

Part I –

*Management's Discussion
and Analysis*



Executive Summary

Introduction

The mission of the Department of the Treasury is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world.

This mission statement highlights Treasury’s role as the steward of U.S. economic and financial systems, and as an influential participant in the international economy. Treasury’s commitment to citizens is to create economic and employment opportunities for all by raising the rate of sustainable growth. To the extent this objective is linked to the world economy, Treasury seeks to influence global financial and economic issues to promote economic growth and stability.

Treasury is the primary federal agency responsible for the economic and financial prosperity and security of the United States. Treasury promotes the President’s growth agenda, works to enhance corporate governance in financial institutions, and thwarts financial activity of terrorists.

Internationally, Treasury works with other federal agencies, the governments of other nations, and International Financial Institutions (IFIs) to encourage economic growth, raise standards of living, and predict and prevent economic and financial crises.

Treasury’s Strategic Plan, new this year, is designed around three areas of focus: Economic, Financial, and Management Operations. Each of the three areas of focus has one or more strategic goals, with supporting objectives and performance measures that outline Treasury’s approach and measured progress [see exhibit].



Performance Summary

Treasury’s performance summary results, outlined by areas of focus, follow.

Economic Focus. The Secretary of the Treasury is the principal economic advisor to the President. The Secretary plays a critical role in policy-making by bringing economic and government financial policy perspective to issues facing the government. Treasury has both a policy and operational role in promoting prosperous U.S. and world economies, raising standards of living, and protecting domestic and international economic and financial systems.

Treasury’s Economic Focus consists of two strategic goals:

- E1 Promote Prosperous U.S. and World Economies**
- E2 Promote Stable U.S. and World Economies**

Goal E1: Promote Prosperous U.S. and World Economies. This goal contains three important elements:

- Ensure that the United States and world economies perform at full economic potential.
- Allow businesses and individuals to grow and prosper without being limited by unnecessary or obsolete rules and regulations.

- Create conditions necessary for economic prosperity in the U.S and the world.

Strategic Objectives for E1

Objective E1A: Stimulate Economic Growth and Job Creation. Treasury supports U.S. economic growth by developing and implementing policies for domestic economic development, tax programs, banking and financial institutions, and other fiscal matters. Treasury focuses its attention on improving the economies of distressed communities. The creation of good jobs for Americans is an essential element in a balanced economic plan that will sustain and increase standards of living and improve the economic performance of our nation.

Treasury also serves American interests by promoting prosperity and stability in the international community. Treasury represents the United States IFIs (for example, the World Bank and International Monetary Fund), leads U.S. efforts to liberalize the financial aspects of international trade and investment, and offers technical assistance to many nations in need of capacity-building services. The promotion of global prosperity benefits the U.S. economy because other nations have the ability to become consumers of U.S. goods and services, contributing to economic growth and job creation at home.

Objective E1B: Provide a Flexible Legal and Regulatory Framework. To achieve its full potential, the U.S. financial sector must be guided by a flexible legal and regulatory framework that allows financial institutions to offer a full array of competitive services. The legal and regulatory framework must ensure a safe and sound national financial system and must promote the growth of financial services, fair access to financial services, and fair treatment of banking and thrift customers.

Objective E1C: Improve and Simplify the Tax Code. Treasury is committed to improving and simplifying tax laws and administrative guidance in a manner consistent with important tax policy goals such as fairness, efficiency, and effective enforcement. A fair tax code treats similarly situated taxpayers the same and provides an

equitable distribution of the tax burden among taxpayers with different abilities to pay. An economically neutral and rational tax system allocates labor and capital to their most productive uses, reduces interference with economic incentives, and is conducive to economic growth. A simple tax system reduces the cost of tax compliance for businesses and individuals and reduces the costs of tax administration.

Goal E2: Promote Stable U.S. and World Economies. This goal contains three important elements:

- Promote stability in world economic and financial systems to prevent financial crises.
- Ensure that the world economic system is used for legitimate purposes.
- Deny access to those who wish to commit financial crimes, such as money laundering and terrorist financing.

Strategic Objectives for E2

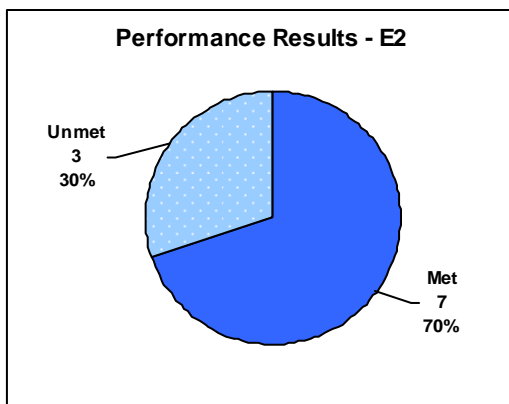
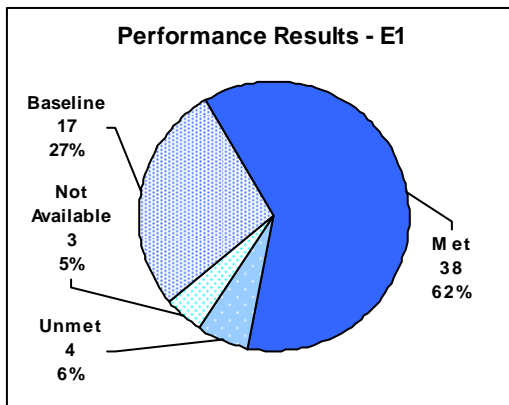
Objective E2A: Increase Citizens' Economic Security. Economic security ensures Americans have adequate personal savings to support them in tough times or retirement, guarantees that private pension plans will meet their obligations to their beneficiaries, protects consumers from fraud and deception and protects personal information used in financial transactions. It also includes the long-term strategy for managing Social Security and Medicare programs. Additionally, it addresses financial education, so that Americans are better prepared to manage their personal finances.

Objective E2B: Improve the Stability of the International Financial System. Treasury is committed to improving the stability of the international financial system in order to prevent crises, and to minimize the impact of those that do occur. Financial crises in developing and emerging markets can undo the benefits of years of economic progress, throw millions of people into poverty, create political instability, and may require expensive international intervention. By continuing to build a more stable international

financial system, Treasury will enhance the conditions necessary for growth and improved standards of living through developing and emerging markets.

Summary and Performance Data for Strategic Goals E1 and E2. The chart shown indicates resources (both staffing and dollars) for the strategic goals of **Economic** focus as compared to prior year data.

Goal	Staffing	Funding
E1	↑	↑
E2	↑	↓



A total of 72 performance measures were used to assess Strategic Goals E1 and E2, Treasury’s Economic focus area. Of these 72 measures, 45 were met (62%). Seven (7) of the 72 measures were not met (10%). Seventeen (17) of 72

measures were baseline (new) this year (24%). A total of 3 measures had no available data (4%).

A full accounting of each performance measure associated with E1 and E2 can be found in PART IV.

Results Highlights. Treasury took steps to improve the economy and played an important role in implementing jobs legislation.

- Created 1.9 million jobs (August 2003 to September 2004)
- Managed the unemployment rate to 5.4%, the lowest rate since October 2001
- Supported implementation of the Jobs and Growth Tax Relief Reconciliation Act of 2003

Treasury influenced international results, too. The U.S.-sponsored Small and Medium Enterprise (SME) Fund, established by Treasury in 2000, leverages the European Bank for Reconstruction and Development on-lending funds to provide loans to SMEs through local banking systems in 12 countries in South East Europe and the former Soviet Union. As in the U.S., SMEs in these countries are the primary engines for growth and job creation.

- In FY 2004, the total loan volume more than doubled to \$1.7 billion, from U.S. cumulative contributions of only \$33 million.
- Every dollar of U.S. grant funding leveraged \$51 in lending to small/medium enterprises.

Similarly, in the Western Hemisphere, the U.S. secured an international agreement to increase credit to small businesses.

- The Inter-American Development Bank (IDB) will triple bank lending to small businesses generated by its programs by 2007.
- Lending is linked to new IDB training programs for the recipient banks based on credit analysis and other techniques that will increase their loan portfolio to small businesses.

Financial Focus. Treasury is the principal fiscal agent for the Federal Government, managing the Nation's finances by collecting money due the United States, making its payments, managing its borrowing, and performing central accounting functions. The Treasury administers the financial system in a way that promotes its use for legitimate purposes, and prevents the system from being used for purposes that support criminal activity. Treasury's role in executing the Nation's financial sanctions policies and countering money laundering and other financial crimes, such as terrorist financing, has become increasingly important. Treasury is the primary federal agency responsible for collecting taxes and revenue on regulated commodities and manages the government's borrowing needs.

Treasury's financial focus consists of two Strategic Goals:

F3 Preserve the Integrity of Financial Systems

F4 Manage the U.S. Government's Finances Effectively

Goal F3: Preserve the Integrity of Financial Systems. This goal contains three important elements:

- Ensure that the U.S. financial systems will continue to operate without disruption from either natural disasters or man-made attacks.
- Keep the system free and open to legitimate users, while excluding those who wish to use the system for illegal purposes.
- Ensure that the U.S. financial system and access to U.S. goods and services are closed to individuals, groups, and nations that threaten vital interests of the U.S.

Strategic Objectives for F3

Objective F3A: Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate

their Support Networks. Treasury leads the U.S. Government's multi-faceted effort to keep the world's financial systems free and open to legitimate users, while excluding those who wish to use the systems for illegal purposes. The broad range of activities in this area includes stopping the flow of money to terrorist groups, drug traffickers, and other criminals, and disrupting their support networks.

Objective F3B: Execute the Nation's Financial Sanctions Policies. Treasury has responsibility for designing, implementing, and enforcing a variety of statutes, executive orders, and regulations imposing economic sanctions on foreign entities to further the foreign policy and national security objectives of the United States.

Objective F3C: Increase the Reliability of the U.S. Financial Systems. Our Nation's financial systems must remain operational at all times. Treasury is responsible for ensuring the strength and resilience of critical U.S. financial markets, and minimizing the potential effects of wide-scale disruptions. Treasury ensures the integrity of the national currency and the safety of funds placed in financial institutions. Treasury also administers a temporary federal program, established by the Terrorism Risk Insurance Act of 2002, which provides for a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism.

Goal F4: Manage the U.S. Government's Finances Effectively. This goal is to provide the American public with cost-effective, efficient, and secure management of federal finances, while employing modern technology and providing quality customer-centered service.

Strategic Objectives for F4

Objective F4A: Collect federal tax revenue when due through a fair and uniform application of the law. Treasury must collect the revenue due to the Federal Government in a manner that is timely and fair.

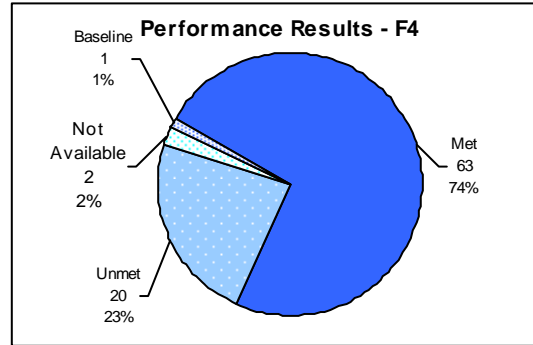
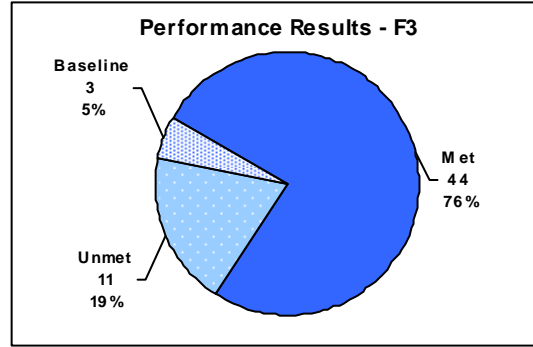
Objective F4B: Manage federal debt effectively and efficiently. Treasury is responsible for borrowing appropriately to meet the Government’s financing needs. Treasury’s goal is to provide government financing at the lowest cost over time.

Objective F4C: Make collections and payments on-time and accurately, optimizing the use of electronic mechanisms. Treasury’s objective is timely, complete collection of all monies due the government consistent with good customer service and “best practice” business efficiency.

Objective F4D: Optimize cash management and effectively administer the Government’s financial systems. Treasury manages the government’s cash position to ensure that funds are available on a daily basis to cover federal payments. Managing the government’s cash flow with the most up-to-date and accurate information benefits the taxpayer by enabling Treasury to maximize investment earnings and minimize borrowing costs within established policy objectives. Treasury accomplishes this by closely monitoring the government’s receipts and payments, and accurately forecasting the government’s current and future daily cash requirements. In addition, Treasury must execute federal debt activities in an efficient and reliable manner.

Summary and Performance Data for Goals F3 and F4. The chart below indicates resources (both staffing and dollars) for the **Financial** focus area by strategic goal as compared to prior year data.

Goal	Staffing	Funding
F3	↑	↑
F4	↓	↑



As seen from the F3 and F4 charts on performance results, a total of 144 performance measures were used to assess the Financial Focus area. Of these 144 measures, 107 were met (74%). Thirty-one (31) of the 144 measures were not met (22%). A total of two (2) measures had no available data (1%). Four of the 144 measures were considered baseline (new) this year (3%).

A full accounting of each performance measure associated with F3 and F4 can be found in the PART IV.

Results Highlights

The War on Terror. Designation actions through Treasury have resulted in a reduction to the threat of terrorism and has supported Treasury’s efforts to combat financial crimes making it more difficult for terrorist groups, like Al Qaida, to raise money.

- Under Executive Order 13224, organizations (e.g. Treasury) designated a total of 361 individuals and entities.
- Approximately \$200 million of terrorist-related funds worldwide were frozen or seized.

Iraq. Treasury, working closely with other parts of the United States Government, has achieved important results in returning assets to the Iraqi people and in uncovering the schemes and networks used by the regime to steal from Iraq.

- Identification and freezing of over \$2 billion of Iraqi assets outside the U.S. and Iraq since March 2003.
- Approximately \$847 million has been transferred by foreign sources to the Development Fund for Iraq (DFI).
- The U.S., foreign countries and the Bank for International Settlements have transferred over \$2.7 billion in frozen Iraqi funds back to Iraq.

Operational Successes. Treasury provides several operational services to the government and the American people. Highlights of operational successes include:

- Collected \$2.0 trillion in Federal Revenue.
- Collected 81% of the value of the Federal Government's collections electronically.
- Issued new \$20 and \$50 notes with improved anti-counterfeiting features.
- Processed over 131 million individual tax returns.
- Increased the percentage of all individual tax returns filed electronically to 47%.
- Issued more than \$4.6 trillion in securities to finance government operations.
- Collected over 600,000 Suspicious Activity Reports from financial institutions; analyzed and disseminated those reports to law enforcement entities.
- Produced 13.5 billion coins and printed 8.7 billion currency notes.
- Paid \$310.7 billion in interest payments on outstanding U.S. Government debt.
- Increased TreasuryDirect System holdings to over \$1 billion in series I and EE savings bonds.
- Collected over \$3 billion in delinquent debt.
- Issued 75% of over 940 million payments electronically.

Management and Operations Focus. Treasury achieves its strategic goals, in part, by building a strong institution which is citizen-centered, results oriented, and actively promotes innovation through competition. Treasury works effectively and efficiently to implement the President's Management Agenda across all Treasury bureaus and to continuously improve internal business operations. Treasury bureaus support these goals through their internal management goals as articulated in their individual bureau strategic plans.

Treasury's management and operations focus consists of one Strategic Goal:

Goal M5: Ensure Professionalism, Excellence, Integrity, and Accountability in Management and Conduct of the Department of Treasury. This goal is to build a strong-institution that is citizen-centered, results-oriented, and actively promotes innovation through competition.

Strategic Objectives for M5

Objective M5A: Protect the Integrity of the Department of the Treasury. Treasury relies on the advice, guidance, and counsel of a variety of independent audits and evaluations to recommend improvements and provide oversight.

The independent efforts of an inspector general help to promote fairness, integrity, proficiency and due care in performing work in all of Treasury. The audit and oversight results are continuously addressed and contribute to improving Treasury through subsequent corrective action.

Objective M5B: Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service. Treasury seeks to ensure that taxpayers are getting the most efficient and effective use of their tax dollars. Emphasis is placed on infrastructure issues within Treasury to ensure all mission requirements are met at the lowest cost. Treasury also seeks to maintain and strengthen its financial, human resources, and information technology capabilities. Finally, Treasury is committed to reviewing results and assessing performance, and then implementing necessary improvements.

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This strategic objective contains three elements:

- Treasury resources that support the efforts of the PMA, Treasury mission and quality customer service.
- The President’s Management Agenda (PMA).
- Evaluation of Treasury programs through the Office of Management and Budget’s Program Assessment Rating Tool (PART).

President’s Management Agenda. PMA continues to guide the Department’s business practices and processes through a series of five key initiatives designed to create a government that is:

- Citizen-centered vs. bureaucracy-centered.
- Results oriented vs. output-oriented.
- Market –based and competitive.

The five initiatives are:

1. Strategic Management of Human Capital (HC)
2. Competitive Sourcing (CS)
3. Improved Financial Performance (FP)
4. Expanded E-government (E-Gov)
5. Budget and Performance Integration (BPI)

The Office of Management and Budget (OMB) regularly assesses all federal agencies’ implementation of the PMA, issuing a scorecard for both progress against goals and the current status. Ratings are given for each initiative and are designated as red, yellow or green.

A rating of green is designated as successful, yellow is designated for mixed results, and red is designated for unsatisfactory.

A summary chart showing progress and status for Treasury in the fourth quarter FY 2004 is shown:

Initiative	Status		Progress
	FY 2003	FY 2004	Q4-FY 2004
Human Capital	● R	● Y	● G
Competitive Sourcing	● R	● Y	● Y
Financial Performance	● R	● R	● Y
E-Government	● R	● R	● G
Budget-Performance Integration	● R	● Y	● G

Effectively Manage Treasury Resources. Key elements for effectively managing Treasury resources include:

- Achieve and sustain an effective workforce.
- Become a competency-based organization.
- Provide professional development opportunities.
- Implement an effective performance management system.
- Promote safety and a healthy environment for the workforce.
- Maximize the effectiveness and efficiency of financial and performance decisions.
- Focus on IT modernization initiatives.
- Increase attention on workforce inventories.
- Participate in cross-functional competitive sourcing decision making.
- Develop business case analyses.

See results highlights for key accomplishments in this area.

Program Assessment Rating Tool (PART).

The Office of Management and Budget uses the Program Assessment Rating Tool (PART) to assess federal programs. Through the use of in-depth performance questions, PART is able to evaluate how well a program is meeting its intended objectives and how efficiently and effectively it is managed.

PART scores are assigned a qualitative rating of Effective, Moderately Effective, Adequate, Results Not Demonstrated, or Ineffective. In FY 2004,

Treasury was scored on five PARTs, receiving the highest score, “effective,” on three while two PARTs received a “results not demonstrated.”

Rating	2003 Results	2004 Results
Effective	3	3
Moderately Effective	0	0
Adequate	2	0
Results Not Demonstrated	4	2
Ineffective	1	0

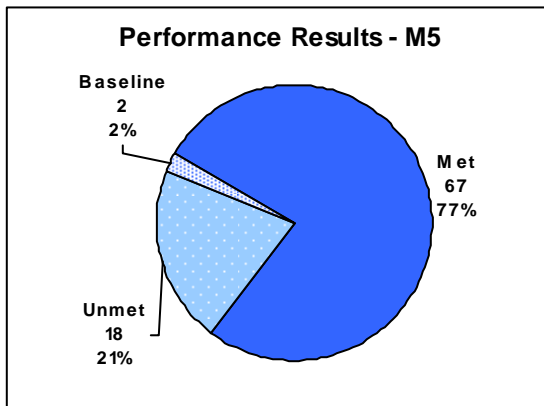
Programs evaluated this year include:

Program	Bureau	Rating
Administering the Public Debt	BPD	Effective
New Currency Manufacturing	BEP	Effective
African Development Fund	DO	Results Not Demonstrated
Debt Collection	FMS	Effective
Submission Processing	IRS	Results Not Demonstrated

Details of the major findings, recommendations, and actions taken on each PART can be found in section M5B.

Summary Data for Goal M5. The chart below indicates resources (both staffing and dollars) for the **Management and Operations** focus area by strategic goal as compared to prior year.

Goal	Staffing	Funding
M5	↓	↑



Performance Overview. As seen from the M5 chart on performance, a total of 87 performance measures were used to assess the Management and Operations focus area. Of these 87 measures, 67 were met (77%). Eighteen (18) of the 87 measures were not met (21%). Two of the 87 measures were considered baseline (new) this year (2%).

A full accounting of each performance measure associated with M5 can be found in PART IV.

Results Highlights

- Improved status score on 3 of 5 PMA initiatives.
- Certified and accredited 86% of computer systems.
- Reduced material weaknesses by one.
- Completed formulation and initiated the implementation of the Human Capital Strategic Plan (this linked performance to compensation).
- Converted all Treasury Senior Executive Service leaders to a new performance system linked to the Treasury strategic plan.
- Finished implementation of H.R. Connect at all bureaus except one Office of Thrift Supervision (OTS).
- Performed a three-day close at the end of each month to make important financial information available in a timely manner.

Treasury Performance Snapshot

The Treasury Performance Snapshot is a one-page summary of important performance information for the Department of the Treasury. Treasury’s overall performance is shown in a pie chart, indicating the percentage of performance targets met, unmet, not available, or baseline. Additionally, this same information is shown for all five strategic goals.

Two resource charts indicate the total number of employees and funding for Treasury. Both of these charts provide information for the previous year, the current year, and next year's proposed levels.

The President's Management Agenda (PMA) and Program Assessment Rating Tool (PART) charts indicate Treasury's results in these two important arenas. The PMA chart shows the status for both FY 2003 and FY 2004, and progress achieved in the last quarter of this year. The PART graph indicates the total number of programs evaluated, and the ratings for each.

Performance Results

In FY 2004, Treasury improved its performance by meeting 71% of its targets as compared to 63% of its targets last year. Treasury's total base of measures grew from 208 in FY 2003 to 299 in FY 2004. Treasury also reduced the percentage of targets unmet from 23% last year to 20% this year, and the percentage of baseline measures or those that had no data available were also reduced from 13% in FY 2003 to 9% in FY 2004.

For each strategic goal this year, the percent targets met ranged from 62% (E1) to 77% (M5). Unmet targets for strategic goals ranged from 6% (E1) to 30% (E2), and baseline or unavailable targets ranged from 0% (E2) to 32% (E1).

Staffing and Funding

The people and funding charts for Treasury show actual numbers for both FY 2003 and FY 2004. FY 2005 numbers are based on the President's FY 2005 budget. A decrease in people of less than 1% occurred from FY 2003 to FY 2004. Funding rose approximately 6.8% from FY 2003 to FY 2004. This increase was due primarily to program increases, inflation and normal business operations. Business operations increases mostly include increased costs for reimbursable and non-appropriated agencies such as the U.S. Mint, Bureau of Engraving and Printing, Office of the Comptroller of the Currency and Office of Thrift Supervision.

PMA and PART

The President's Management Agenda (PMA) is used as a means to strengthen Treasury's performance.

Treasury improved three of its five initiative scores this year for the PMA. Overall, Treasury improved its Human Capital, Competitive Sourcing and Budget and Performance Integration scores, demonstrating Treasury's commitment to building a world-class organization and providing the best value and service for its customers. Financial Performance and E-Government remained red. However, several key criteria have been met for these two important initiatives.

In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with the Office of Management and Budget (OMB) to evaluate 20% of its programs each year through the Program Assessment Rating Tool (PART) process. Like the PMA, the PART process gives Treasury another means for assessing performance.

Five Treasury programs were evaluated for FY 2004. Three of the five programs were rated as "Effective," while two were rated as "Results Not Demonstrated." While Treasury's percentage of programs rated as "Effective" doubled as compared to the previous year, there is still work to be done on the balance of the programs.

Performance Summary

Treasury established new goals for FY 2004, generating Treasury's first data point. The following is a summary for each focus area:

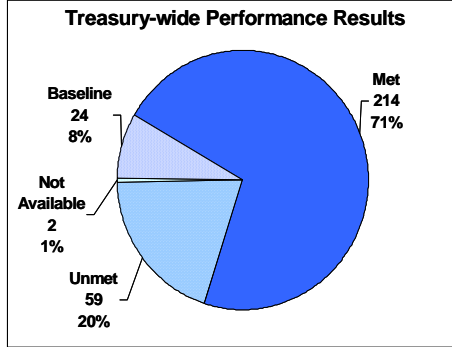
- **Economic.** While Treasury achieved nearly two of every three performance targets, a significant number of measures had no available data. It should be noted that, many of the twenty measures that had no data available or were baseline, have been slated to be discontinued.

- **Financial.** Treasury achieved nearly three of every four performance targets, and will continue to improve on performance targets that were not achieved.
- **Management and Operations.** Treasury achieved nearly four of every five M5 performance targets, and with management initiatives will continue to improve.

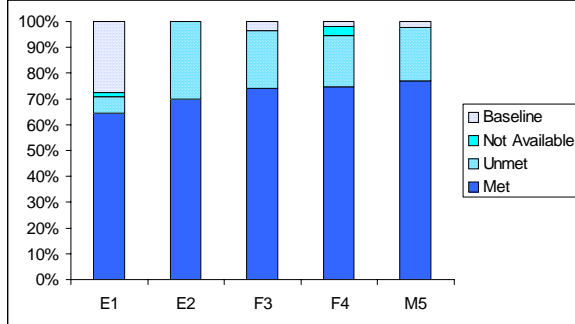
Treasury will continue to examine the measures it has for each goal and objective, and reduce them to the critical few that add value for the American public.

Treasury Performance Snapshot

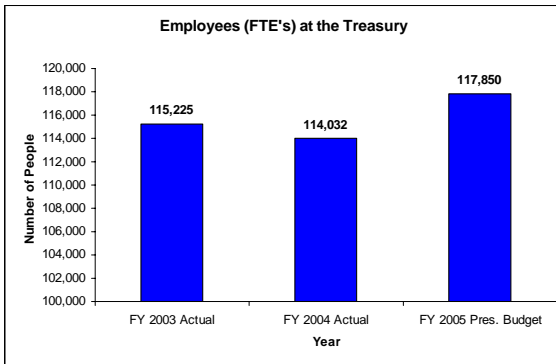
Overall Performance



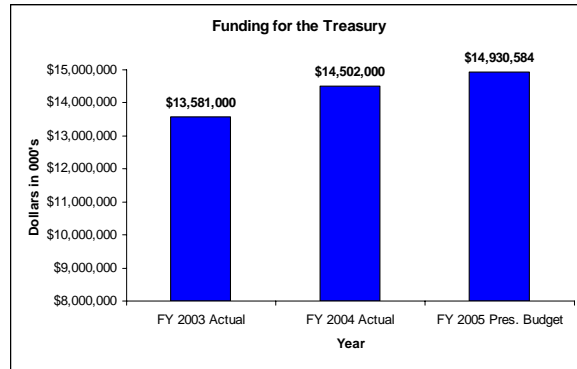
Performance by Strategic Goal



People



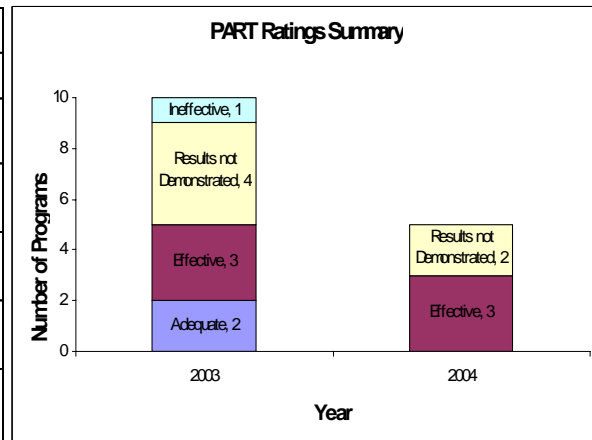
Funding



President's Management Agenda PMA

Initiative	Status			Progress
	FY 2003	FY 2004	Q4-FY 2004	
Human Capital	● R	● Y	● G	G
Competitive Sourcing	● R	● Y	● Y	Y
Financial Performance	● R	● R	● Y	Y
E-Government	● R	● R	● G	G
Budget-Performance Integration	● R	● Y	● G	G

Program Analysis and Rating Tool PART



Financial Highlights

Treasury’s financial statements, which appear in Part III “Annual Financial Report”, received an unqualified audit opinion for the fifth straight year. These statements have been prepared from the accounting records of Treasury in conformity with the accounting principles generally accepted in the United States, and the form and content of entity financial statements specified by OMB Bulletin 01-09. These principles are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standards setting body of the Federal government by the American Institute of Certified Public Accountants.

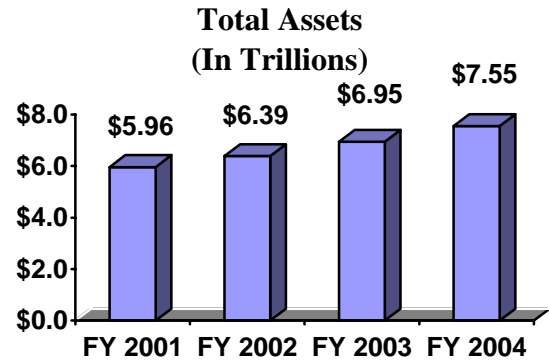
While the financial statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

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

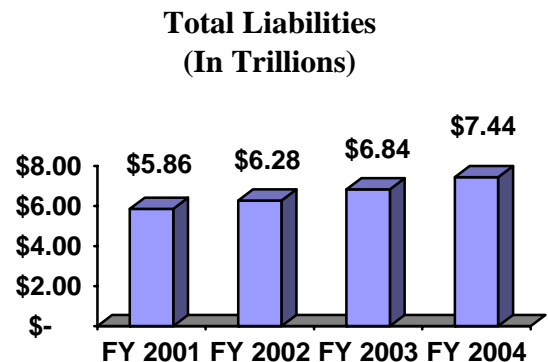
Highlights of the financial and budgetary information presented in the financial statements are shown below:

Overview of Financial Position

Assets. The Consolidated Balance Sheet of Treasury as of September 30, 2004 shows \$7.6 trillion in total assets. Included in this amount is \$7.1 trillion due from the General Fund of the Federal government to pay the principal and interest on the public debt and tax refunds. This represents an increase of \$600 billion (10%) over the previous year’s total assets of \$6.9 trillion. The increase is primarily the result of a \$600 billion increase in the Federal debt.



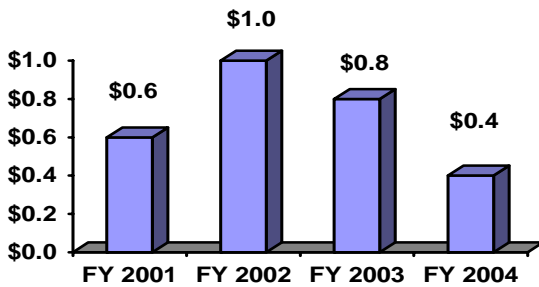
Liabilities. At the close of FY 2004, the Department had total liabilities of \$7.4 trillion. Of this amount, intra-governmental liabilities totaled \$3.1 trillion, including interest payable, in borrowing from various Federal agencies such as the Social Security Trust Fund. These borrowings do not include debt issued by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development. Liabilities also include Federal debt held by the public, including interest, of \$4.3 trillion; the majority of this debt was issued as Treasury Notes. The increase in liabilities in FY 2004 over FY 2003 (\$600 billion and 9%), is the result of increases from borrowing from various Federal agencies (\$200 billion), and Federal debt held by the public, including interest (\$400 billion). Debt held by the public increased primarily because of the need to finance budget deficits.



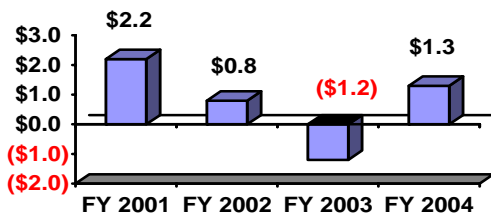
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Net Cost of Treasury Operations. The Consolidated Statement of Net Cost presents the Department's gross and net cost for its three strategic missions: financial focus, economic focus, and management focus. The majority of the net cost of Treasury operations is in the financial mission area. Treasury is the primary fiscal agent for the Federal government in managing the Nation's finances by collecting revenue, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet the demand. The Department also plays a major role in both domestic and international economic policy, and intervenes as appropriate to minimize currency fluctuations. Such intervention resulted in foreign currency gains on FY 2004 transactions, largely offsetting Economic Program costs. Gains more than offset economic program cost in FY 2003.

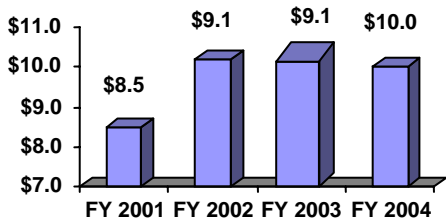
**Net Program Cost -- Management
(In Billions)**



**Net Program Cost -- Economic
(In Billions)**

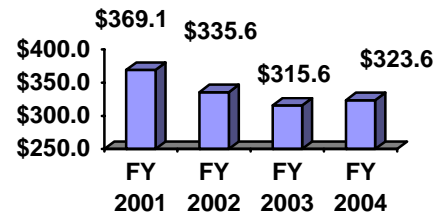


**Net Program Cost -- Financial
(In Billions)**



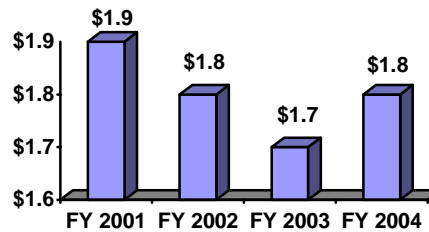
Federal Debt Interest and Other Costs. Interest and other costs include interest payments on the Federal debt and other Federal costs, such as payments made to or by the Judgment Fund, the Resolution Funding Corporation, and the District of Columbia. The vast majority of these costs is interest on the Federal debt. Interest costs have decreased significantly over the past three years, and increased only slightly in FY 2004, even while the debt principal has increased significantly, due to the lower interest rates that have prevailed.

**Net Federal Debt Interest
and Other Costs
(In Billions)**



Custodial Revenue. Total net revenue collected by Treasury on behalf of the Federal government includes various taxes, primarily income taxes, user fees, fines and penalties, and other revenue. Over 90 percent of the revenues are from income and social security taxes. Revenues have declined over the prior three years and remained flat for FY 2004 primarily due to the weaker economy and reductions in tax rates.

**Net Revenue Received
(In Trillions)**



Department of the Treasury – FY 2004 Performance and Accountability Report

Overview of Budgetary Resources

Treasury’s work is carried out by two major organizational components: Departmental Offices (DO) and the operating bureaus. The enacted funding (appropriations and other financing sources), and staffing (FTE) of our operating components are shown below:

ENACTED FUNDING LEVELS				
(\$ in Millions)				
Bureau	FY 2001	FY 2002	FY 2003	FY 2004
Bureau of Engraving and Printing *	\$404	\$443	\$523	\$523
Bureau of Public Debt	183	187	190	173
Departmental Offices****	1,109	1,048	1,222	1,580
Financial Crimes Enforcement Network	39	48	51	57
Financial Management Service	256	199	221	227
Internal Revenue Service	8,912	9,471	9,835	10,185
U.S. Mint *	1,069	814	841	985
Comptroller of the Currency *	435	449	471	508
Office of Thrift Supervision *	160	164	173	184
Alcohol, Tobacco Tax and Trade Bureau **	n/a	n/a	54	80
Total ***	\$12,567	\$12,823	\$13,581	\$14,502

* These bureaus operate on self-supporting revolving funds, and do not receive appropriations. Amounts shown are operating budgets.

** Alcohol, Tobacco Tax and Trade Bureau was created within Treasury as a result of the Homeland Security Act of 2002.

*** For comparability, FY 2001 – FY 2003 totals do not include resources or outlays of bureaus divested in FY 2003.

**** Includes other entities such as the Office of Inspector General, Treasury Inspector General for Tax Administration and Treasury Franchise Fund.

TOTAL FULL TIME EQUIVALENT EMPLOYEES				
Bureau	FY 2001	FY 2002	FY 2003	FY 2004
Bureau of Engraving and Printing *	2,490	2,400	2,427	2,331
Bureau of Public Debt	1,472	1,458	1,399	1,256
Departmental Offices ****	3,088	3,189	3,003	2,842
Financial Crimes Enforcement Network	178	205	230	250
Financial Management Service	1,978	1,986	2,069	2,006
Internal Revenue Service	98,574	100,217	99,862	99,162
U.S. Mint *	2,760	2,428	2,302	2,115
Comptroller of the Currency *	2,837	2,792	2,761	2,678
Office of Thrift Supervision *	1,211	1,087	912	886
Alcohol, Tobacco Tax and Trade Bureau **	n/a	n/a	260	506
Total	114,588	115,762	115,225	114,032

Department of the Treasury – FY 2004 Performance and Accountability Report

The following charts (Total Budgetary Resources and Outlays) represent Treasury total resources and corresponding disbursements (outlays) which, in addition to the resources identified above for our operation components, include appropriations received to support government-wide activities managed by Treasury (such as interest on the public debt).

TOTAL BUDGETARY RESOURCES (\$ in Millions)				
Bureau	FY 2001	FY 2002	FY 2003	FY 2004
Bureau of Engraving and Printing *	\$572	\$598	\$633	\$634
Bureau of Public Debt	372,735	396,982	318,503	321,910
Departmental Offices ****	41,573	69,059	80,229	80,803
Financial Crimes Enforcement Network	n/a	58	62	73
Financial Management Service	8,785	9,732	13,961	13,985
Internal Revenue Service	9,948	10,193	10,583	10,991
U.S. Mint *	1,090	802	872	1,023
Comptroller of the Currency *	688	730	784	848
Office of Thrift Supervision *	239	284	312	345
Alcohol, Tobacco Tax and Trade Bureau **	n/a	n/a	55	85
Total ***	\$435,630	\$488,438	\$425,994	\$430,697

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

** Alcohol, Tobacco Tax and Trade Bureau was created within Treasury as a result of the Homeland Security Act of 2002.

*** For comparability, FY 2001 – FY 2003 totals do not include resources or outlays of bureaus divested in FY 2003.

**** Includes other entities such as the Office of Inspector General, Treasury Inspector General for Tax Administration and Treasury Franchise Fund.

OUTLAYS (\$ in Millions)				
Bureau	FY 2001	FY 2002	FY 2003	FY 2004
Bureau of Engraving and Printing *	\$3	\$101	\$(41)	\$7
Bureau of Public Debt	380,165	454,511	318,455	321,864
Departmental Offices ****	2,255	1,668	(1,245)	(316)
Financial Crimes Enforcement Network	n/a	44	49	53
Financial Management Service	8,081	8,096	13,095	12,898
Internal Revenue Service	8,881	9,889	9,788	10,110
U.S. Mint *	61	(63)	(25)	(33)
Comptroller of the Currency *	(16)	(36)	(43)	(56)
Office of Thrift Supervision *	(7)	(10)	(23)	(14)
Alcohol, Tobacco Tax and Trade Bureau **	n/a	n/a	40	69
Total ***	\$399,423	\$474,200	\$340,050	\$344,582

Improper Payments Information Act And Recovery Act

IMPROPER PAYMENTS INFORMATION ACT OF 2002 NARRATIVE SUMMARY OF IMPLEMENTATION EFFORTS FOR FY 2004 AND AGENCY PLANS FOR FY 2005 – FY 2007

Background

The Improper Payments Information Act of 2002 (IPIA) requires agencies to annually review their programs and activities to identify those that are susceptible to significant erroneous payments. ‘Significant’ means that an estimated error rate and a dollar amount exceeds the threshold of 2.5% and \$10 million. Once high-risk programs are identified, a method for systematically reviewing them is developed, and statistically valid sampling is conducted to determine error rates. If those rates, when applied to total program funding, result in a level of improper payments that is greater than or equal to \$10 million, then an action plan is developed for resolving identified problems and reducing errors.

Some federal programs are so complex that developing an annual error rate is not feasible. The government-wide Chief Financial Officers Council developed an alternative for these programs to help them meet IPIA requirements and minimize the burden on agencies. With the Office of Management and Budget’s (OMB) approval, agencies can develop annual estimates for a high-risk component of the program, e.g., a geographic region or specific program population. Agencies must also perform trend analyses to update the program’s baseline rate in the interim years between full-blown program studies. When development of a statistically valid rate is possible, the program’s error reduction targets will be revised and trend analyses in subsequent years will be conducted using the new rate.

Treasury’s Approach to IPIA Implementation

Treasury developed a comprehensive inventory of programs and activities. If the program/activity funding was greater than or equal to \$10 million, Treasury’s bureaus were required to perform risk assessments (RAs) for each program/activity by payment type, e.g., payroll, contract, vendor, travel. If any of the risk assessments resulted in high risk, and the total of one or more of the high-risk payment types was greater than \$10 million and equaled or exceeded 25% of the total program funding, then the bureaus were required to conduct statistical samples to develop error rate estimates. If, after applying the estimated error rate to the total program funding, the amount of improper payments was greater than or equal to \$10 million, Treasury required the development and implementation of a corrective action plan to accomplish three things: 1) to reduce the level of improper payments; 2) to mitigate the high risk level; and 3) to develop reduction targets.

Results of Treasury’s IPIA Risk Assessment Process

The only high risk program is the Internal Revenue Service’s (IRS) Earned Income Tax Credit (EITC), whose risk is well documented. As a high-risk complex program, the Earned Income Tax Credit (EITC) has developed a plan to conduct periodic compliance studies, and annually estimate the error rate of the Qualifying Child Residency component. No other high risk programs were identified through Treasury’s risk assessment process and bureaus are investigating further any programs whose RAs resulted in medium risk.

Earned Income Tax Credit

EITC is a refundable federal tax credit that offsets income taxes owed by low income workers and, if the credit exceeds the amount of taxes owed, provides a lump-sum payment to those who qualify. Significant compliance problems are associated with the credit as evidenced by a Tax Year 1999 compliance study that resulted in erroneous over claims totaling \$8-10 billion, between 27% and 32%, of approximately \$30 billion in total program payments. Since June 2003, EITC has focused on reducing erroneous over claims by implementing a five-point initiative that will:

- Reduce the backlog of pending EITC examinations.

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

The Qualifying Child Residency study will be used as EITC's IPIA component for annual error rate estimating. Treasury expects the baseline error rate estimate for the program component to be available in FY 2005.

Note: See PART IV for further details.

RECOVERY ACT OF 2001 NARRATIVE SUMMARY OF IMPLEMENTATION EFFORTS FY 2003 AND 2004

Background

The Recovery Act of 2001 applies to Treasury since its bureaus enter into contracts that have an aggregate value in excess of \$500,000,000. Overall, Treasury averages approximately \$2.2 billion in contracts per year. Under the Recovery Act of 2001, agencies are required to report in the FY 2004 PAR the dollar amounts of improper contract payments made and recovered in FY 2003. Treasury's implementation expanded the Act's scope by requiring its bureaus to report on improper payments of all types for both FY 2003 and FY 2004.

Treasury's implementation of IPIA included reviews of its bureaus' pre-payment controls that minimize the occurrence of improper payments. In implementing the Recovery Act, Treasury required its bureaus to review their post-payment controls. These controls are designed to identify quickly improper payments that were made and to start recovery of those payments. Most bureaus have had a recovery program in place for many years, therefore, implementing the Act was not burdensome. Using information technology and other tools, bureaus review payments, identify

those that are improper, and act to recover the money.

At their option, Treasury bureaus can use recovery auditing firms to perform some or all of the steps in their recovery programs, except recovering the funds. Depending on the volume of a bureau's payment transactions, and the complexity of its processes, a recovery auditor can be a cost-effective way to identify improper payments, potential weaknesses in pre- and post-payment controls, and improvements to its management processes.

Results of Treasury's Recovery Act Implementation

Of Treasury's total IPIA program inventory funding (approximately \$60 billion in FYs 2003 and 2004), improper payments totaled roughly \$2 million in FY 2003, of which 97% has been recovered, and \$854,638 in FY 2004, of which 78% has been recovered. The outstanding improper payments are in the process of being collected, and none of them are considered unrecoverable.

Note: See PART IV for further details.

Systems, Controls and Audit Follow-Up

This section contains the Secretary's letter of Assurance and summary information on the following program areas.

- ✓ Federal Managers' Financial Integrity Act (FMFIA – Management Controls)
- ✓ Federal Financial Management Improvement Act (FFMIA – Financial Systems)
- ✓ Audit Follow-Up Activities
- ✓ Financial Management Systems Framework

Additional information on each area can be found in Part IV.

The Secretary's Letter of Assurance

The Treasury Department has evaluated its management controls and compliance with Federal financial systems standards. The results of independent audits were considered as part of Treasury's evaluation process. As a result of our evaluations Treasury can provide reasonable assurance that the objectives of FMFIA have been achieved, except for the remaining material weaknesses noted below. However, Treasury is not in substantial compliance with FFMIA because several of its remaining material weaknesses involve financial systems.

Treasury has eight (8) remaining material weaknesses as of September 30, 2004. These are in the Internal Revenue Service (6), Financial Management Service (1), and Departmental Offices (1). Summary information on each material weakness is provided in Part IV of this report.

Treasury began the year having nine material weaknesses, and closed one. No new material weaknesses were identified in FY 2004. We seek to achieve positive results through emphasizing management control program responsibilities throughout Treasury, ensuring senior management attention to management controls, and focusing bureaus on the need to develop responsible plans for resolving weaknesses.

I am confident that Treasury's progress will continue in FY 2005.

Sincerely,



John W. Snow

Federal Manager’s Financial Integrity Act (FMFIA – Management Controls)

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

- Programs achieve their intended results.
- Resources are used consistent with overall mission.
- Programs and resources are free from waste, fraud and mismanagement.
- Laws and regulations are followed.
- Controls are sufficient to minimize any improper or erroneous payments.
- Performance information is reliable.
- System security is in substantial compliance with all relevant requirements.
- Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels.
- Financial management systems are in compliance with Federal financial systems standards.

Deficiencies that seriously affect an agency’s ability to meet these objectives are “material weaknesses.”

During FY 2004, Treasury had a net decrease of one material weakness. Eight material weaknesses are outstanding as of September 30, 2004. Of the eight remaining, three are projected to be closed in FY 2005. The remaining five are complex systems weaknesses, and will require a more protracted timeframe to resolve. The last currently identified material weakness is scheduled to be closed no earlier than in FY 2008.

Federal Financial Management Improvement Act (FFMIA – Financial Systems)

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, 2004, Treasury is not in substantial compliance with these requirements due to the financial system weaknesses at the Internal Revenue Service. IRS received approval from OMB in 2001 to extend the 3-year statutory time frame addressing the weaknesses, which we had hoped to be corrected by May 2007. Despite some slippage, IRS continues to make progress with the implementation of their remediation plans. The FMS weakness was resolved during FY 2004, bringing FMS into compliance with FFMIA.

Audit Follow-up Activities

General. During FY 2004, Treasury continued its efforts to improve both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the Office of the Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) organizations. During the year, Treasury continued its effort to provide enhancement to the new tracking system called the “Joint Audit Management Enterprise System” (JAMES). JAMES is a Department-wide, interactive, on-line, real-time system accessible to the OIG, TIGTA, Bureau Management, Departmental Management, and others. The system contains tracking information on audit reports from issuance through completion of all actions required to address all findings and recommendations contained in a report.

In addition, Treasury oversight of bureau management control program activities, as well as communication and coordination with the bureaus in general, was strengthened through a combination of:

- On-site visits/reviews with bureau control personnel.

- Periodic management control program forums involving key persons from the OIG, TIGTA, all bureaus and program areas, and Treasury.
- The issuance of Management Control Program Quarterly Reports which focus on significant control issues throughout the organization and which are distributed to the Secretary, bureau heads, bureau CFOs and other key personnel.

Potential Monetary Benefits. 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 monetary benefits. Treasury consolidates and annualizes all relevant information for inclusion in this report. The information contained in this section represents a consolidation of information provided separately by the OIG, TIGTA, and Treasury management.

At the beginning of FY 2004, Treasury had identified corrective actions for 45 audit reports with \$12,880 million in potential monetary benefits. Corrective actions were identified for 26 new audit reports having \$2,077 million in potential benefits. Thirty-one reports with potential benefits of \$6,885 million were closed; \$3,641 million of the benefits were realized and \$3,244 million of potential benefits was not realized. At the end of FY 2004 there were 40 such open audit reports having potential benefits of \$8,071 million.

Treasury regularly reviews progress made by the bureaus in realizing potential monetary benefits identified in audit reports, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations being tracked.

Financial Management Systems Framework

Treasury's overall financial systems structure consists of a Treasury-wide financial data warehouse supported by separate bureau systems. Bureau data is furnished to Treasury on a monthly basis. This structure satisfies both the bureaus' diverse financial reporting and operational needs and Treasury-wide reporting requirements. The financial data warehouse is part of the overarching Treasury-wide Financial Analysis and Reporting System, which also includes systems for bureau reporting of performance data, audit follow-up information, and data on commercial-type functions that have the potential to be performed by the private sector.

Treasury has continued to streamline and reduce the number of its financial management systems. The number of financial systems was reduced to 93 at September 30, 2004 from 101 at the end of FY 2003. In addition, ten of Treasury's twenty-four reporting entities are being cross-serviced by the Bureau of the Public Debt for their financial systems needs, with additional cross-servicing planned for FY 2005.

Future Effects on Existing, Currently-Known Demands, Risks, Uncertainties, Events, Conditions and Trends

The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards No. 15, Management's Discussion and Analysis, requires agencies to discuss the most significant existing, currently-known demands, risks, uncertainties, events, conditions and trends. The following paragraphs presents the most significant issues facing Treasury and their immediate impact on our resources and operations, and their possible impact on the Federal Government and the public.

Departmental Offices (DO)

Debt Ceiling. The Federal debt is subject to a current statutory debt limit (31 U.S.C., Section 3101) of \$7.384 trillion at September 30, 2004 and September 30, 2003. The debt limit includes both Treasury securities held by the public and intra-governmental debt holdings. On October 14, 2004 Treasury entered into a debt issuance suspension period in order to avoid breaching the statutory debt limit. A debt issuance suspension period is any period for which the Secretary of the Treasury has determined that obligations of the United States may not be issued without exceeding the debt limit. During a debt suspension period, legislation authorizes Treasury various methods to avoid breaching the statutory debt limit. Three of those methods have been employed through November 12, 2004, as described below.

During the debt issuance suspension period starting on October 14, 2004, Treasury has suspended investment of receipts of the Government Securities Investment Fund (G-Fund) of the Federal Employees Retirement System, sales of State and Local Government

Series nonmarketable Treasury securities, and reinvestments of the Exchange Stabilization Fund to avoid exceeding the debt limit in accordance with legislation. The statute authorizing the use of these methods also ensures that once the Secretary of the Treasury can make the G-Fund whole without exceeding the public debt limit, he must do so; thus, G-Fund beneficiaries are fully protected and will suffer no adverse consequences from this action. In addition, on November 10, 2004, the Board of the Federal Financing Bank approved a plan to exchange approximately \$15 billion of Treasury securities (Federal debt) for debt to the Civil Service fund in accordance with legislation.

Counterterrorism Programs

The Office of Terrorism and Financial Intelligence (TFI) was established under The Intelligence Authorization Act (31 U.S.C. 311) and the Treasury Order 105-17 (dated April 28, 2004). The Office provides policy, strategic, and operational direction to Treasury on issues relating to: terrorist financing; financial crimes, including money laundering, and counterfeiting; and other offenses threatening the integrity of the financial system.

Terrorism Risk Insurance Program. The Terrorism Risk Insurance Act of 2002 provided the Department an appropriation to compensate insurance companies for commercial property and casualty insurance losses resulting from future certified acts of terrorism. Under the program, the Federal government is responsible for paying 90% of the insured losses arising from future acts of terrorism above the applicable insurer deductibles and below the annual cap of \$100 billion. Any claims would be paid from

permanent, indefinite budget authority and would not require subsequent appropriations. The Act sunsets on December 31, 2005. The Terrorism Risk Insurance Program is activated upon the declaration of an “act of terrorism” by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General.

Internal Revenue Service (IRS)

The IRS is audited by the Government Accountability Office and the Treasury Inspector General for Tax Administration who, through their audits, identify management challenges and high risk areas that the IRS will face over the next several years. As the IRS begins FY 2005, it is faced with challenges, both from within and outside of its organization. The following discussion identifies some of the most significant challenges. Complete listings of management challenges provided by the Treasury Inspector General for Tax Administration and Treasury’s Office of Inspector General are located in Part III of this report.

Abusive Tax Shelters. Abusive tax avoidance transactions are a continuing challenge and are a very high enforcement priority. The ongoing evolution in the complexity, structure and variety of tax shelters, coupled with the economic rewards experienced by promoters and investors, makes them difficult to detect and eliminate. Significant resources have been allocated to detect, deter and resolve abusive transactions. Several tools were instituted to enhance the transparency and detection of these transactions, including registrations, disclosures and investor lists. Enhanced emphasis on published guidance puts taxpayers on notice that certain transactions should be avoided. Processes to insure efficient, consistent and timely identification, development and resolution of these issues are also utilized, including promoter investigations, penalty policies and settlement initiatives. Criminal enforcement and civil injunctions are used as appropriate. Recently, the Joint International Tax Shelter Identification Centre was established, representing a cross-border approach with Canada, Australia and the United Kingdom, to further enhance our ability to address abusive activity on a global basis.

Technology Modernization Projects. In FY 2003 and 2004, the IRS took steps to balance the scope and pace of its technology modernization program with the management capacity of the IRS and the modernization contractor consortium. While this caused IRS to defer the start of several new projects, the delay allowed improvement in overall program management and focus. The new Business Systems Modernization (BSM) Action Challenges Plan put the necessary policies and procedures in place to strengthen the IRS’s overall performance on the modernization program. This Plan includes improving management controls and capabilities and systems acquisition practices. While significant progress was made, there is still much more work to do. The IRS also has formulated a number of key additional steps to address improving overall program performance. The IRS will continue to intensely monitor its BSM projects to ensure timely rollout to meet operational needs.

Financial Management Service (FMS)

Treasury is leading the effort to establish best practices for U.S. Government financial reporting, and to make the U.S. Government financial report a model for forward-looking financial reporting. Treasury is exploring ways in which to issue a guide to government financial reports that would help citizens interpret and understand U.S. Government financial reporting.

FMS’ Government-wide Accounting Modernization Project will improve the reliability, timeliness, and exchange of financial information between FMS, Federal Program Agencies (FPAs), the Office of Management and Budget, and the banking community. FMS will continue its work with the FPAs to adopt uniform accounting and reporting standards and systems. FMS will develop a government-wide infrastructure to standardize definitions of federal accounting terms and their usage, and provide to agencies an interactive U.S. Standard General Ledger website and database.

FMS, with OMB, has developed a new reporting process, the Closing Package, for preparing the consolidated Financial Report of the U.S. Government through the Government-wide

Financial Report System (GFRS). The new reporting process, beginning with the FY 2004 Financial Report, will collect data from agency financial statements and other relevant financial information. FMS will continue to work cooperatively with GAO, OMB, and program agencies to eliminate the issues that prevent receiving an unqualified opinion on the Financial Report of the United States Government.

Mission and Organizational Structure

Mission

The mission of the Department of the Treasury (Treasury) is to promote the conditions for prosperity and stability in the United States (U.S.) and encourage prosperity and stability in the rest of the world.

This mission statement highlights Treasury's role as the steward of U.S. economic and financial systems, and as an influential participant in the international economy. Treasury's commitment to our citizens is to create economic and employment opportunities for all by raising the rate of sustainable growth. To the extent this objective is linked to world economy, Treasury will seek to influence global financial and economic issues whenever possible to promote global economic growth and stability.

Treasury is the primary federal agency responsible for the economic and financial prosperity and security of the U.S., and as such is responsible for a wide range of activities including advising the President on economic and financial issues, promoting the President's growth agenda, and enhancing corporate governance in financial institutions.

In the international arena, Treasury works with other federal agencies, the governments of other nations, and the International Financial Institutions (IFIs) to encourage economic growth, raise standards of living, and predict and prevent, economic and financial crises.

Organization

Treasury is organized into two major components: the Departmental Offices (DO) and the operating bureaus. DO is primarily responsible for the formulation of policy and management of Treasury as a whole, while the operating bureaus carry out the specific operations assigned to Treasury. The bureaus make up 98% of the Treasury work force. The basic functions of Treasury include:

- Managing Federal finances.
- Collecting taxes, monies paid to and due to the U.S. and paying all bills of the U.S.
- Producing currency and coinage.
- Managing Government accounts and the public debt.
- Supervising national banks and thrift institutions.
- Advising on domestic and international financial, monetary, economic, trade and tax policy.
- Enforcing Federal finance and tax laws.
- Investigating and prosecuting tax evaders, counterfeiters, and forgers.

DEPARTMENTAL OFFICES

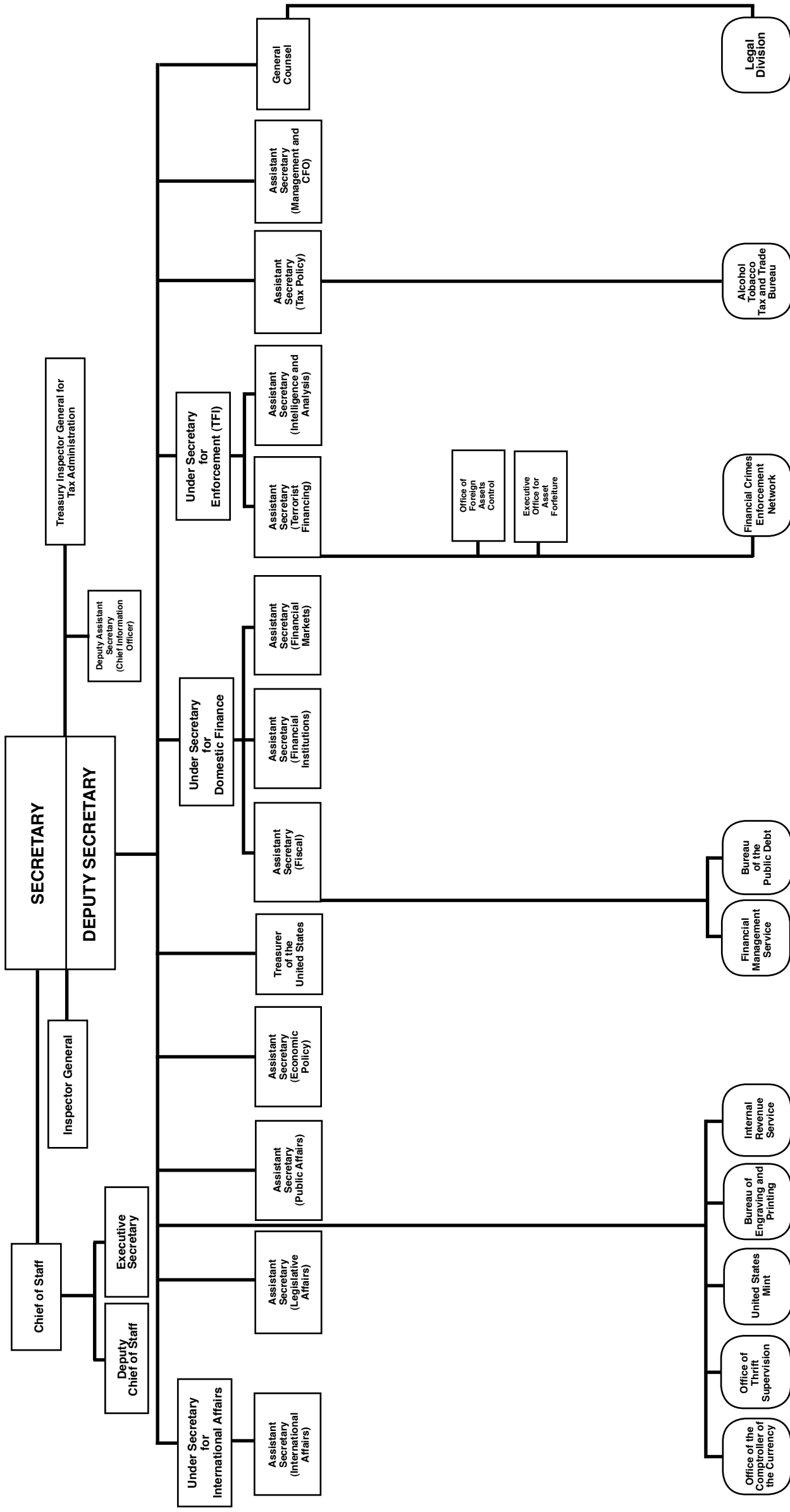
- **Domestic Finance** develops policies and economic guidance which help create the conditions for prosperity at home through advice and assistance in domestic finance, banking, financial institutions, federal debt finance, financial regulation, and capital markets.
- **The Office of Economic Policy** has several primary roles: to report and interpret economic developments for top Treasury officials; to work with the Troika group (consisting of members of the Council of Economic Advisors and the Office of Management and Budget) to forecast economic growth and its components as the primary basis for Federal Budget forecasts and revenue estimates; to assist in the determination of appropriate economic policies; and to support the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees. The Office also conducts research to assist in the formulation and articulation of public policies and positions of the Treasury Department on a wide range of microeconomic issues, including health insurance, retirement income security, and terror risk insurance. U.S. policies on economic matters strongly influence the conditions for prosperity abroad.
- **The Office of Terrorism and Financial Intelligence (TFI)** develops, organizes, and implements U.S. government strategies to combat terrorist financing and financial crime, both internationally and domestically. OTF is the policy and outreach organization for the Treasury Department on the issues of terrorist financing, money laundering, financial crime, and sanctions. This office is responsible for coordinating with other elements of the U.S. government, including law enforcement, and working with the federal regulatory agencies, both those within the Treasury Department, such as the OCC and OTS, and those outside, such as the Federal Reserve, SEC, and CFTC, to ensure effective supervision for Bank Secrecy Act (BSA) and Patriot Act compliance. In addition, OTF is responsible for integrating the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN) and the Treasury Executive Office of Asset Forfeiture (TEOAF) into these efforts.
- **The Office of International Affairs** goals are to increase economic growth and improve economic stability in developing countries, emerging market countries, and industrial countries. The staff of International Affairs pursues these goals by providing timely policy advice, by executing policies, and by implementing new policy initiatives on a broad range of economic and financial issues.
- **Tax Policy** develops and implements tax policies and programs; reviews regulations and rulings to administer the Internal Revenue Code; and negotiates tax treaties, and provides economic and legal policy analysis for domestic and international tax policy decisions. It also provides estimates for the President's budget, fiscal policy decisions, and cash management decisions.

Internally, DO is responsible for overall management of Treasury. Offices responsible for the internal management and controls include **General Counsel**, the **Assistant Secretary for Management and Chief Financial Officer**, and **Public Affairs**. Also, inspector general functions provide independent audits, investigations, and oversight to Treasury and its programs.

BUREAUS AND ORGANIZATION

- **The Alcohol and Tobacco Tax and Trade Bureau (TTB)** administers the Federal laws on the production and taxation of alcohol and tobacco products, as well as the statutes that impose Federal excise tax on firearms and ammunition.
- **The Bureau of Engraving and Printing (BEP)** designs and manufactures high quality secure currency that meet customer requirements for quality, quantity and performance, including counterfeit deterrence.
- **The Bureau of the Public Debt (BPD)** borrows the money needed to operate the Federal Government and accounts for the public debt. BPD issues and services U.S. Treasury marketable, savings, and special purpose securities.
- **The Community Development Financial Institutions (CDFI) Fund** expands the capacity of community development financial institutions and community development entities to provide credit, capital, tax credit allocations, and financial services to underserved populations and communities in the United States. (CDFI is not a bureau but has special program emphasis.)
- **The Financial Crimes Enforcement Network (FinCEN)** collects, analyzes and shares information needed to combat the financial aspects of criminal activity worldwide.
- **The 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 non-tax debt owed to the U.S. Government.
- **The Internal Revenue Service (IRS)** is the largest of Treasury's bureaus. It determines, assesses, and collects tax revenue in the United States.
- **The U.S. Mint (Mint)** designs and manufactures domestic, numismatic, and bullion coins as well as commemorative medals and other numismatic items. The Mint distributes U.S. coins to the Federal Reserve Banks and maintains physical custody and protection of our nation's silver and gold assets.
- **The Office of the Comptroller of the Currency (OCC)** charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system that supports the citizens, communities, and the economy of the United States.
- **The Office of Thrift Supervision (OTS)** charters, examines, supervises and regulates federal savings associations in order to maintain their safety and soundness and compliance with consumer laws, and to encourage a competitive industry that meets America's financial services needs. OTS also examines, supervises, and regulates state-chartered savings associations belonging to the Savings Association Insurance Fund and savings association affiliates and holding companies.
- **The Treasury Franchise Fund (Franchise Fund)** is an entrepreneurial governmental enterprise established to provide common administrative support services on a competitive and fully cost-reimbursable basis. The desired result is to have internal administrative services delivered in the most effective and least costly manner. The Fund's services/products are offered on a voluntary and competitive basis to promote greater economy (reduced costs), increase productivity and efficiency in the use of resources, and ensure compliance with applicable laws and regulations.

THE DEPARTMENT OF THE TREASURY



TREASURY BUREAUS

*Unless otherwise indicated, all Bureaus report through the Deputy Secretary to the Secretary.



Treasury Strategic Goals and Strategic Objectives

The Treasury Strategic Plan has five strategic goals. Each strategic goal has supporting strategic objectives. The goals and objectives describe how Treasury will manage and influence the U.S. and international economic and financial systems so that they operate at their full potential, maintain stable foundations for growth, and preserve the integrity of their systems and operations. The fifth goal provides Treasury’s corporate guidance for the internal operation of Treasury and gives strategic direction for achieving the President’s Management Agenda.

Strategic Goal		Strategic Objectives
Economic (E)	Promote Prosperous U.S. and World Economies (E1)	Stimulate economic growth and job creation (E1A)
		Provide a flexible legal and regulatory framework (E1B)
		Improve and simplify the tax code (E1C)
	Promote Stable U.S. and World Economies (E2)	Increase citizens’ economic security (E2A)
Improve the stability of the international financial system (E2B)		
Financial (F)	Preserve the Integrity of Financial Systems (F3)	Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks (F3A)
		Execute the Nation’s financial sanctions policies (F3B)
		Increase the reliability of the U.S. financial system (F3C)
	Manage the U.S. Government’s Finances Effectively (F4)	Collect federal tax revenue when due through a fair and uniform application of the law (F4A)
		Manage federal debt effectively and efficiently (F4B)
		Make collections and payments on time and accurately, optimizing use of electronic mechanisms (F4C)
		Optimize cash management and effectively administer the Government’s financial systems (F4D)

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Management (M)	Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury (M5)	Protect the integrity of the Department of the Treasury (M5A)
		Manage Treasury resources effectively to accomplish the mission and provide quality customer service (M5B)