	\$1	\$5	\$0	\$3,303	\$0	\$0	\$182
Less: Earned Revenue	0	0	(53)	(4)	0	(50)	(214)	0	0	(3,186)	0	0	(115)
Intra-governmental Net Costs	\$0	\$15	\$12	\$62	\$0	\$458	(\$213)	\$5	\$0	\$117	\$0	\$0	\$67
Gross Costs with the Public	\$0	\$38	\$382	\$235	\$0	\$1,364	\$1,066	\$26	\$0	\$0	\$0	\$0	\$302
Less: Earned Revenue	0	(1)	(338)	(4)	0	(65)	(1)	0	0	0	0	0	0
Net Costs with the Public	\$0	\$37	\$44	\$231	\$0	\$1,299	\$1,065	\$26	\$0	\$0	\$0	\$0	\$302
<b>Net Cost: Financial Program</b>	<b>\$0</b>	<b>\$52</b>	<b>\$56</b>	<b>\$293</b>	<b>\$0</b>	<b>\$1,757</b>	<b>\$852</b>	<b>\$31</b>	<b>\$0</b>	<b>\$117</b>	<b>\$0</b>	<b>\$0</b>	<b>\$369</b>
<i>Law Enforcement Program:</i>													
Intra-governmental Gross Costs	\$0	\$144	\$0	\$0	\$0	\$264	\$0	\$148	\$0	\$0	\$22	\$11	\$0
Less: Earned Revenue	0	(23)	0	0	0	(25)	0	0	0	0	(31)	(1)	0
Intra-governmental Net Costs	\$0	\$121	\$0	\$0	\$0	\$239	\$0	\$148	\$0	\$0	(\$9)	\$10	\$0
Gross Costs with the Public	\$0	\$429	\$0	\$0	\$0	\$708	\$0	\$12	\$0	\$0	\$117	\$24	\$0
Less: Earned Revenue	0	0	0	0	0	(34)	0	0	0	0	(1)	0	0
Net Costs with the Public	\$0	\$429	\$0	\$0	\$0	\$674	\$0	\$12	\$0	\$0	\$116	\$24	\$0
<b>Net Cost: Law Enforcement</b>	<b>\$0</b>	<b>\$550</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$913</b>	<b>\$0</b>	<b>\$160</b>	<b>\$0</b>	<b>\$0</b>	<b>\$107</b>	<b>\$34</b>	<b>\$0</b>
<b>Total Program Costs, Net</b>	<b>\$0</b>	<b>\$674</b>	<b>\$56</b>	<b>\$309</b>	<b>\$111</b>	<b>\$2,670</b>	<b>\$852</b>	<b>\$241</b>	<b>(\$341)</b>	<b>\$117</b>	<b>\$107</b>	<b>\$34</b>	<b>\$369</b>
<b>Costs Not Assigned to Programs:</b>													
Intra-governmental	0	22	0	0	0	0	0	59	0	0	0	0	0
With the Public	0	48	0	0	0	0	0	290	0	0	0	0	0
<b>Less: Earned Revenue Not Attributed to Programs:</b>													
Intra-governmental	0	0	0	0	0	0	0	(239)	0	0	0	0	0
With the Public	0	0	0	0	0	0	0	(2)	0	0	0	0	0
<b>Net Cost of Operations</b>	<b>\$0</b>	<b>\$744</b>	<b>\$56</b>	<b>\$309</b>	<b>\$111</b>	<b>\$2,670</b>	<b>\$852</b>	<b>\$349</b>	<b>(\$341)</b>	<b>\$117</b>	<b>\$107</b>	<b>\$34</b>	<b>\$369</b>



**23. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions):**

for FYE September 30, 2001

	Franchise Fund	Inspector General	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	U.S. Secret Service	Treasury Forfeiture Fund	Treasury I.G. for Tax Admin.	International Assistance Programs	Combined Total	Eliminations and Adjustments	9/30/2001 Consolidated
<b>Program Costs:</b>													
<i>Economic Program:</i>													
Intra-governmental Gross Costs	\$0	\$0	\$0	\$0	\$58	\$16	\$0	\$0	\$0	\$73	\$191	(\$10)	<b>\$181</b>
Less: Earned Revenue	0	0	0	0	(17)	(9)	0	0	0	0	(536)	534	<b>(2)</b>
Intra-governmental Net Costs	\$0	\$0	\$0	\$0	\$41	\$7	\$0	\$0	\$0	\$73	(\$345)	\$524	<b>\$179</b>
Gross Costs with the Public	\$0	\$0	\$0	\$0	\$362	\$151	\$0	\$0	\$0	\$1,707	\$3,348	\$0	<b>\$3,348</b>
Less: Earned Revenue	0	0	0	0	(399)	(147)	0	0	0	0	(1,300)	0	<b>(1,300)</b>
Net Costs with the Public	\$0	\$0	\$0	\$0	(\$37)	\$4	\$0	\$0	\$0	\$1,707	\$2,048	\$0	<b>\$2,048</b>
<b>Net Cost: Economic Program</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4</b>	<b>\$11</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,780</b>	<b>\$1,703</b>	<b>\$524</b>	<b>\$2,227</b>
<i>Financial Program:</i>													
Intra-governmental Gross Costs	\$0	\$0	\$2,105	\$59	\$0	\$0	\$0	\$0	\$0	\$0	\$6,309	(\$2,256)	<b>\$4,053</b>
Less: Earned Revenue	0	0	(133)	(1)	0	0	0	0	0	0	(3,756)	371	<b>(3,385)</b>
Intra-governmental Net Costs	\$0	\$0	\$1,972	\$58	\$0	\$0	\$0	\$0	\$0	\$0	\$2,553	(\$1,885)	<b>\$668</b>
Gross Costs with the Public	\$0	\$0	\$6,338	\$908	\$0	\$0	\$0	\$0	\$0	\$0	\$10,659	\$0	<b>\$10,659</b>
Less: Earned Revenue	0	0	(13)	(2,423)	0	0	0	0	0	0	(2,845)	0	<b>(2,845)</b>
Net Costs with the Public	\$0	\$0	\$6,325	(\$1,515)	\$0	\$0	\$0	\$0	\$0	\$0	\$7,814	\$0	<b>\$7,814</b>
<b>Net Cost: Financial Program</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8,297</b>	<b>(\$1,457)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$10,367</b>	<b>(\$1,885)</b>	<b>\$8,482</b>
<i>Law Enforcement Program:</i>													
Intra-governmental Gross Costs	\$0	\$0	\$56	\$0	\$0	\$0	\$249	\$67	\$0	\$0	\$961	(\$270)	<b>\$691</b>
Less: Earned Revenue	0	0	(4)	0	0	0	(10)	0	0	0	(94)	68	<b>(26)</b>
Intra-governmental Net Costs	\$0	\$0	\$52	\$0	\$0	\$0	\$239	\$67	\$0	\$0	\$867	(\$202)	<b>\$665</b>
Gross Costs with the Public	\$0	\$0	\$1,035	\$0	\$0	\$0	\$784	\$39	\$0	\$0	\$3,148	\$0	<b>\$3,148</b>
Less: Earned Revenue	0	0	(86)	0	0	0	0	0	0	0	(121)	0	<b>(121)</b>
Net Costs with the Public	\$0	\$0	\$949	\$0	\$0	\$0	\$784	\$39	\$0	\$0	\$3,027	\$0	<b>\$3,027</b>
<b>Net Cost: Law Enforcement</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,001</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,023</b>	<b>\$106</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,894</b>	<b>(\$202)</b>	<b>\$3,692</b>
<b>Total Program Costs, Net</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,298</b>	<b>(\$1,457)</b>	<b>\$4</b>	<b>\$11</b>	<b>\$1,023</b>	<b>\$106</b>	<b>\$0</b>	<b>\$1,780</b>	<b>\$15,964</b>	<b>(\$1,563)</b>	<b>\$14,401</b>
<b>Costs Not Assigned to Programs:</b>													
Intra-governmental	20	10	0	0	0	0	0	0	13	0	124	17	<b>141</b>
With the Public	198	23	0	0	0	0	0	0	105	0	664	0	<b>664</b>
<b>Less: Earned Revenue Not Attributed to Programs:</b>													
Intra-governmental	(220)	0	0	0	0	0	0	0	(3)	0	(462)	271	<b>(191)</b>
With the Public	(1)	0	0	0	0	0	0	0	0	0	(3)	0	<b>(3)</b>
<b>Net Cost of Operations</b>	<b>(\$3)</b>	<b>\$33</b>	<b>\$9,298</b>	<b>(\$1,457)</b>	<b>\$4</b>	<b>\$11</b>	<b>\$1,023</b>	<b>\$106</b>	<b>\$115</b>	<b>\$1,780</b>	<b>\$16,287</b>	<b>(\$1,275)</b>	<b>\$15,012</b>

#### 24. Total Cost and Earned Revenue by Federal Budget Functional Classification

<b>FY 2002:</b>	Education & Training	Veterans Benefits	Energy	Commerce & Housing	Community & Regional Development	Net Interest	International Affairs	Administration of Justice	General Government	<b>2002 Total</b>
<b>Agency Gross Cost:</b>										
Gross Cost - Federal	\$0	\$0	\$0	\$76	\$6	\$162,973	\$71	\$1,642	\$11,050	<b>\$175,818</b>
Less: Intra-Departmental Eliminations	0	0	0	(3)	(2)	(413)	(1)	(323)	(1,984)	<b>(2,726)</b>
Inter-Departmental Gross Cost - Federal	\$0	\$0	\$0	\$73	\$4	\$162,560	\$70	\$1,319	\$9,066	<b>\$173,092</b>
Gross Cost - Public	380	333	0	1,182	99	175,391	1,936	3,960	14,199	<b>197,480</b>
Agency Gross Cost	<b>\$380</b>	<b>\$333</b>	<b>\$0</b>	<b>\$1,255</b>	<b>\$103</b>	<b>\$337,951</b>	<b>\$2,006</b>	<b>\$5,279</b>	<b>\$23,265</b>	<b>\$370,572</b>
<b>Agency Exchange Revenue:</b>										
Exchange Revenue - Federal	\$0	\$0	\$0	\$20	\$0	\$12,943	\$188	\$238	\$4,108	<b>\$17,497</b>
Less: Intra-Departmental Eliminations	0	0	0	(17)	0	(1,683)	(184)	(171)	(626)	<b>(2,681)</b>
Inter-Dept. Exchange Revenue - Federal	\$0	\$0	\$0	\$3	\$0	\$11,260	\$4	\$67	\$3,482	<b>\$14,816</b>
Exchange Revenue - Public	0	0	0	586	1	0	1,320	39	2,408	<b>4,354</b>
Agency Exchange Revenue	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$589</b>	<b>\$1</b>	<b>\$11,260</b>	<b>\$1,324</b>	<b>\$106</b>	<b>\$5,890</b>	<b>\$19,170</b>
<b>Agency Net Cost</b>	<b>\$380</b>	<b>\$333</b>	<b>\$0</b>	<b>\$666</b>	<b>\$102</b>	<b>\$326,691</b>	<b>\$682</b>	<b>\$5,173</b>	<b>\$17,375</b>	<b>\$351,402</b>
<b>FY 2001:</b>										
<b>Agency Gross Cost:</b>										
Gross Cost - Federal	\$0	\$0	\$2	\$74	\$5	\$155,855	\$79	\$1,459	\$11,059	\$168,533
Less: Intra-Departmental Eliminations	0	0	0	(4)	(2)	(763)	(2)	(312)	(2,200)	(3,283)
Inter-Departmental Gross Cost - Federal	\$0	\$0	\$2	\$70	\$3	\$155,092	\$77	\$1,147	\$8,859	\$165,250
Gross Cost - Public	364	321	0	977	115	217,685	2,643	3,599	12,441	238,145
Agency Gross Cost	<b>\$364</b>	<b>\$321</b>	<b>\$2</b>	<b>\$1,047</b>	<b>\$118</b>	<b>\$372,777</b>	<b>\$2,720</b>	<b>\$4,746</b>	<b>\$21,300</b>	<b>\$403,395</b>
<b>Agency Exchange Revenue:</b>										
Exchange Revenue - Federal	\$0	\$0	\$0	\$26	\$0	\$13,346	\$511	\$158	\$4,172	\$18,213
Less: Intra-Departmental Eliminations	0	0	0	(24)	0	(1,986)	(510)	(113)	(598)	(3,231)
Inter-Dept. Exchange Revenue - Federal	\$0	\$0	\$0	\$2	\$0	\$11,360	\$1	\$45	\$3,574	\$14,982
Exchange Revenue - Public	0	0	0	546	1	0	754	37	2,913	4,251
Agency Exchange Revenue	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$548</b>	<b>\$1</b>	<b>\$11,360</b>	<b>\$755</b>	<b>\$82</b>	<b>\$6,487</b>	<b>\$19,233</b>
<b>Agency Net Cost</b>	<b>\$364</b>	<b>\$321</b>	<b>\$2</b>	<b>\$499</b>	<b>\$117</b>	<b>\$361,417</b>	<b>\$1,965</b>	<b>\$4,664</b>	<b>\$14,813</b>	<b>\$384,162</b>



## 25. Combining Statement of Changes in Net Position by Sub-organization (In Millions):

	Air Trans. Stabilization Board	Alcohol Tobacco & Firearms	Bureau of Engraving & Printing	Bureau of Public Debt	Community Development Fin. Inst.	U.S. Customs Service	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Federal Law Enforcement Training Cntr.	Fin. Crimes Enforcement Network	Financial Management Service
							Restated						
<b>Cumulative Results of Operations:</b>													
Beginning Balance – 10/1/2001	\$0	(\$48)	\$549	(\$7)	\$27	\$920	(\$4,203)	\$27	\$27,493	(\$357)	\$169	\$1	\$23
Prior Period Adjustments	0	0	0	3	0	0	0	0	0	0	0	0	0
Beginning Balance, as Adjusted	\$0	(\$48)	\$549	(\$4)	\$27	\$920	(\$4,203)	\$27	\$27,493	(\$357)	\$169	\$1	\$23
<b>Budgetary Financing Sources:</b>													
Appropriations Used	176	881	0	343,428	111	1,687	258	466	0	0	164	40	9,292
Non-Exchange Revenue	0	0	0	0	0	1,237	0	0	0	0	0	0	6
Donations and Forfeitures of Cash and Cash Equivalents	0	0	0	1	0	0	0	0	0	0	0	0	0
Transfers In/Out without Reimbursement	0	0	0	0	0	3	0	0	0	0	0	0	0
Other Budgetary Financing Sources	0	0	0	0	0	(3)	0	0	0	0	0	0	(2)
<b>Other Financing Sources:</b>													
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	0	(4,748)	0	0	0	0	0	0	0	0	0
Transfers In/Out without Reimbursement	0	24	0	0	0	10	0	0	0	0	3	1	0
Imputed Financing Sources	0	28	12	7	0	137	0	7	0	0	4	1	12
Other	0	0	0	(12,947)	0	0	0	0	0	0	0	0	(2)
<b>Total Financing Sources</b>	\$176	\$933	\$12	\$325,741	\$111	\$3,071	\$258	\$473	\$0	\$0	\$171	\$42	\$9,306
<b>Net Cost of Operations</b>	(298)	(821)	(41)	(325,738)	(104)	(2,998)	(421)	(447)	1,192	(196)	(129)	(40)	(9,279)
<b>Ending Balance – 9/30/2002</b>	(\$122)	\$64	\$520	(\$1)	\$34	\$993	(\$4,366)	\$53	\$28,685	(\$553)	\$211	\$3	\$50
							Restated						
<b>Unexpended Appropriations:</b>													
Beginning Balance – 10/1/2001	\$0	\$212	\$0	\$31	\$117	\$857	\$0	\$368	\$200	\$239	\$115	\$12	\$102
Prior Period Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
Beginning Balance, as Adjusted	\$0	\$212	\$0	\$31	\$117	\$857	\$0	\$368	\$200	\$239	\$115	\$12	\$102
<b>Budgetary Financing Sources:</b>													
Appropriations Received	172	855	0	320	80	3,084	258	430	0	0	174	47	333
Appropriations Transferred In/Out	9	0	0	0	0	78	0	18	0	0	0	0	0
Appropriations Used	(176)	(881)	0	(315)	(111)	(2,641)	(258)	(467)	0	0	(164)	(40)	(341)
Other Adjustments	0	(3)	0	(1)	(1)	(15)	0	(3)	0	0	(4)	0	(17)
<b>Total Financing Sources</b>	\$5	(\$29)	\$0	\$4	(\$32)	\$506	\$0	(\$22)	\$0	\$0	\$6	\$7	(\$25)
<b>Ending Balance – 9/30/2002</b>	\$5	\$183	\$0	\$35	\$85	\$1,363	\$0	\$346	\$200	\$239	\$121	\$19	\$77
<b>TOTAL NET POSITION</b>	(\$117)	\$247	\$520	\$34	\$119	\$2,356	(\$4,366)	\$399	\$28,885	(\$314)	\$332	\$22	\$127

25. Combining Statement of Changes in Net Position by Sub-organization (In Millions):

	Franchise Fund	Inspector General	Internal Revenue Service	U.S. Mint	Office of the Comptroller the Currency	Office of Thrift Supervision	U.S. Secret Service	Treasury Forfeiture Fund	Treasury I.G. for Tax Admin.	International Assistance Programs	Combined Total	Eliminations And Adjustments	9/30/2002 Consolidated
<b>Cumulative Results of</b>													
Beginning Balance – 10/1/2001	\$19	(\$3)	\$438	\$832	\$214	\$119	\$22	\$238	\$9	\$23,681	\$50,163	\$1	\$50,164
Prior Period Adjustments	0	0	0	0	0	0	(11)	0	(35)	0	(43)	(1)	(44)
Beginning Balance, as Adjusted	\$19	(\$3)	\$438	\$832	\$214	\$119	\$11	\$238	(\$26)	\$23,681	\$50,120	\$0	\$50,120
<b>Budgetary Financing Sources:</b>													
Appropriations Used	0	34	9,747	0	0	0	1,059	0	126	4,218	371,687	0	371,687
Non-Exchange Revenue	0	0	0	0	0	0	0	6	0	0	1,249	(7)	1,242
Donations and Forfeitures of Cash and Cash Equivalents	0	0	0	0	0	0	0	98	0	0	99	0	99
Transfers In/Out without Reimbursement	0	1	0	0	0	0	0	0	0	0	4	0	4
Other Budgetary Financing Sources	0	0	0	0	0	0	0	0	0	0	(5)	0	(5)
<b>Other Financing Sources:</b>													
Donations & Forfeitures of	0	0	0	0	0	0	0	(42)	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	10	0	0	0	6	(10)	0	0	44	0	44
Imputed Financing Sources	3	1	454	9	18	5	25	0	5	0	728	(40)	688
Other	0	0	(64)	(1,029)	0	0	0	0	0	0	(14,042)	2	(14,040)
<b>Total Financing Sources</b>	<b>\$3</b>	<b>\$36</b>	<b>\$10,147</b>	<b>(\$1,020)</b>	<b>\$18</b>	<b>\$5</b>	<b>\$1,090</b>	<b>\$52</b>	<b>\$131</b>	<b>\$4,218</b>	<b>\$354,974</b>	<b>(\$45)</b>	<b>\$354,929</b>
<b>Net Cost of Operations</b>	<b>6</b>	<b>(36)</b>	<b>(10,036)</b>	<b>920</b>	<b>20</b>	<b>3</b>	<b>(1,086)</b>	<b>(117)</b>	<b>(132)</b>	<b>(1,669)</b>	<b>(351,447)</b>	<b>45</b>	<b>(351,402)</b>
<b>Ending Balance – 9/30/2002</b>	<b>\$28</b>	<b>(\$3)</b>	<b>\$549</b>	<b>\$732</b>	<b>\$252</b>	<b>\$127</b>	<b>\$15</b>	<b>\$173</b>	<b>(\$27)</b>	<b>\$26,230</b>	<b>\$53,647</b>	<b>\$0</b>	<b>\$53,647</b>
<b>Unexpended Appropriations:</b>													
Beginning Balance – 10/1/2001	\$0	\$6	\$1,380	\$0	\$0	\$0	\$241	\$0	\$11	\$48,016	\$51,907	\$0	\$51,907
Prior Period Adjustments	0	0	0	0	0	0	56	0	0	0	56	0	56
Beginning Balance, as Adjusted	\$0	\$6	\$1,380	\$0	\$0	\$0	\$297	\$0	\$11	\$48,016	\$51,963	\$0	\$51,963
<b>Budgetary Financing Sources:</b>													
Appropriations Received	0	35	9,509	0	0	0	1,229	0	126	1,699	18,351	0	18,351
Appropriations Transferred In/Out	0	0	0	0	0	0	27	0	0	46	178	0	178
Appropriations Used	0	(34)	(9,747)	0	0	0	(1,117)	0	(127)	(3,771)	(20,190)	0	(20,190)
Other Adjustments	0	(1)	(103)	0	0	0	(167)	0	0	(159)	(474)	0	(474)
<b>Total Financing Sources</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$341)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$28)</b>	<b>\$0</b>	<b>(\$1)</b>	<b>(\$2,185)</b>	<b>(\$2,135)</b>	<b>\$0</b>	<b>(\$2,135)</b>
<b>Ending Balance – 9/30/2002</b>	<b>\$0</b>	<b>\$6</b>	<b>\$1,039</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$269</b>	<b>\$0</b>	<b>\$10</b>	<b>\$45,831</b>	<b>\$49,828</b>	<b>\$0</b>	<b>\$49,828</b>
<b>TOTAL NET POSITION</b>	<b>\$28</b>	<b>\$3</b>	<b>\$1,588</b>	<b>\$732</b>	<b>\$252</b>	<b>\$127</b>	<b>\$284</b>	<b>\$173</b>	<b>(\$17)</b>	<b>\$72,061</b>	<b>\$103,475</b>	<b>\$0</b>	<b>\$103,475</b>

## 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 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, 2002 and September 30, 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Net Amount of Budgetary Resources Obligated for Undelivered Orders	<b>\$32,826</b>	\$5,063
Available Borrowing and Contract Authority at the end of the period	<b>\$5,726</b>	\$5,729
Adjustments During the Reporting Period to Budgetary Resources, Available at the Beginning of the Year	<b>\$267</b>	\$62
Amount of Contributed Capital Received During the Reporting Period	<b>\$1</b>	\$0

## 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 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 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 cumulative results of operations for special funds is \$802 million that represents Treasury's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with services performed at certain small airports or other facilities, and to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico. (The amount was \$821 million as of September 30, 2001.) These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. In addition, the Department is required

to maintain \$30 million in its User Fees Account. Part of the passenger fees in the User Fees Account, totaling approximately \$640 million as of September 30, 2002 (\$640 million as of September 30, 2001) is restricted by law in its use to offset specific costs incurred by the Department and are available to the extent provided in Appropriation Acts.

In the trust fund balance, \$54 million results from the Department’s authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Treasury relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee. (The amount was \$87 million as of September 30, 2001.)

**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, 2002 and September 30, 2001 (in millions):

Revenue Type	----- Tax Year -----				2002 Collections
	2002	2001	2000	Pre-2000	
Individual Income & FICA Taxes	\$1,104,058	\$584,167	\$15,277	\$9,833	<b>\$1,713,335</b>
Corporate Income Taxes	112,872	88,849	977	8,348	<b>211,046</b>
Estate and Gift Taxes	135	23,607	1,447	2,052	<b>27,241</b>
Excise Taxes	50,558	18,043	85	334	<b>69,020</b>
Railroad Retirement Taxes	3,448	1,123	1	1	<b>4,573</b>
Duties	19,788	0	0	0	<b>19,788</b>
Fees, and Licenses	934	1	0	0	<b>935</b>
Unemployment Taxes	4,926	1,701	33	80	<b>6,740</b>
Federal Reserve Earnings	18,144	5,539	0	0	<b>23,683</b>
Fines, Penalties, Interest & Other	<u>1,333</u>	<u>687</u>	<u>1</u>	<u>1</u>	<u><b>2,022</b></u>
<b>Subtotal</b>	<u><b>\$1,316,196</b></u>	<u><b>\$723,717</b></u>	<u><b>\$17,821</b></u>	<u><b>\$20,649</b></u>	<u><b>\$2,078,383</b></u>
Less: Amounts Collected for Non-Federal Entities					<u><b>(407)</b></u>
<b>Total</b>					<u><b>\$2,077,976</b></u>

Revenue Type	----- Tax Year -----				2001
	2001	2000	1999	Pre-1999	Collections
Individual Income & FICA Taxes	\$1,155,459	\$665,779	\$13,922	\$8,614	\$1,843,774
Corporate Income Taxes	99,271	79,766	762	6,669	186,468
Estate and Gift Taxes	615	25,088	1,205	2,340	29,248
Excise Taxes	49,195	18,612	86	300	68,193
Railroad Retirement Taxes	3,586	1,114	2	1	4,703
Duties	19,655	0	0	0	19,655
Fees, and Licenses	855	1	0	0	856
Unemployment Taxes	5,059	1,891	33	81	7,064
Federal Reserve Earnings	21,612	4,512	0	0	26,124
Fines, Penalties, Interest & Other	<u>1,987</u>	<u>694</u>	<u>0</u>	<u>0</u>	<u>2,681</u>
<b>Subtotal</b>	<b><u>\$1,357,294</u></b>	<b><u>\$797,457</u></b>	<b><u>\$16,010</u></b>	<b><u>\$18,005</u></b>	<b><u>\$2,188,766</u></b>
Less: Amounts Collected for Non-Federal Entities					<u>(382)</u>
<b>Total</b>					<b><u>\$2,188,384</u></b>

Amounts reported for Corporate Income Taxes collected in fiscal year 2002 include corporate taxes of \$5 billion for tax year 2002. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2001 include corporate taxes of \$5 billion for tax year 2001.) Individual Income and FICA Taxes, includes \$46 billion in payroll taxes collected from other federal agencies. Of this amount, \$9 billion represents the portion paid by the employers. (The comparable amounts for FY 2001 are \$56 billion in payroll taxes collected from other federal agencies and \$12 billion paid by the employers.) Amounts Retained by the Collecting Entity represents retainer fee for U.S. Customs Service Puerto Rico operations.

### Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2002 and September 30, 2001, collections of custodial revenue transferred to federal entities were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Department of Agriculture	\$71	\$68
Department of Interior	18	17
General Fund	1,794,537	1,936,408
Retained by Treasury	<u>47</u>	<u>49</u>
Total	<b><u>\$1,794,673</u></b>	<b><u>\$1,936,542</u></b>



### 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, 2002 and September 30, 2001 (in millions):

Revenue Type	Tax Year				2002
	2002	2001	2000	Pre-2000	Refunds
Individual Income & FICA Taxes	\$531	\$194,228	\$12,417	\$5,199	<b>\$212,375</b>
Corporate Income Taxes	2,210	15,633	14,333	35,193	<b>67,369</b>
Estate and Gift Taxes	0	170	343	290	<b>803</b>
Excise Taxes	290	483	79	271	<b>1,123</b>
Railroad Retirement Taxes	0	2	1	6	<b>9</b>
Duties	756	185	132	417	<b>1,490</b>
Fees, and Licenses	2	0	0	0	<b>2</b>
Unemployment Taxes	<u>0</u>	<u>88</u>	<u>17</u>	<u>27</u>	<u><b>132</b></u>
Total	<u><b>\$3,789</b></u>	<u><b>\$210,789</b></u>	<u><b>\$27,322</b></u>	<u><b>\$41,403</b></u>	<u><b>\$283,303</b></u>

Revenue Type	Tax Year				2001
	2001	2000	1999	Pre-1999	Refunds
Individual Income & FICA Taxes	\$1,376	\$195,719	\$9,394	\$3,830	\$210,319
Corporate Income Taxes	1,260	14,813	8,213	14,299	38,585
Estate and Gift Taxes	7	244	368	305	924
Excise Taxes	339	402	60	137	938
Railroad Retirement Taxes	0	2	0	7	9
Duties	425	225	70	212	932
Fees, and Licenses	2	0	0	0	2
Unemployment Taxes	<u>3</u>	<u>87</u>	<u>13</u>	<u>30</u>	<u>133</u>
Total	<u><b>\$3,412</b></u>	<u><b>\$211,492</b></u>	<u><b>\$18,118</b></u>	<u><b>\$18,820</b></u>	<u><b>\$251,842</b></u>

Individual income & FICA taxes includes 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 2002, the Department issued \$27.8 billion in EITC refunds, of which \$66 million was applied to Advance EITC. An additional \$4.7 billion of EITC refunds were applied to reduce taxpayer liability. (In FY 2001, \$26.1 billion of EITC refunds were issued, \$72 million of which was applied to Advance EITC, and additional \$5.1 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 2002 the Department issued \$5 billion in child tax credit refunds. An additional \$22 billion of child tax credit refunds were applied to reduce taxpayer liability. (In FY 2001, \$972 million of child tax credit refunds were issued, and additional \$19.6 billion were applied to reduce taxpayer liability.)

## Refunds and Drawbacks

As of September 30, 2002 and September 30, 2001, refunds and drawbacks owed by Treasury entities consisted of the following (in millions):

	<u>2002</u>	<u>2001</u>
Alcohol, Tobacco, and Firearms	\$9	\$11
Customs	599	108
Internal Revenue Service	<u>1,288</u>	<u>1,433</u>
Total	<u>\$1,896</u>	<u>\$1,552</u>

### 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, 2002 and September 30, 2001, distributions to the GTFs were as follows (in millions):

Trust Fund:	<u>2002</u>	<u>2001</u>
Airport and Airway Trust Fund	\$8,953	\$9,077
Federal Disability Insurance Trust Fund	77,003	75,341
Federal Hospital Insurance Trust Fund	160,344	157,855
Federal Old Age & Survivors Trust Fund	460,730	452,583
Hazardous Superfund	7	6
Highway and Mass Transit Trust Fund	32,588	31,453
Unemployment Trust Fund	27,646	27,860
Other	<u>1,886</u>	<u>2,054</u>
Total Trust Funds	<u>\$769,157</u>	<u>\$756,229</u>

### 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 Comparative Balance Sheet

Since inception, appropriations received by the Federal Supplemental District of Columbia Pension Fund have been reported as “unexpended appropriations” although a liability for the use of these appropriations had been established at inception. Therefore, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No.7, “Accounting for Revenue and Other Financing Sources,” appropriations received by this fund should have been expended and reported as “appropriations used” in the Statement of Net Cost. The effect of this accounting treatment resulted in understated Cumulative Results of Operations. Thus, the Department has restated FY 2001 Net Position balances, in accordance with SFFAS No. 21, “Reporting Corrections of Errors and Changes in Accounting Principles,” as follows (in millions):

<u>FY 2001 Consolidated Balance Sheet Line Item</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Net Position - Unexpended Appropriation	\$52,920	(\$1,013)	\$51,907
Net Position - Cumulative Results of Operations	49,151	1,013	50,164

A prior period adjustment was recorded at September 30, 2002 reducing the Operating Cash of the Federal Government by \$3,101 million. The purpose of this adjustment was to bring the current balance in outstanding checks in the control accounts into agreement with the detail of outstanding checks per the subsidiary records. Prior to September 30, 2002, FMS was not able to produce the detail of outstanding checks at a point in time from its subsidiary system and therefore could not reconcile the detail to the general ledger control.

FMS research and reconciliation procedures determined that this error did not arise in the either of the years ended September 30, 2002 or 2001. Therefore, the balance of Operating Cash of the Federal Government as of September 30, 2001, as previously reported has been restated as follows (in millions):

<u>FY 2001 Consolidated Balance Sheet Line Item</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Cash, Foreign Currency & Other Monetary Assets	\$73,265	(\$3,101)	\$70,164
Due from the General Fund, Net	5,527,925	3,101	5,531,026

### 33. Subsequent Event

On October 18, 2002, the Federal Financing Bank borrowed \$15,403,072 from the Bureau of Public Debt at an interest rate of 1.683% to exercise its call option for \$14,999,900 of debt and \$403,082 of interest payable to the Civil Service Retirement and Disability Fund, administered by the Office of Personnel Management (discussed in Note 16) with interest rates ranging from 8.75% to 9.25% and maturing dates ranging from June 30, 2003 to June 30, 2005. The call option was exercised at par and without penalty.



## *The Secretary's Letter of Assurance*

**I**n accordance with the provisions of the Government Management Reform Act of 1994, as well as with the Reports Consolidation Act of 2000, the Department of the Treasury has consolidated several statutorily-required reports into this Performance and Accountability Report. Reporting requirements on the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) for the period ending September 30, 2002 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 of FMFIA (internal controls) have been achieved. The Department, taken as a whole, is not able to provide reasonable assurance that the objectives of Section 4 of FMFIA (financial management systems) have been achieved. Similarly, due to the same weaknesses in financial management systems, the Department cannot state that it is in substantial compliance with FFMIA.

Department-wide, there are 20 material weaknesses as of September 30, 2002. The majority of these are concentrated in the Internal Revenue Service (9), U.S. Customs Service (5), and Financial Management Service (3). Summary information on each material weakness is provided by bureau within this section of the Performance and Accountability Report.

The Department began FY 2002 having 29 material weaknesses. The net reduction of nine material weaknesses resulted from ten actual closures/downgrades, the consolidation of eight similar weaknesses into two, and the declaration of seven new weaknesses at the end of the fiscal year. The overall reduction of nine material weaknesses was possible 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 conscientious 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 is conscientious in developing corrective actions to resolve its new and existing challenges. I am confident that Treasury's progress will continue in FY 2003.

Sincerely,



Paul H. O'Neill



## **Federal Managers' Financial Integrity Act & 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) continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; vi) controls are sufficient to minimize any improper or erroneous payments; and vii) performance information is reliable.

During FY 2002, Treasury had a net decrease of nine material weaknesses. That is, while seven new material weaknesses were declared during FY 2002, the Department closed or downgraded 10 material weaknesses during the year, and consolidated another eight similar weaknesses into two. Twenty material weaknesses were outstanding as of September 30, 2002.

It should be noted that although the materiality of several weaknesses has been downgraded, the Department will be diligent in ensuring that all remaining corrective actions are implemented, so as to further improve our status on these important matters.

### **FMFIA Section 2, Management Controls**

Section 2 deficiencies deal with weaknesses in management controls within the agency. During FY 2002, five material weaknesses have been closed/downgraded, and eight closely related material weaknesses have been consolidated into two material weaknesses. The addition of six new material weaknesses resulted in 15 unresolved weaknesses at the end of FY 2002. Many of the unresolved items represent complex, systemic weaknesses, which by their nature require a protracted corrective action period. Others, however, represent issues which can be resolved in early FY 2003.

### **FMFIA Section 4, Financial Management Systems**

Section 4 deficiencies deal with weaknesses in the agency's financial management systems. Five (5) accounting systems weaknesses were resolved, and one (1) new material weakness has been identified, leaving five (5) 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, 2002, five Treasury bureaus (Internal Revenue Service, U.S. Customs Service, FLETC, Financial Management Service, and Mint) are not in substantial compliance with these requirements. IRS and Customs have received approval from OMB to extend the 3-year statutory time frame for correcting the deficiencies. The bureaus continue to make progress with the implementation of their remediation plans.

Summary of Open FMFIA Material Weaknesses and FFMIA Compliance								
As of September 30, 2002								
Bureau	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		
ATF	0	0	0	0	0	0	0	Yes
BEP	0	0	0	0	0	0	0	Yes
BPD	0	0	0	0	0	0	0	Yes
CDFI	0	0	0	0	0	0	0	Yes
USCS	1	3	4	1	0	1	5	No
DO	0	2	2	0	0	0	2	Yes
DC Pension Funds	0	0	0	0	0	0	0	Yes
Exchange Stabilization Fund	0	0	0	0	0	0	0	Yes
EOAF	0	0	0	0	0	0	0	Yes
FinCEN	0	0	0	0	0	0	0	Yes
FLETC	0	0	0	0	0	0	0	No
FMS*	1*	1	2*	1	0	1	3	No
Treasury Franchise Fund	0	0	0	0	0	0	0	Yes
IRS**	7**	0	7**	2	0	2	9	No
Mint	0	0	0	0	1	1	1	No
OCC	0	0	0	0	0	0	0	Yes
OTS	0	0	0	0	0	0	0	Yes
USSS	0	0	0	0	0	0	0	Yes
<b>Total</b>	<b>9</b>	<b>6</b>	<b>15</b>	<b>4</b>	<b>1</b>	<b>5</b>	<b>20</b>	<b>13 5</b>

\* Consolidated three (3) closely related weaknesses to one (1).

\*\* Consolidated Five (5) closely related weaknesses to one (1).

Recapitulation of Material Weaknesses (MWs):	Section 2	Section 4	Total
Balance at the Beginning of FY02:	20	9	29
Consolidation (*/**) during FY02:	-6	0	-6
Sub Total	14	9	23
Closures/downgrades during FY02:	- 5	-5	-10
New MW declared during FY02	+6	1	+7
Balance at the End of FY02:	<b>15</b>	<b>5</b>	<b>20</b>



<b><i>SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2002</i></b>		
<b><u>BUREAU</u></b>	<b><u>DESCRIPTION OF MATERIAL WEAKNESS</u></b>	<b><u>REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION</u></b>
CS-94-02	Inability to timely restore critical systems; lack of a disaster recovery plan.	Finish upgrading telecommunications facilities and establish an operational hot site capability. Target Date: November 2002
CS-02-01	Due to event tied to 9/11/2001, CS suspended the Compliance Measurement Program for FY 2002, and this hindered CS' ability to determine the extent of compliance with various Rules and Regulations.	Customs reinstated the Compliance Measurement Program for FY 2003.  Target Date: To be Determined
CS-02-02	Because of CS' Automated Commercial System (ACS) cannot compare entry and export information electronically, CS relies on an inadequate risk-based approach to review drawback claims.	Customs is developing detailed milestones by 12/2002.  Target Date: To Be determined
CS-02-03	Various logical and technical systems security exposures exist.	Customs is developing detailed milestones by 12/2002.  Target Date: To Be determined
DO-02-01	Lack of substantial compliance with Government Information Security Reform Act (GISRA).	The Department is developing plans to maximize bureau compliance by the end of FY 2003. Target Date: September 2003
DO-02-02	The Department needs to exercise closer oversight and supervision of Enforcement bureaus.	The Department is developing plans to effectively provide closer supervision on the operations of the USCS and other enforcement bureaus. Target Date: September 2003

**SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES  
AS OF SEPTEMBER 30, 2002**

<b><u>BUREAU</u></b>	<b><u>DESCRIPTION OF MATERIAL WEAKNESS</u></b>	<b><u>REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION</u></b>
FMS-01-16 (includes former 01-14 and 01-15)	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
FMS-02-01	The Reconciliation Procedures do not include procedures to reconcile cumulative balance of outstanding checks in STAR with the balance of checks reported in CP&R.	FMS will be developing plans. Target Date: September 2003
IRS-83-01	Property management procedures and controls over the use and accountability of capitalized property need improvement.	Replace IRS' current inventory system with a modernized system. Implement the Prototype Information Technology Asset Management System (ITAMS). Target Date: June 2005
IRS-88-01	IRS needs to resolve IRS' workload of Tax Assessments and prioritizing Collectible Assessments [lack of Collection of Taxes Due]	IRS plans to improve systems support and explore the use of private collection agencies. Target Date: April 2004.
IRS-94-03	A material weakness exists in the internal controls over telecommunications Costs.	Implement new procedures to focus on potential waste, fraud, and abuse of telecommunications resource. Target Date: October 2003
IRS-95-03	Demonstrate capability to manage replacement of tax processing and business systems.	Phased Implementation of new systems –Customer Account Data Engine (CADE) - to demonstrate capability to manage tax processing & business systems. Revised plans will be delivered in November 2002.  Target Date: To Be Determined

<b><i>SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2002</i></b>		
<b><u>BUREAU</u></b>	<b><u>DESCRIPTION OF MATERIAL WEAKNESS</u></b>	<b><u>REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION</u></b>
IRS-99-01	Earned Income Tax Credit (EITC) processing.	Enhanced systems support and project management is being implemented. Target Date: July 2004
IRS-01-01 (Includes former 97-02, 97-03, 97-04, 97-05)	Modernization, Information Technology & Security (MITS) weakness -consolidates formerly separate related material weaknesses)	IRS transitioned from a facility-based approach, which was focused on addressing five material weaknesses, to an enterprise-wide approach to address one computer security material weakness. This new security program approach will be consistent with using Treasury's Security Assessment Framework. Target Date: September 2004
IRS-01-02	Measuring Taxpayer Compliance. OMB identified Tax Compliance Measurement as a program in need of reform.	The Service is reviewing three areas of compliance: Reporting, Payment and Filing. The IRS' National Research Program (NRP) will provide a statistically valid representation of the reporting, filing, and payment compliance characteristics of taxpayers. Target Date: August 2004

***SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE  
AS OF SEPTEMBER 30, 2002***

<b>BUREAU</b>	<b><u>DESCRIPTION OF MATERIAL NON-CONFORMANCES</u></b>	<b><u>REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION</u></b>
CS-93-01	Customs Core Financial Systems do not provide complete and accurate data for preparation of audited financial statements.	Implementing full software deployment of SAP R/3 package will provide a fully integrated accounting system. Target Date: October 2004
FMS -4A-00-01	FMS' General Computer Controls weaknesses exist at each of the data centers.	FMS will complete business continuity planning and testing, review and act on violation reports, and implement a new electronic certification system. Target Date: June 2003
IRS-95-01	Detailed transactional data is needed to support custodial financial reporting of revenue.	Implement Custodial Accounting Project/Enterprise Data Warehouse (CAP/EDW) - A single, integrated data repository of taxpayer account information, integrated with the general ledger and accessible for management analysts and reporting. Target Date: September 2006
IRS-99-01	IRS needs to improve the annual financial statement preparation and audit processes.	Validate and institutionalize the Project Cost Accounting system process; and implement the new Integrated Financial System (IFS). Target Date: October 2003
Mint-02-01	Various information system controls need improvement.	Mint is continuing to implement corrective action plans.  Target Date: September 2003

The following provides a recapitulation of the Material Weaknesses closed/downgraded during FY 2002.

<b>Bureau/ Control Numbers</b>	<b>Brief Description of the Material Weaknesses</b>	<b>Closed/ Downgraded</b>
Customs - 95-01	Inappropriate Access to ADP files.	Downgraded
DO- 4A 00-01	Treasury Communication System has no emergency backup.	Downgraded
DO - 98-04	Policy guidance and oversight of bureaus' EDP general controls.	Downgraded
DC Pensions- 98-01	There are shortcomings in the District's Office of Pay and Retirement Services.	Downgraded
DC Pensions- 98-02	The District's pension system contains overall unacceptable risk and must be replaced.	Closed
FLETC - 91-01	Environment Problem at Outdoor Firearms Ranges.	Downgraded
IRS - 4A 94-01	Erroneous Restricted Interest: Current system limitations require manual computations.	Downgraded
Mint- 4A 01-01	Mint's Information Systems General controls need improvement.	Downgraded
Mint- 4A 01-02	Mint's Information Systems controls at the application level need improvements.	Downgraded
OCC- 98-04	OCC's Financial Management Systems do not comply with Federal financial management system requirements.	Closed
<b>Total</b>		<b>2 Closed 8 Downgraded</b>



---

## 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 Treasury Office of the Inspector General (OIG) continues to issue its semiannual reports as standalone documents. However, beginning with the FY 1998 Accountability Report, the Department discontinued producing the standalone Secretary's Semiannual Report to Congress and instead consolidated and annualized all relevant information for inclusion in the Accountability Report. This action is in accordance with provisions of the Government Management Reform Act, particularly as it pertains to the Governmentwide effort to streamline reporting. In addition, the Treasury Inspector General for Tax Administration (TIGTA) was created by statute in January 1999 to perform the internal audit function for the Internal Revenue Service, with the OIG having continuing responsibilities regarding the rest of the Treasury organization. The information contained in this section of the Accountability Report represents a consolidation of information provided separately by the OIG and TIGTA organizations.

### Department-wide Management Control Program Activities

During FY 2002, 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 TIGTA organizations. The Department is presently undergoing a parallel testing of the Joint Audit Management Enterprise System (JAMES) with the Inventory Tracking and Closure System (ITCS). JAMES has been developed to replace the aged ITCS. JAMES is a Department-wide interactive, on-line, real-time system accessible to the Office of Inspector General, Treasury Inspector General for Tax Administration (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 Deputy 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 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 recommendation which could, according to the audit report, be used more efficiently if management were to take actions to implement and complete the recommendation. 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, 2001 through September 30, 2002. 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, 2001 through September 30, 2002 (Dollars in Millions)								
	Disallowed Costs		Better Used Funds <sup>1</sup>		Revenue Enhancements <sup>2</sup>		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Reports	Dollars
Beginning Balance	8	\$ .5	21	\$261.1*	15	\$547.8	44	\$809.4*
New Reports	9	4.4	20	157.6	10	477.8	39	639.8
Total	17	4.9	41	418.7	25	1,025.6	83	1,449.2
Reports Closed	(14)	(3.1)	(30 <sup>1</sup> )	(342.0 <sup>1</sup> )	(13 <sup>2</sup> )	(417.8 <sup>2</sup> )	(57)	(762.9)
<i>a. Realized or Actual</i>	(10)	(2.2)	(15)	( 8.8)	(4)	(115.5)	(29)	(126.5)
<i>b. Unrealized - Written off</i>	(4)	(0.9)	(15 <sup>1</sup> )	(333.2 <sup>1</sup> )	(9 <sup>2</sup> )	(302.3 <sup>2</sup> )	(28)	(636.4)
<b>Ending Balance</b>	<b>3</b>	<b>1.8</b>	<b>11</b>	<b>76.7</b>	<b>12</b>	<b>607.8</b>	<b>26</b>	<b>686.3</b>

1 This category includes two reports with \$213 million written off, for which TIGTA does not agree with the IRS. This category includes one report in which the IRS rejected TIGTA's recommendation that projected \$40 million in Better Used Funds.

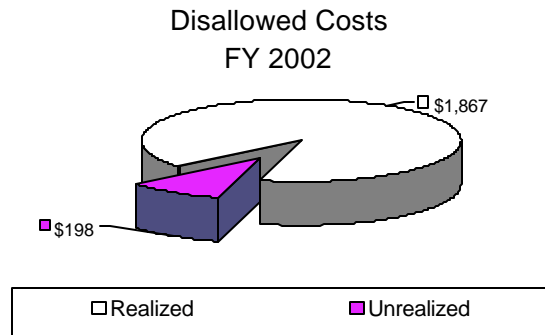
2 This category includes three reports, issued in fiscal year 2002, projecting approximately \$221 million for which the IRS disagreed with the benefit reported by TIGTA.

\* Revised to reflect adjusted report numbers/dollar amounts from the end of September 30, 2001.

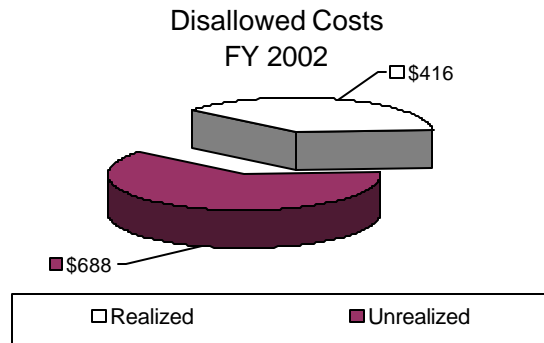
As shown, there were **44** reports at the beginning of the period requiring action, with associated potential benefits of **\$809.4 million**. **39** new reports were issued, with an associated dollar amount of **\$639.8 million**. Final/partial actions were taken on **57** reports during the period, with an associated dollar amount of **\$762.9 million**, which left an ending balance of **26** reports and an associated dollar amount of **\$686.3 million** still requiring management action (Please see Appendix A for aged Audits Pending Final Action on which Management Decisions were made prior to October 01, 2001.).

The following graphs present the summary results for FY 2002 of how much of the projected monetary benefits have been realized and how much have not been realized and, therefore, written off. IRS' data as reported by TIGTA are separately depicted.

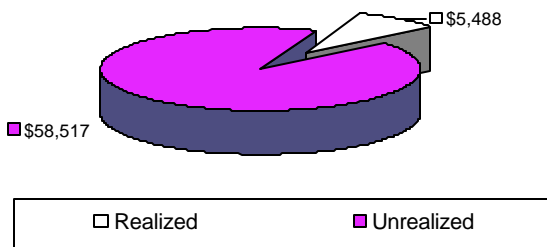
**For All Bureaus except IRS  
(Amounts in \$ thousands)**



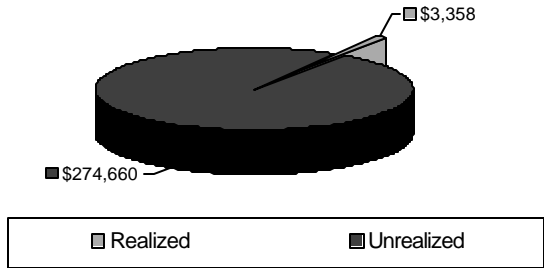
**For IRS only  
(Amounts in \$ thousands)**



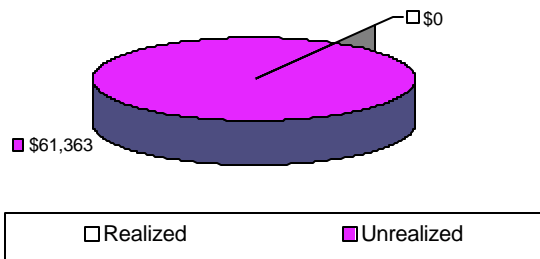
Funds Put To Better Use  
FY 2002



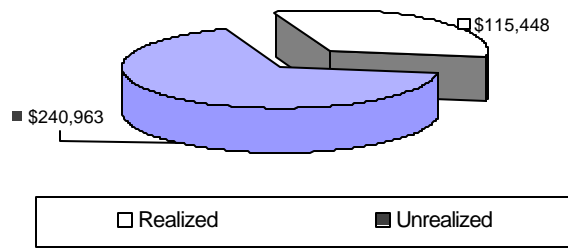
Funds Put To Better Use  
FY 2002



Revenue Enhancements  
FY 2002



Revenue Enhancements  
FY 2002

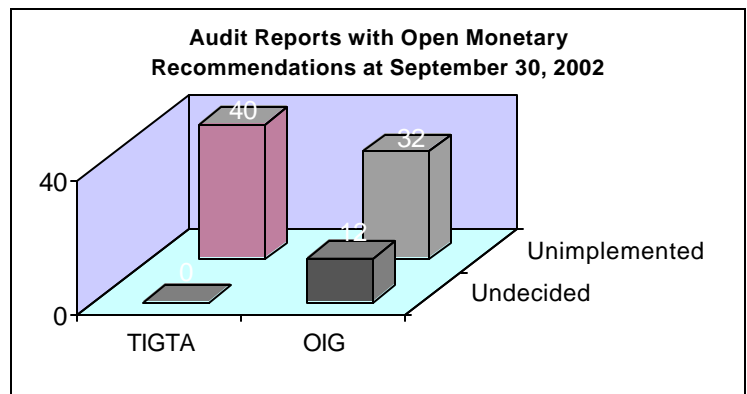
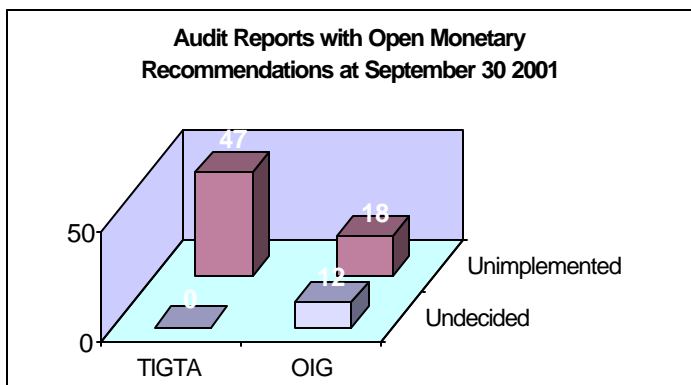


**Ending Balance – Supplemental Information**

There are 12 OIG reports identifying \$2.4 million in potential benefits which have remained undecided by bureau management for more than six months as of September 30, 2002. 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, 2001 and September 30, 2002, respectively.



### **Regulatory Audit Considerations**

In FY 2002, the Department implemented a program of procedural oversight for the Regulatory Audit programs at Customs and ATF. During the fiscal year, Customs Regulatory Audit Division conducted 315 audits, resulting in \$68.5 million in recommended revenue recoveries. Customs also collected additional revenues of \$43.2 million for FY 2002 based on FY 2002 and prior years' audit. Outstanding receivables at the end of the fiscal year totaled \$145.4 million, with \$71.5 million outstanding for more than 3 years.

During FY 2002, ATF created a Tax Audit Division, which will carry out a Regulatory Audit program. Over the next 5 years, 10 offices will be established nationwide to enhance and safeguard the \$14 billion in revenue collected annually. Additionally, program of procedural oversight for the Regulatory Audit programs at Customs and ATF was also implemented to fulfill its audit follow-up responsibilities under A-50.

The Department's impetus in providing programmatic oversight is, in part, to improve the timeliness of collections of current and aged monies due the Government.

**Appendix A**  
**Audits Pending Final Action on Which Management**  
**Decisions Were Made Prior to October 01, 2001**

Appendix A presents statistical information on audit reports on which management decisions were made prior to October 1, 2001, but on which final action was still pending (see page 8) on September 30, 2002. (It does not include other open audit reports without monetary benefits with pending final action.) The Department had eight reports which were included in the FY 2001 Accountability Report and are still included in the ending balance as of September 30, 2002. 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 issue date;
- the audit report title;
- 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.

.....

**Bureaus:** U.S. Customs Service  
**Report Number:** **OIG-01-024P**  
**Issue Date:** December 6, 2000  
**Report title:** Audit of U.S. Customs Service' Air Automated Manifest System (AMS)  
**Potential Benefit:** \$20,257,000 (Revenue Enhancement)  
**Recommendation:** The Commissioner of Customs should monitor the trade's use of the Air AMS and take appropriate action to enforce trade compliance with Customs' Quality expectations.

**Scheduled**  
**Completion Date:** December 30, 2001 (past due)  
**Status:** Pending documentation

.....

**Bureaus:** Internal Revenue Service  
**Report Number:** **TIGTA 2000-30-151**  
**Issue Date:** September 22, 2000  
**Report title:** The IRS needs to improve the identification and collection of unreported self-employment taxes  
**Potential Benefit:** \$7,000,000 (Revenue Enhancement)  
**Recommendation:** The Assistant Commissioner (Customer Service) should consider various changes to the educational letter sent to taxpayers with potential self-employment tax deficiencies, etc.

**Scheduled**  
**Completion Date:** January 1, 2003  
**Status:** Action delayed until completion of analysis of monetary benefit.

.....

**Bureaus:** Internal Revenue Service  
**Report Number:** TIGTA 2000-30-154  
**Issue Date:** September 22, 2000  
**Report title:** Significant Improvements are needed in processing Gift Tax payments and associated extensions to file.  
**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, 2003  
**Status:** Due to the complexity for both Individual Master File and Business Master File, programming cannot be completed until January 1, 2003

.....  
**Bureaus:** Internal Revenue Service  
**Report Number:** TIGTA 2001-10-136  
**Issue Date:** August 22, 2001  
**Report title:** Additional Actions are needed to better process & safeguard Tax Exempt & Government Entities Division User Fee Payment  
**Potential Benefit:** \$6,493 (Better Used Funds)  
**Recommendation:** The Commissioner should establish procedures for recording payment receipt date information on the Letter Information Network User System (LINUS) .

**Scheduled**

**Completion Date:** November 1, 2002  
**Status:** Awaiting for the report.

.....  
**Bureaus:** Internal Revenue Service  
**Report Number:** TIGTA 2001-30-168  
**Issue Date:** September 1, 2001  
**Report title:** Improvements in recording third party addresses from tax returns will reduce undeliverable business mail.  
**Potential Benefit:** \$98, 409 (Better Used Funds)  
**Recommendation:** The Commissioner should ensure that the Integrated Submission & Remittance Processing (ISRP) System is updated to provide operators with the opportunity and capability to make on-line changes to both the names and addresses contained in taxpayers' third party tax addresses during the processing of business returns.

**Scheduled**

**Completion Date:** January 1, 2004  
**Status:** On Schedule  
**potential Benefit:** \$4,508 (Revenue Enhancements)  
**Recommendation:** The Commissioner should ensure that the ISRP System is updated to provide operators with the opportunity and capability to make on-line changes to both the names and addresses contained in taxpayers' third party tax addresses during the processing of business returns.

**Scheduled**

**Completion Date:** January 1, 2004  
**Status:** On Schedule

.....

**Bureaus:** Internal Revenue Service  
**Report Number:** TIGTA 2001-30-165  
**Issue Date:** September 1, 2001  
**Report title:** Opportunities exist to more effectively process personal service corporation income tax returns.  
**Potential Benefit:** \$78,158,695 (Revenue Enhancements)  
**Recommendation:** The Director of Customer Accounts Services and Compliance, Small Business/Self-Employed Division, should coordinate to implement a process to identify taxpayers that are likely personal service corporations but did not file as such.

**Scheduled**  
**Completion Date:** January 1, 2004  
**Status:** On Schedule

**Bureaus:** Internal Revenue Service  
**Report Number:** TIGTA 2001-40-182  
**Issue Date:** September 21, 2001  
**Report title:** Information on tax return is not used to validate many requirements for the credit for the elderly or disabled before allowed.  
**Potential Benefit:** \$27,808 (Revenue Enhancements)  
**Recommendation:** The Commissioner, Wage and Investment Division, should ensure that controls are in place to limit the amount of the credit to the maximum amount allowed, ensure non-taxable income limits are not exceeded, and ensure taxpayers under age 65 received taxable disability income to qualify for the credit.

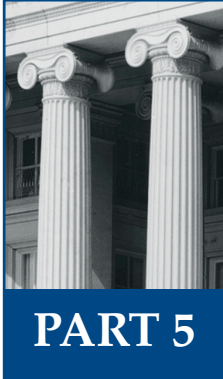
**Scheduled**  
**Completion Date:** January 1, 2003  
**Status:** On Schedule

**Bureaus:** Internal Revenue Service  
**Report Number:** TIGTA 2000-30-165  
**Issue Date:** September 29, 2000  
**Report title:** The IRS can better use collectability information during the examination process.  
**Potential Benefit:** \$8,100,000 (Revenue Enhancements)  
**Recommendation:** The Director, Compliance (Small Business/Self-Employed Division) should stress the need for first-line managers and examiners to become more involved in collectability determinations.

**Scheduled**  
**Completion Date:** October 1, 2003  
**Status:** The Director issued a memorandum entitled "Collection Indicator for Exam" on July 10, 2002.  
 A delay in programming the Internal Revenue Manual (IRM) extended the scheduled completion date to October 1, 2003.







# **SUPPLEMENTAL INFORMATION**

## 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 Cooperative 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.

<b>Franchise Fund</b>	<b>(In Millions): Amounts</b>
Fund Balance with Treasury	\$65
Accounts Receivable	35
Property, Plant and Equipment	4
Other Assets	<u>0</u>
<b>Total Assets</b>	<b><u>\$104</u></b>
Accounts Payable	\$0
Other Liabilities	<u>76</u>
<b>Total Liabilities</b>	<b>\$76</b>
Cumulative Results of Operations	<u>28</u>
<b>Total Liabilities and Net Position</b>	<b><u>\$104</u></b>
<b>Total Costs</b>	<b>\$304</b>
Exchange Revenue	310
Other Financing Sources	<u>3</u>
<b>Excess of Revenues and Financing Sources over Costs</b>	<b><u>\$9</u></b>

## 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.

<b>Working Capital Fund</b>	<b>(In Millions) Amounts</b>
Fund Balance with Treasury	\$218
Accounts Receivable	0
Property, Plant and Equipment	21
Other Assets	<u>2</u>
<b>Total Assets</b>	<b><u>\$241</u></b>
Accounts Payable	\$35
Other Liabilities	<u>206</u>
<b>Total Liabilities</b>	<b><u>\$241</u></b>
Cumulative Results of Operations	<u>0</u>
<b>Total Liabilities and Net Position</b>	<b><u>\$241</u></b>
<b>Total Costs</b>	<b>\$271</b>
Exchange Revenue	271
Other Financing Sources	<u>0</u>
<b>Excess of Revenues and Financing Sources over Costs</b>	<b><u>\$0</u></b>

### Note B. Other Claims for Refunds and Drawbacks

The Department has estimated that \$2.2897 billion may be paid out as other claims for tax refunds and drawbacks. 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 \$5.1 billion and by Appeals is \$8.4 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, 2002 were as follows (in millions):

Gross Unpaid Assessments	\$87,000
Less Compliance Assessments and Write-offs	<u>(67,000)</u>
Net Amount	<u>\$20,000</u>

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.

### U. S. Customs Service (Customs)

Customs reviews selected documents to ensure all duties, taxes, and fees owed to the Federal government are paid and to ensure regulations are followed. If Customs believes duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. Customs regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. Work in progress will continue until all avenues to file a protest have expired or an agreement is reached. During this protest period, Customs does not have a legal right to the importer/violator's assets, and consequently, Customs recognizes accounts receivable only when the protest period has expired or an agreement is reached. For Fiscal Year 2002, Customs had a legal right to collect \$1.2 billion of receivables. In addition, there is an additional \$1.3 billion representing records still in the protest phase.

### Internal Revenue Service (IRS)

The unpaid tax assessments balance was about \$87 billion as of September 30, 2002. This unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the Service'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 \$87 billion balance of unpaid assessments, \$67 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, \$20 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. The Department also has four multi-use heritage assets located in Puerto Rico.

	<u>Heritage Assets</u>	<u>Land</u>
Beginning Balance	5	1
Additions	0	0
Withdrawals	<u>0</u>	<u>0</u>
<b>Ending Balance</b>	<b><u>5</u></b>	<b><u>1</u></b>

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	\$484,855	\$0	\$157	\$1,873	\$486,885
Borrowing Authority	0	6	0	0	6
Net Transfers (+ or -)	114,985	139	3	(1,024)	114,103
Unobligated Balance:					
Beginning of Period	14,409	18,973	2,824	826	37,032
Change in Accounting for IAP	26,550	0	0	0	26,550
Net Transfers (+ or -)	103	(1)	0	0	102
Spending Authority from Offsetting Collections:					
Earned:					
Collected	1,460	6,281	7	5	7,753
Receivable from Federal Sources	(114,043)	28	0	0	(114,015)
Change in Unfilled Customer Orders:					
Advance Received	(2)	15	0	0	13
Without Advance From Federal Sources	3	28	(1)	0	30
Transfers from Trust Funds	3	0	0	0	3
Subtotal	(\$112,579)	\$6,352	\$6	\$5	(\$106,216)
Recoveries of Prior Year Obligations	358	57	6	26	447
Temporarily Not Available Pursuant to Public Law	0	0	0	(274)	(274)
Permanently Not Available	(118,789)	(129)	(1)	0	(118,919)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$409,892</b>	<b>\$25,397</b>	<b>\$2,995</b>	<b>\$1,432</b>	<b>\$439,716</b>
<b>STATUS OF BUDGETARY RESOURCES</b>					
Obligations Incurred:					
Direct	\$365,961	\$3,543	\$527	\$651	\$370,682
Reimbursable	1,356	2,085	0	5	3,446
Subtotal	\$367,317	\$5,628	\$527	\$656	\$374,128
Unobligated Balance:					
Apportioned	13,422	237	37	136	\$13,832
Exempt from Apportionment	19,934	19,095	2,430	0	\$41,459
Unobligated Balance Not Available	9,219	437	1	640	\$10,297
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$409,892</b>	<b>\$25,397</b>	<b>\$2,995</b>	<b>\$1,432</b>	<b>\$439,716</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>					
Obligated Balance, Net, Beginning of Period	\$7,252	\$860	\$115	\$242	\$8,469
Change in Accounting for IAP	29,443	0	0	0	29,443
Obligated Balance Transferred, Net	0	0	0	0	0
Obligated Balance, Net, End of Period:					
Accounts Receivable	(72)	(135)	0	0	(207)
Unfilled Customer Orders from Federal Sources	(132)	(107)	(2)	0	(241)
Undelivered Orders	34,019	231	42	120	34,412
Accounts Payable	1,915	786	70	110	2,881
Outlays:					
Disbursements	\$481,960	\$5,444	\$528	\$641	\$488,573
Collections	(1,460)	(6,140)	(7)	(5)	(\$7,612)
Subtotal	\$480,500	(\$696)	\$521	\$636	\$480,961
Less: Offsetting Receipts	(1,364)	0	(147)	(59)	(\$1,570)
<b>NET OUTLAYS</b>	<b>\$479,136</b>	<b>(\$696)</b>	<b>\$374</b>	<b>\$577</b>	<b>\$479,391</b>

**Note F. Deferred Maintenance**

In FY 2002, the Department reported \$76 thousand in 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)**

<b>Partner Agency</b>	<b>Due from the General Fund</b>	<b>Loans &amp; Related Interest Receivable</b>	<b>Advance to the Black Lung Trust Fund</b>	<b>Accounts Receivable and Related Interest</b>	<b>Other</b>
9900-General Fund	\$6,248,263	\$0	\$0	\$0	\$0
0400-Government Printing Office	0	0	0	0	2
1100-Exec. Office of the President	0	1,334	0	0	0
1200-Department of Agriculture	0	75,456	0	77	0
1300-Department of Commerce	0	263	0	0	0
1400-Department of the Interior	0	1,429	0	90	0
1500-Department of Justice	0	20	0	3	6
1600-Department of Labor	0	0	7,719	1	2
1700-Department of the Navy	0	793	0	71	0
1800-United States Postal Service	0	11,213	0	1	1
1900-Department of State	0	0	0	6	0
2100-Department of the Army	0	0	0	47	0
2700-Federal Communications Commission	0	5,771	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	3,026	0	27	0
4700-General Services Administration	0	2,351	0	103	1
4800-Independent Agencies inc. Navajo -Hopi	0	0	0	0	1
5700-Department of the Air Force	0	0	0	205	0
5800-Federal Emergency Manage Agency	0	19	0	0	0
6000-Railroad Retirement Board	0	2,948	0	0	0
6800-Environmental Protection Agency	0	24	0	0	0
6900-Department of Transportation	0	1,005	0	5	0
7100-Overseas Private Invest Corp	0	132	0	0	0
7200-Agency for International Development	0	1	0	1	0
7300-Small Business Administration	0	11,141	0	0	0
7500-Dept of Health & Human Services	0	0	0	9	0
8300-Export-Import Bank of the United States	0	6,657	0	0	0
8600-Dept of Housing & Urban Development	0	11,677	0	0	0
8900-Department of Energy	0	2,801	0	0	0
9100-Department of Education	0	89,783	0	1	0
9500-Independent Agencies Inc. NTSB	0	50	0	0	13
9600-U.S. Army Corps of Engineers	0	25	0	56	0
9700-Office of the Sec of Defense Agencies	0	1,998	0	11	0
<b>Totals</b>	<b><u>\$6,248,263</u></b>	<b><u>\$229,937</u></b>	<b><u>\$7,719</u></b>	<b><u>\$715</u></b>	<b><u>\$26</u></b>

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	\$328,934	\$0	\$0	167
0000-Unknown	0	22	0	34
0300-Library of Congress	0	703	0	0
0900-Other Legislative Branch	0	84	0	0
1000-The Judiciary	0	608	0	0
1100-Exec. Office of the President	0	2	0	0
1200-Department of Agriculture	0	95	0	5
1400-Department of the Interior	0	5,388	0	0
1500-Department of Justice	0	763	0	1
1600-Department of Labor	0	84,522	0	204
1700-Department of the Navy	0	10	0	6
1800-United States Postal Service	0	1,430	0	22
1900-Department of State	0	11,936	0	13
2100-Department of the Army	0	2	0	5
2300-United States Tax Court	0	8	0	0
2400-Office of Personnel Management	0	600,493	15,337	43
2500-National Credit Union Administration	0	5,397	0	0
2800-Social Security Administration	0	1,349,307	0	4
3600-Department of Veterans Affairs	0	14,135	0	1
4700-General Services Administration	0	0	0	5
4800-Independent Agencies inc. Navajo -Hopi Reloc	0	0	0	5
5100-Federal Deposit Insurance Corporation	0	45,813	0	0
5700-Department of the Air Force	0	1	0	3
5800-Federal Emergency Management Agency	0	0	0	10
5900-National Foundation on the Arts	0	1	0	0
6000-Railroad Retirement Board	0	20,487	0	0
6800-Environmental Protection Agency	0	5,261	0	0
6900-Department of Transportation	0	31,092	0	1
7100-Overseas Private Investment Corporation	0	3,630	0	0
7200-Agency for International Development	0	0	0	1
7400-American Battle Monuments Commission	0	84	0	0
7500-Department of Health & Human Services	0	273,864	0	16
7600-Independent Agencies Inc. National Park Service	0	4	0	0
7800-Farm Credit	0	1,807	0	0
8000-National Aeronautics & Space Admin.	0	17	0	0
8400-Armed Forces Retirement Home	0	93	0	0
8600-Department of Housing & Urban Development	0	28,342	0	0
8800-National Archives & Records Administration	0	20	0	3
8900-Department of Energy	0	18,013	0	0
9100-Department of Education	0	0	0	7
9500-Independent Agencies Inc. NTSB	0	596	0	101
9600-U.S. Army Corps of Engineers	0	2,268	0	0
9700-Office of the Secretary of Defense Agencies	0	178,631	0	7
<b>Totals</b>	<b><u>\$328,934</u></b>	<b><u>\$2,684,929</u></b>	<b><u>\$15,337</u></b>	<b><u>664</u></b>

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)**

<b>Partner Agency</b>	<b>IN</b>	<b>OUT</b>
1400-Department of the Interior	\$1	\$0
1500-Department of Justice	37	0
6900-Department of Transportation	3	0
9600-U.S. Army Corps of Engineers	3	0
<b>Totals</b>	<b><u>\$44</u></b>	<b><u>\$0</u></b>

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).

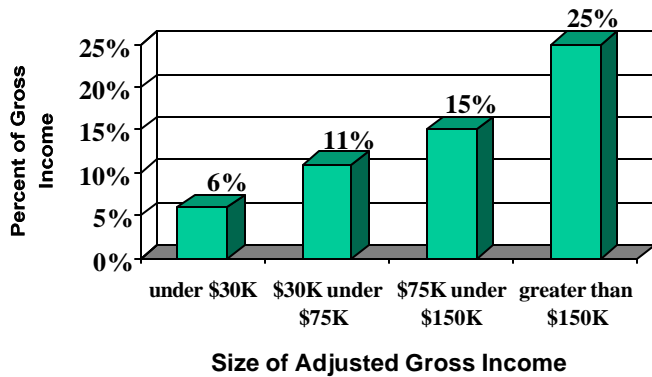
OMB guidelines on Form and Content of Agency Financial Statements require agencies with earned revenues from trade transactions (net of intra-entity activity) greater than \$500 million to report such intra-governmental revenues by trading partner. The Department of Treasury did not have earned revenues from trade transactions greater than \$500 million for fiscal year 2002.

**Other Accompanying Information – Tax Burden**

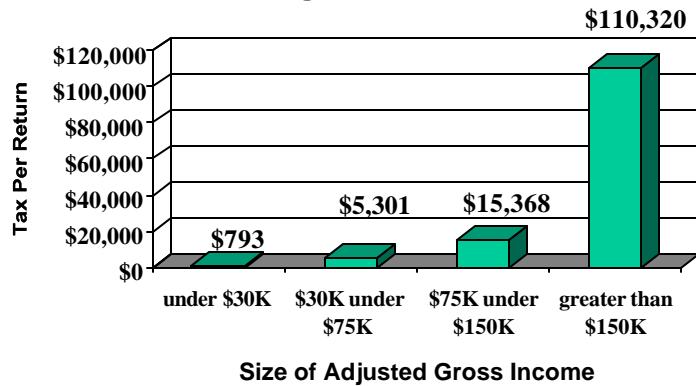
(All figures are estimates based on samples provided by the Statistics of Income office)

**Individual Income Tax Returns (Tax Year 2000 Data)**

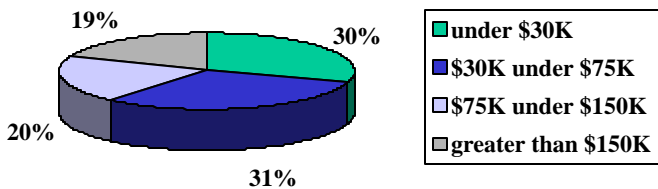
**Tax Burden % of Gross Income**



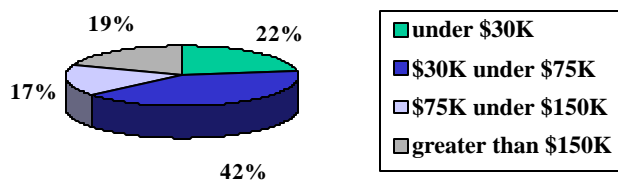
**Average Tax Per Return**



**Percent of Total Deductions on Taxable Income**



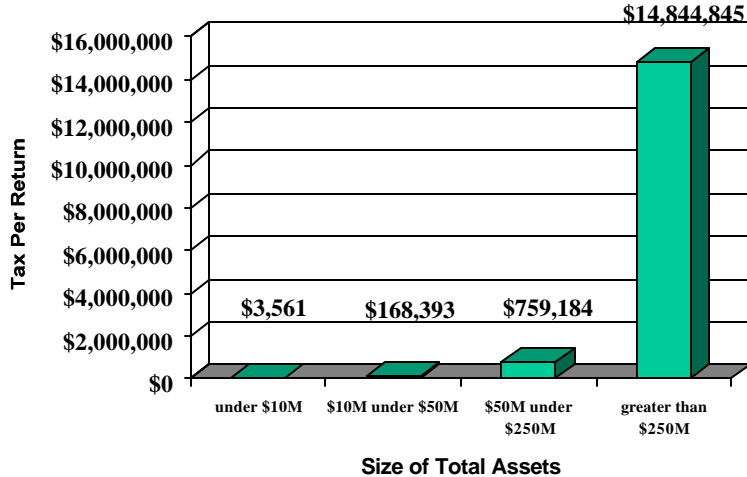
**Percent of Total Credits Against Tax Liability**



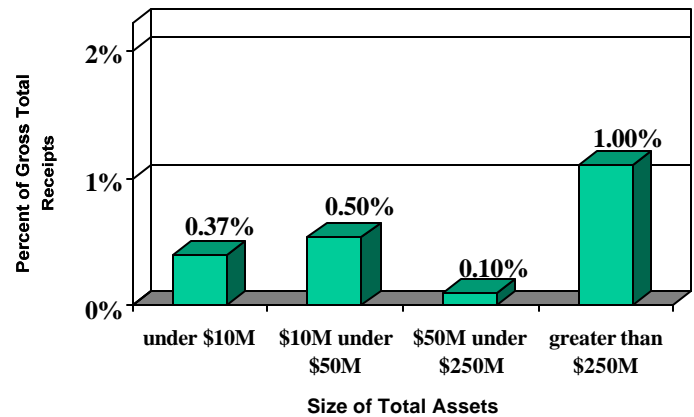
(All figures are estimates based on samples provided by the Statistics of Income office)

**Corporation Income Tax Returns (Tax Year 1999 Data)**

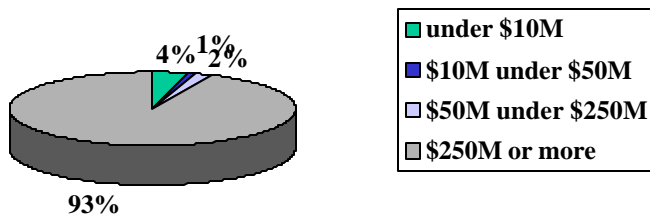
**Average Tax Per Return**



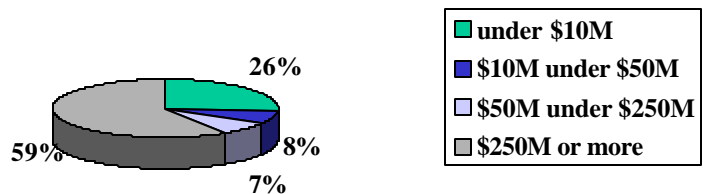
**Tax Burden % of Gross Income**



**Percent of Total Credits Against Tax Liability**



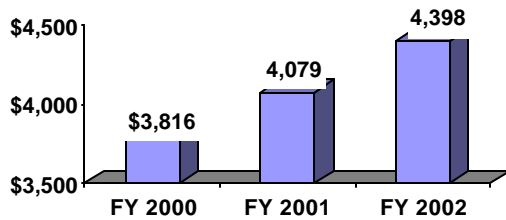
**Percent of Total Deductions on Taxable Income**



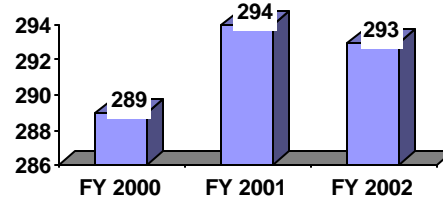
**Other Accompanying Information – Prompt Payment**

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.

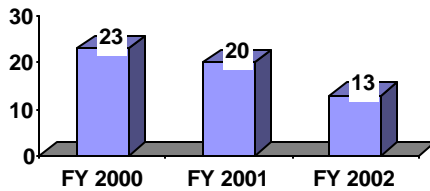
**Total Invoices Paid  
Dollar Amount (in Millions)**



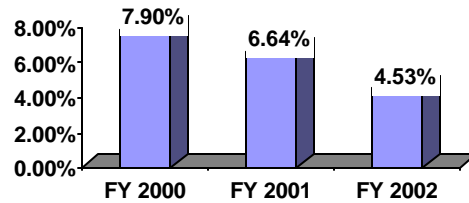
**Total Invoices Paid  
Number (in Thousands)**



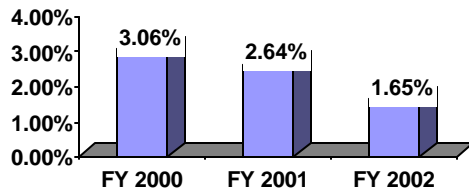
**Total Invoices Paid Late  
Number (in Thousands)**



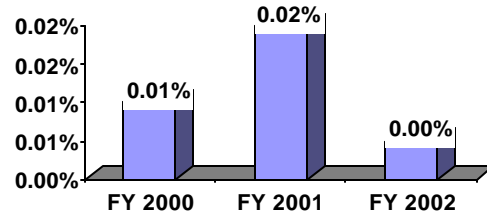
**Percentage of  
Invoices Paid Late**



**Percentage of Number of  
Interest Penalties Paid**



**Percentage of Dollar Amount  
of Interest Penalties Paid**



## Acronyms

ACE	Automated Commercial Environment
AMS	Automated Manifest System
APIS	Advanced Passenger Information System
ARC	Administrative Resource Center
ATF	Bureau of Alcohol, Tobacco and Firearms
ATL	Alcohol and Tobacco Laboratory
ATS/P	Automated Targeting System/Passenger
ATSB	Air Transportation Stabilization Board
BEP	Bureau of Engraving and Printing
BPD	Bureau of Public Debt
CAP	Custodial Accounting Project
CASU	Cooperative Administrative Support Units
CCR	Central Contract Registration
CDFI	Community Development Financial Institutions Fund
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act
CIP	Critical Infrastructure Protection
CIRB	Capital Investment Review Board
CSI	Container Security Initiative
CSRS	Civil Service Retirement System
C-TPAT	Customs Trade Partnership Against Terrorism
CY	Calendar Year
DCP	Office of D.C. Pensions
DO	Departmental Offices
DOD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
ECSAP	Electronic Crimes Special Agent Program
EFT	Electronic Funds Transfer
EITC	Earned Income Tax Credit
EO	Exempt Organization
E.O.	Executive Order
EOAF	Executive Office of Asset Forfeiture
ESF	Exchange Stabilization Fund
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATF	Financial Action Task Force
FCDA	Foreign Currency Denominated Assets
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees Compensation Act
FEGLI	Federal Employees Group Life Insurance
FEHPB	Federal Employees Health Program Benefits
FERS	Federal Employees' Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FLETC	Federal Law Enforcement Training Center
FHA	Federal Housing Administration
FICA	Federal Insurance Compensation Act

FinCEN	Financial Crimes Enforcement Network
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FR	Financial Report
FRB	Federal Reserve Board
FRBNY	Federal Reserve Bank of New York
FRL	Fire Research Laboratory
FTO	Fine Troy Ounce
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAB	General Agreements to Borrow
GAO	General Accounting Office
GAS	Government Account Series
GDP	Gross Domestic Product
GISRA	Government Information Security Act
GOALS	Government On-line Accounting Link System
GPRA	Government Performance and Results Act
GSA	General Services Administration
GTF	Government Trust Fund
HIPC	Heavily Indebted Poor Countries
HHS	Health and Human Services
HRAC	Human Resources Advisory Counsel
HUD	Housing and Urban Development
IDA	International Development Association
IFI	International Financial Institutions
IFS	Integrated Financial System
IMF	International Monetary Fund
INS	Immigration and Naturalization Service
IRM	Internal Revenue Manual
ISRP	Integrated Submission and Remittance Processing
IRS	Internal Revenue Service
ITDS	International Trade Data System
ITCS	Inventory Tracking and Closure System
I-TIPS	Information Technology Investment Portfolio System
IVRS	Integrated Violence Reduction Strategy
JAMES	Joint Audit Management Enterprise Systems
LINUS	Letter Information Network User System
MCA	Millennium Challenge Account
MDB	Multilateral Development Bank
MD&A	Management's Discussion and Analysis
NAB	New Arrangements to Borrow
NAFTA	North American Free Trade Agreement
NII	Non-Intrusive Inspection
NLC	National Laboratory Center
NSSE	National Special Security Events
OCC	Office of the Comptroller of Currency
OCDM	Office of Cash and Debt Management
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget

---

OPEB	Other Post Employment Benefits
OPM	Office of Personnel Management
OTS	Office of Thrift Supervision
POs	Partner Organizations
PP&E	Property, Plant and Equipment
PSN	Project Safe Neighborhoods
RRA 98	Restructuring and Reform Act of 1998
RRB	Railroad Retirement Board
RTC	Resolution Trust Corporation
SDR	Special Drawing Rights
SENTRI	Secure Electronic Network for Travelers Rapid Inspection
SFFAS	Statement of Federal Financial Accounting Standards
SPS	Secure Payments System
SSA	Social Security Administration
TCFOC	Treasury Chief Financial Officers Council
TIGTA	Treasury Inspector General for Tax Administration
TIER	Treasury Information Executive Repository
TIN	Taxpayer Identification Number
TIO	Term Investment Operation
TPA	Trade Promotion Authority
USCS	U.S. Customs Service
USSS	U.S. Secret Service
VA	Department of Veterans Affairs