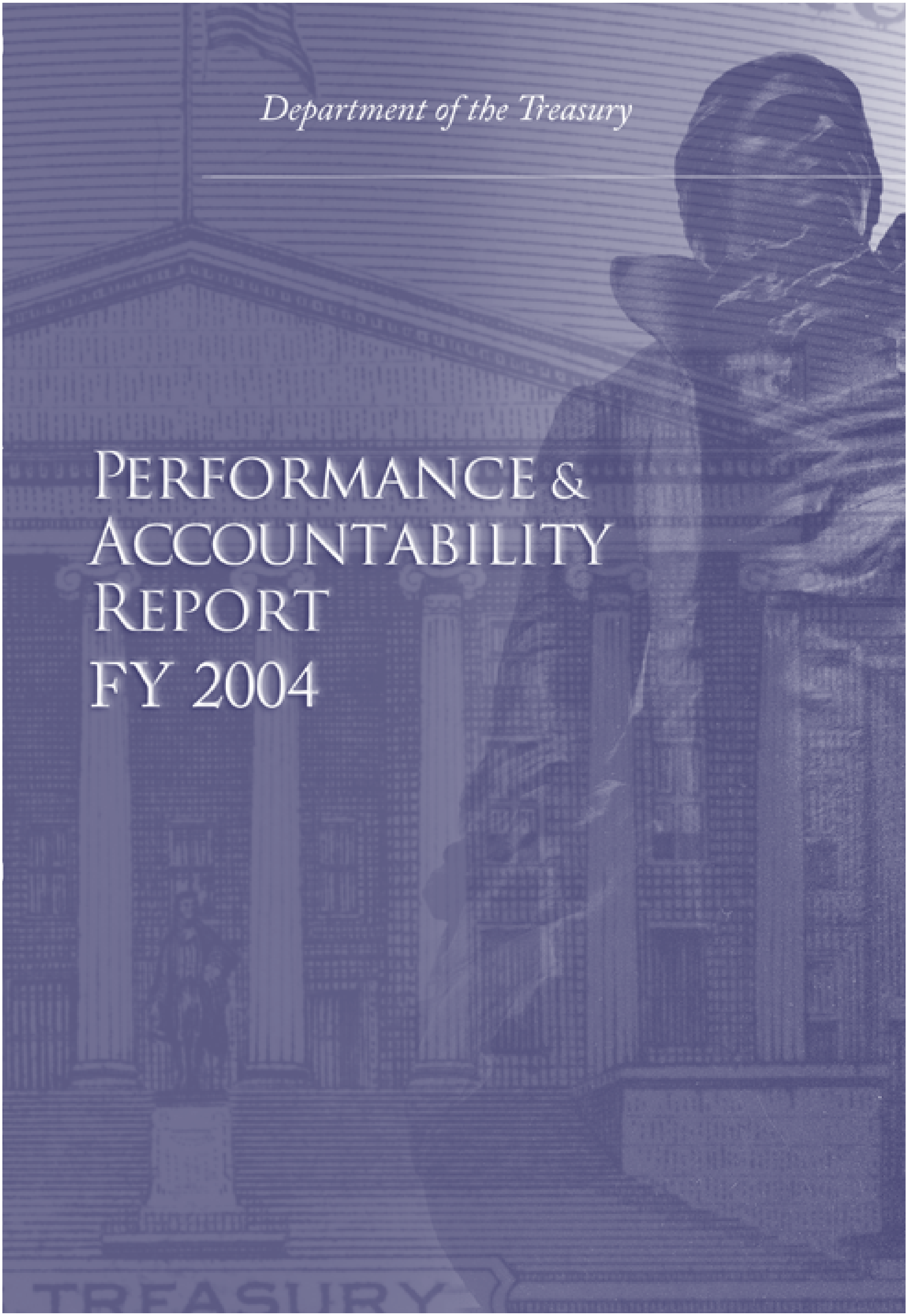

Department of the Treasury

Performance & Accountability Report FY 2004

Office of the Comptroller of the Currency
Bureau of Engraving and Printing
Financial Crimes Enforcement Network
Financial Management Service
Internal Revenue Service
United States Mint
Bureau of the Public Debt
Office of Thrift Supervision
Alcohol and Tobacco Tax and Trade Bureau

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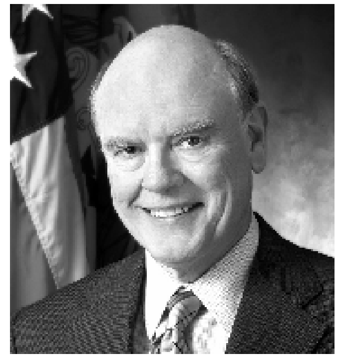
Department of the Treasury

Performance & Accountability Report

FY 2004

Message from the Secretary

November 15, 2004



On behalf of the U.S. Department of the Treasury, I am pleased to present our Fiscal Year (FY) 2004 Performance and Accountability Report. This report provides clear information on Treasury's operations, accomplishments and challenges over the past year. Treasury aids national prosperity by developing policies that stimulate economic growth and job creation as well as maintaining public trust and confidence in our economic and financial systems.

In FY 2004, Treasury focused on its core missions of economy and finance. In FY 2004, Treasury worked to implement the Jobs and Growth Tax Relief Reconciliation Act of 2003 as well as other tax relief efforts. Treasury moved forward with improvements in our core functions in the areas of domestic and international economies, banking oversight, tax law compliance, cash and debt management, and the production of coins and currency. We also continue to work on streamlining our nation's regulatory framework to ensure the integrity of the financial sector and promote the growth of financial services worldwide.

Treasury is making the nation safer by detecting, disrupting and dismantling the financial sources of terrorism. During this year we created the Office of Terrorism and Financial Intelligence (TFI), a new office that centralizes policy-making and coordinates Treasury's efforts to eradicate terrorist funding and protect the integrity of financial systems. This office also fights financial crime, enforces economic sanctions against rogue nations, and assists in the ongoing search for Iraqi assets.

Regarding the management and reporting of finances, Treasury has again received an unqualified opinion on our financial statements. This accomplishment demonstrates the accuracy and reliability of the information presented. Treasury also met most of its performance targets for the year, and I have determined that the enclosed performance data are reliable and complete. During FY 2004, we continued our emphasis on ensuring that Treasury has strong internal controls in place to minimize the risk of waste, fraud, and erroneous payments. We also intensified our efforts to identify and reduce improper payments across Treasury and continued our progress toward addressing material management control weaknesses.

As we look ahead, Treasury will continue its work to generate economic growth, increase the number of jobs for our citizens, and keep our financial systems strong and secure. Treasury will develop and implement strategies to find and eliminate sources of funding for terrorists and to detect and pursue financial criminals. Finally, for our customers, America's taxpayers, Treasury will continue to work very hard to provide excellent service, efficiency and value.

Sincerely,

John W. Snow

John W. Snow
Secretary of the Treasury

Message from the Acting Assistant Secretary For Management and Acting Chief Financial Officer

November 15, 2004

The Office of the Assistant Secretary for Management and Chief Financial Officer is proud to announce the delivery of the 2004 Treasury Department Performance and Accountability Report forty-five days after the close of the fiscal year for the third consecutive year. The Department continues to manage the government's finances and preserve the integrity of the financial and internal control systems of the Federal Government while improving the quality, usefulness and timeliness of both financial reporting and program performance information. We are equally proud to have received an unqualified audit opinion on our financial statements for the fifth consecutive year, with no new material weaknesses identified. We remain committed to reducing the number of weaknesses and expect to make significant progress in 2005. However, due to existing material weaknesses, we can provide only qualified assurance that Treasury is meeting management control objectives. For the same reason, Treasury is not in compliance with Federal financial systems standards.

These results are significant, and could not have been accomplished without the strong support of our bureaus. Sound financial management and independent oversight support the Department's role as the principal custodian of the revenue collected and debt issued on behalf of the Federal Government. Two Treasury bureaus, the Internal Revenue Service and the Alcohol and Tobacco Tax and Trade Bureau, accounted for almost 95% percent of all revenues collected by the Federal Government during FY 2004, totaling over $2 trillion. Further, total debt managed by Treasury's Bureau of the Public Debt, including intra-governmental holdings, was more than $7 trillion at the end of FY 2004. Payments issued by the Financial Management Service on behalf the Federal Government totaled over $1.7 trillion in non-defense payments such as Social Security checks. The Bureau of Engraving and Printing printed 8.7 billion notes of currency while improving security features to reduce the risks of counterfeiting; and the United States Mint produced 13.5 billion U.S. coins and continues to cut the costs of coin production. Finally, Treasury's role in the financial war on terrorism and the creation of a new office to centralize and coordinate Treasury's efforts continue to make the nation safer, and help preserve the financial integrity of the United States by protecting our nation and its citizens from financial crimes.

The Department continued to aggressively implement the President's Management Agenda in all five areas (Human Capital, Competitive Sourcing, Financial Performance, Electronic Government, Budget and Performance Integration). Treasury's Competitive Sourcing initiative completed five full A-76 Reviews and one streamlined conversion covering 830 employees. Savings are expected to exceed $20 million in FY 2005 and to exceed $185 million over the next five years. Treasury has effectively linked results and performance to executive compensation for 2005 under the Human Capital and Budget and Performance integration initiatives, creating a transparent process which will improve performance and ensure the most efficient use of resources. Regarding electronic government, Treasury has expanded the products and services provided to citizens, specifically, the IRS increased the number of taxpayers filing on-line to more than 70 million and reached record levels of electronic refunds.

This report also emphasizes high priority management challenges across the Department, including the challenges identified by the Inspectors General and Government Accountability Office. We are committed to addressing and resolving these management challenges through continuous improvement and implementation of the President's Management Agenda.

Jesus Delgado-Jenkins

Jesus H. Delgado-Jenkins
Acting Assistant Secretary for Management

Barry Hudson

Barry K. Hudson
Acting Chief Financial Officer

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].

Strategic Goal

Strategic Objective	Strategic Objective
Performance Targets	Performance Targets

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**

<u>Goal E1:</u> **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.

<u>Goal E2:</u> 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.

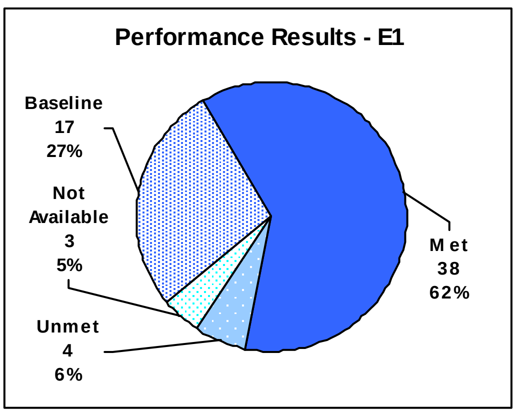
Strategic Objectives for E2

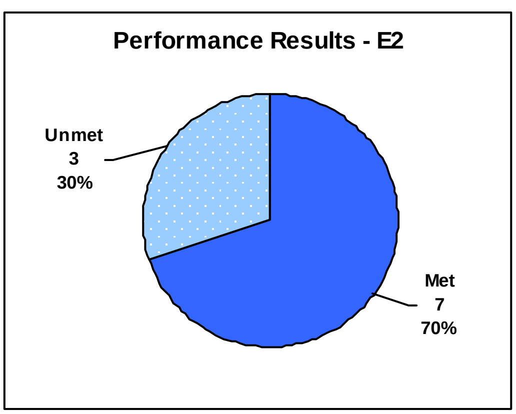
Objective E2A: Increase Citizens' Economic Security. Economic security ensures Americans have adequate personal savings to support them in tough times or retirement, guarantees that private pension plans will meet their obligations to their beneficiaries, protects consumers from fraud and deception and 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

<u>Goal F3:</u> 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.

<u>Goal F4</u>: 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.

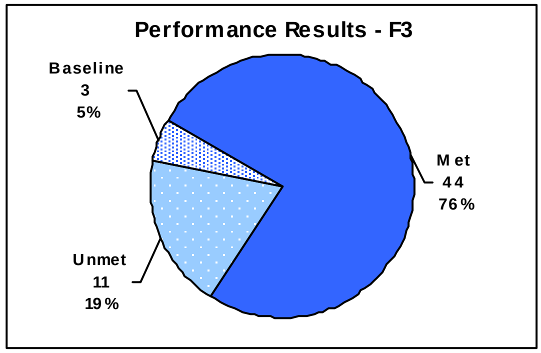
Objective F4B: Manage federal debt effectively and efficiently. Treasury is responsible for borrowing appropriately to meet the Government's financing needs. Treasury's goal is to provide government financing at the lowest cost over time.

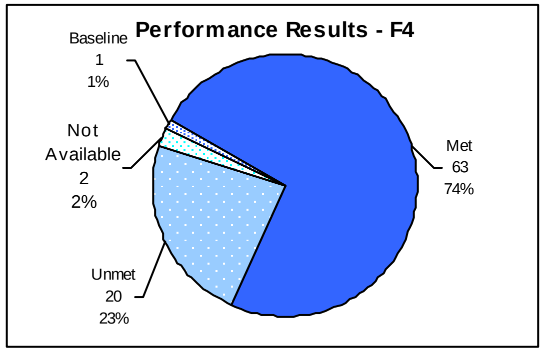
Objective F4C: Make collections and payments on-time and accurately, optimizing the use of electronic mechanisms. Treasury's objective is timely, complete collection of all monies due the government consistent with good customer service and "best practice" business efficiency.

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:

<u>Goal M5:</u> 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.

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

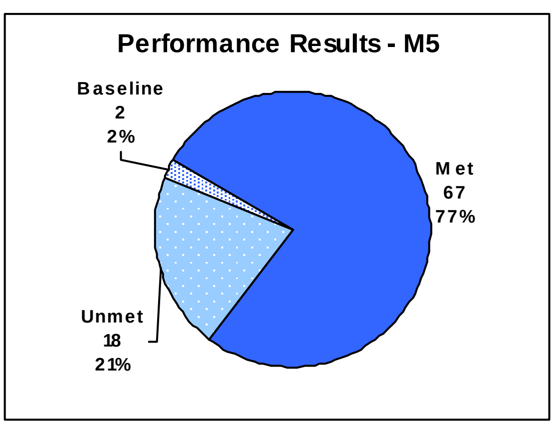
Programs evaluated this year include:

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.

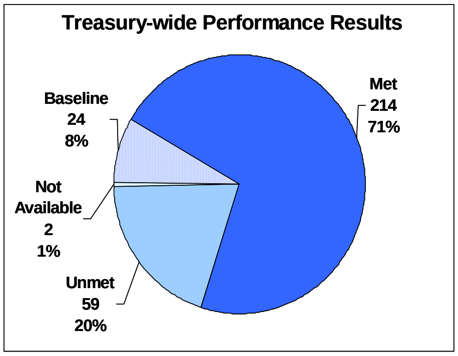
- **Financial.** Treasury achieved nearly three of every four performance targets, and will continue to improve on performance targets that were not achieved.

- **Management and Operations.** Treasury achieved nearly four of every five M5 performance targets, and with management initiatives will continue to improve.

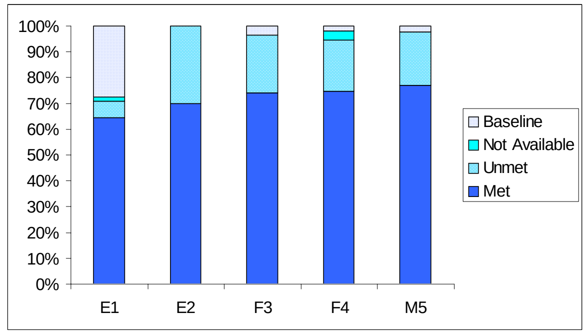
Treasury will continue to examine the measures it has for each goal and objective, and reduce them to the critical few that add value for the American public.

Treasury Performance Snapshot

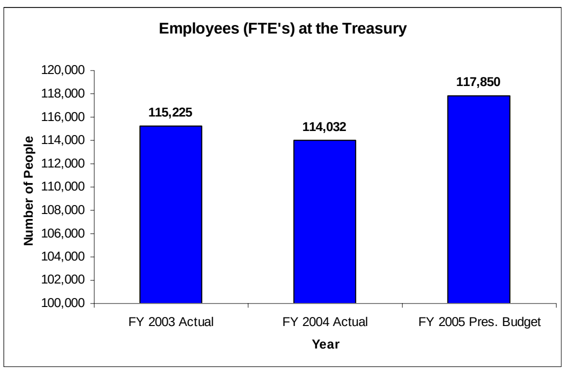
Overall Performance



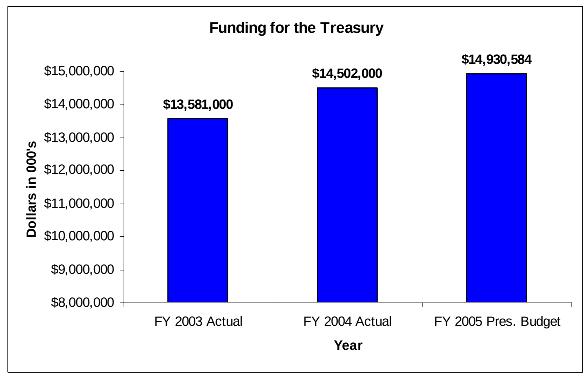
Performance by Strategic Goal



People



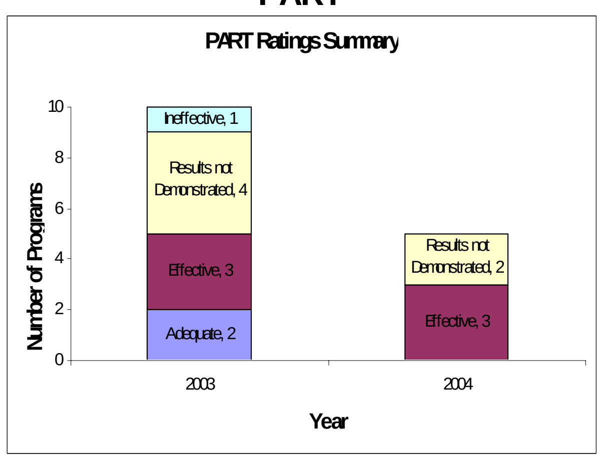
Funding



President's Management Agenda PMA

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

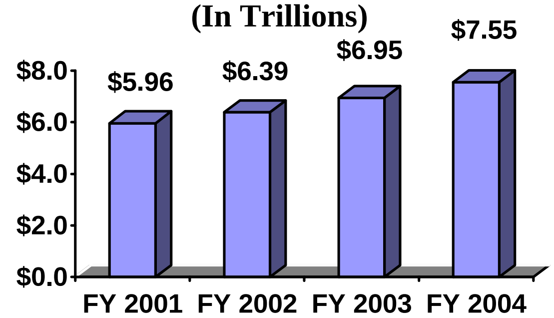
The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be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

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

Overview of Financial Position

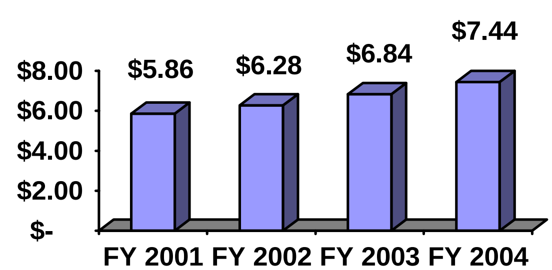
Assets. The Consolidated Balance Sheet of Treasury as of September 30, 2004 shows $7.6 trillion in total assets. Included is this amount is $7.1 trillion due from the General Fund of the Federal government to pay the principal and interest on the public debt and tax refunds. This represents an increase 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.

Total Assets (In Trillions)



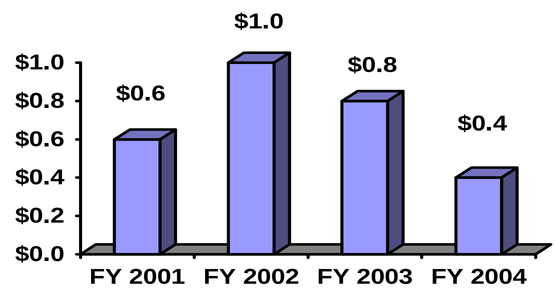
Liabilities. At the close of FY 2004, the Department had total liabilities of $7.4 trillion. Of this amount, intra-governmental liabilities totaled $3.1 trillion, including interest payable, in borrowing from various Federal agencies such as the Social Security Trust Fund. These borrowings do not include 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.

Total Liabilities (In Trillions)

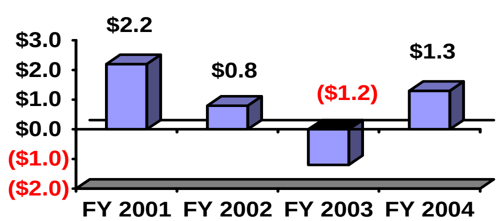


Net Cost of Treasury Operations. The Consolidated Statement of Net Cost presents the Department's gross and net cost for its three strategic missions: financial focus, economic focus, and management focus. The majority of the net cost of Treasury operations is in the financial mission area. Treasury 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.

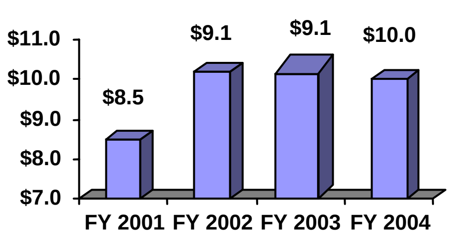
Net Program Cost -- Management
(In Billions)



Net Program Cost -- Economic
(In Billions)

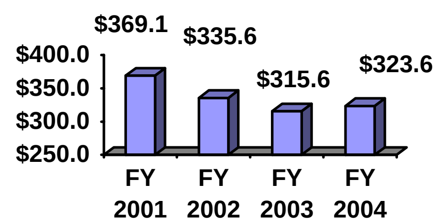


Net Program Cost -- Financial
(In Billions)



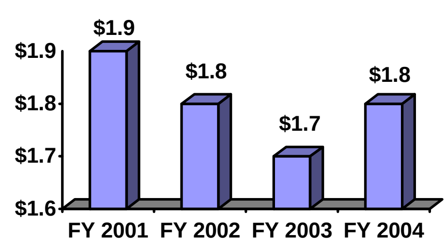
Federal Debt Interest and Other Costs. Interest and other costs include interest payments on the Federal debt and other Federal costs, such as payments made to or by the Judgment Fund, the Resolution Funding Corporation, and the District of Columbia. The vast majority of these costs is interest on the 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)



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

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 (FFMFIA – 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.

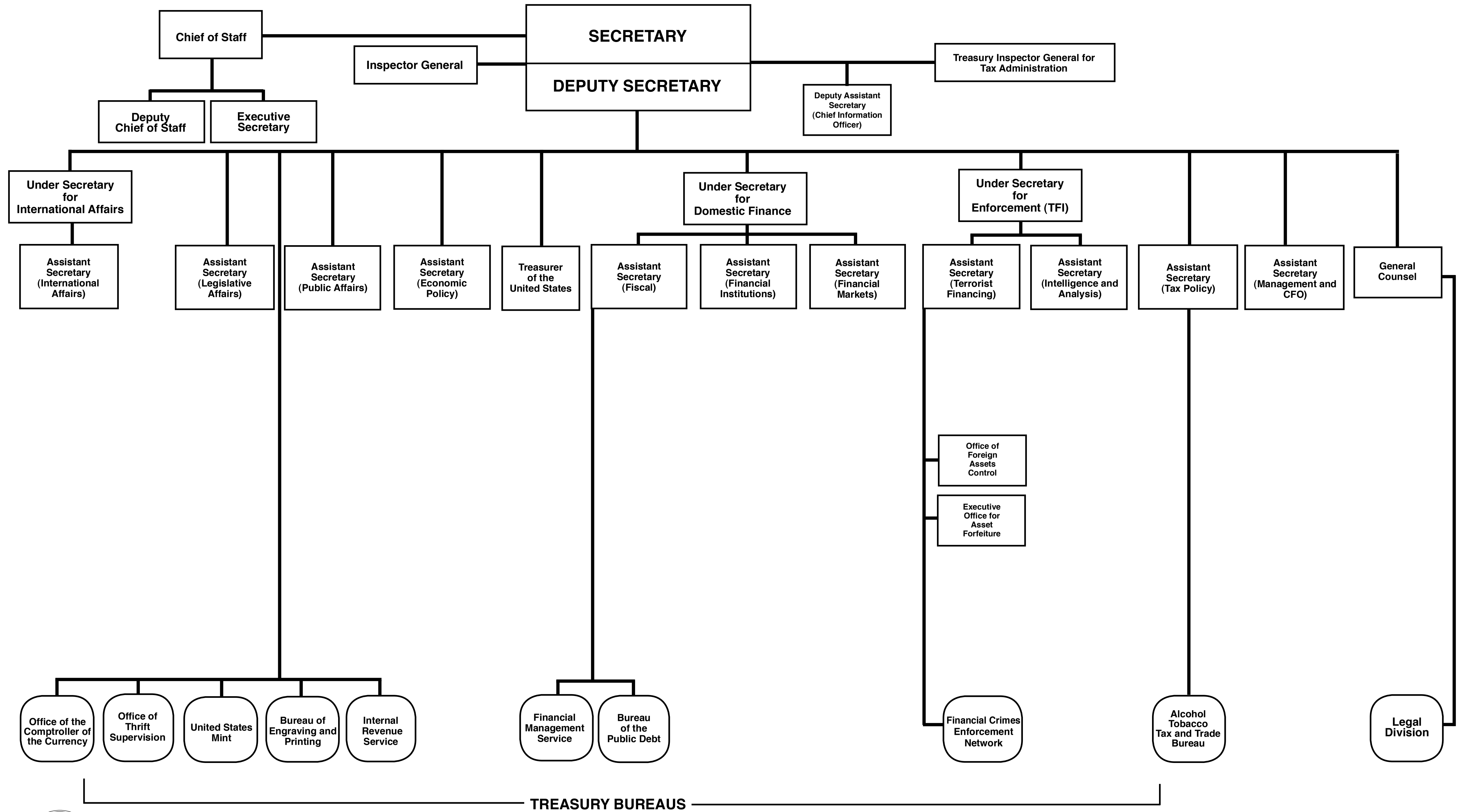
- **The U.S. Mint (Mint)** designs and manufactures domestic, numismatic, and bullion coins as well as commemorative medals and other numismatic items. The Mint distributes U.S. coins to the Federal Reserve Banks and maintains physical custody and protection of our nation's silver and gold assets.

- **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



*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.

<table>
<tr><th colspan="2">Strategic Goal</th><th>Strategic Objectives</th></tr>
<tr><td rowspan="5">Economic (E)</td><td rowspan="3">Promote Prosperous U.S. and World Economies (E1)</td><td>Stimulate economic growth and job creation (E1A)</td></tr>
<tr><td>Provide a flexible legal and regulatory framework (E1B)</td></tr>
<tr><td>Improve and simplify the tax code (E1C)</td></tr>
<tr><td rowspan="2">Promote Stable U.S. and World Economies (E2)</td><td>Increase citizens' economic security (E2A)</td></tr>
<tr><td>Improve the stability of the international financial system (E2B)</td></tr>
<tr><td rowspan="7">Financial (F)</td><td rowspan="3">Preserve the Integrity of Financial Systems (F3)</td><td>Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other criminals and isolate their support networks (F3A)</td></tr>
<tr><td>Execute the Nation's financial sanctions policies (F3B)</td></tr>
<tr><td>Increase the reliability of the U.S. financial system (F3C)</td></tr>
<tr><td rowspan="4">Manage the U.S. Government's Finances Effectively (F4)</td><td>Collect federal tax revenue when due through a fair and uniform application of the law (F4A)</td></tr>
<tr><td>Manage federal debt effectively and efficiently (F4B)</td></tr>
<tr><td>Make collections and payments on time and accurately, optimizing use of electronic mechanisms (F4C)</td></tr>
<tr><td>Optimize cash management and effectively administer the Government's financial systems (F4D)</td></tr>
</table>

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

Part II –

Annual Performance Report

Performance Scorecard

The following Scorecard indicates performance measures that have been selected to highlight in the detailed write-up of Treasury FY 2004 annual performance report section.

Strategic Goal/*Strategic Objective*/Performance Measure	**Target**	**Actual (*italics* estimate)**	**Page**
Promote Prosperous U.S. and World Economies			
Stimulate Economic Growth and Job Creation			
Number of full-time equivalent jobs created or maintained in underserved communities (CDFI)	5,852	7,179	**263**
Number of full-time equivalent jobs created or maintained in underserved communities (CDFI) (BEA only)	965	1,128	**270**
U.S. unemployment rate (DO)	5.6%	5.4%	**276**
U.S. GDP growth rate (DO)	3.5%	4.5%	**278**
Value of U.S. exports of cross border financial services, excluding insurance ($ in billion based on calendar year) (DO)	15.5B	*21.3B*	**280**
Provide a Flexible Legal and Regulatory Framework			
Percentage of licensing applications and notices filed electronically (OCC)	15%	34%	**282**
Percent of applications processed within timeframes (OTS)	95%	97%	**285**
Promote Stable U.S. and World Economies			
Increase Citizens' Economic Security			
U.S. household net worth as percentage of disposable personal income (DO)	512%	537%	**287**
Improve the Stability of the International Financial System			
Number of crises in emerging markets as indicated by defaults (DO)	3	0	**290**
Number of crises in emerging markets as indicated by currency depreciations (DO)	6	4	**290**
Preserve the Integrity of Financial Systems			
Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Supportive Networks			
Number of users directly accessing BSA data through FinCEN's Gateway process (FinCEN)	1,700	2,181	**295**
Increase the Reliability of the U.S. Financial System			
Percent of national banks with composite CAMELS rating 1 or 2 (OCC)	90%	*94%*	**305**
Percent of thrifts with composite CAMELS rating of 1 or 2 (OTS)	90%	93%	**312**
Manage the U.S. Government's Finances Effectively			
Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law			
Percentage of Individual Returns Filed Electronically (IRS)	45%	47%	**328**
Customer Service Representative (CSR) Level of Service (IRS)	83%	87%	**329**
Ratio of taxes collected vs. resources expended (TTB)	257:1	368:1	**337**
Manage Federal Debt Effectively and Efficiently			
Percent of auction results released in two minutes + or - 30 seconds (BPD)	95%	99.53%	**338**

Strategic Goal/*Strategic Objective*/Performance Measure	**Target**	**Actual (*italics* estimate)**	**Page**
Manage the U.S. Government's Finances			
Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms			
Percentage collected electronically of total dollar amount of Federal government receipts (FMS)	81%	81%	**341**
The dollar amount of collections transacted through Pay.gov, a government-wide transaction portal (in Billions) (FMS)	10.00	4.04	**342**
Percentage reduction in rate of increase in transaction costs to collect Federal government receipts through Electronic Government Tax Payment System	70%	100%	**344**
Percentage of Treasury payments and associated information made electronically (FMS)	75%	75%	**345**
Optimize Cash Management and Effectively Administer the Government's Financial Systems			
Percentage of Government-wide accounting reports issued accurately (FMS)	100%	100%	**348**
Percentage of Government-wide accounting reports issued timely (FMS)	100%	100%	**348**
Ensure Professionalism, Excellence, Integrity, and Accountability In the Management and Conduct of the Department of the Treasury			
Protect the Integrity of the Department of the Treasury			
Percent of audits required by statute completed by the required date (OIG)	100%	100%	**350**
Percentage of IRS employees working during the year fiscal year who attend a TIGTA integrity briefing (TIGTA)	33%	43%	**355**
Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service			
Percent of all IT systems that are currently certified and accredited to operate (DO)	70%	86%	**371**
Complete investigations of EEO complaints within 180 days (DO)	40%	34%	**372**
Percent reduction in the injury and illness rate over FY 2003 baseline – Treasury-wide, including DO (DO)	20%	23%	**375**

Treasury Annual Performance Report Structure

The FY 2004 Treasury Annual Performance Report is structured in a three – tier fashion as shown below:

Focus Area

- **Focus Description** describes the main areas of focus for Treasury.
- **Strategic Goals** lists the strategic goals for each focus area.
- **Summary Data** includes charts for people, funding and performance targets at the Focus level.

Strategic Goal

- **Goal Description -** defines the strategic goal.
- **Strategic Objectives** defines the strategic objectives for each strategic goal.
- **Key Outcomes** lists important benefits or results gained from achieving the strategic objectives.
- **Public Benefit** translates benefits into value statements for the American public.
- **Key Partners** are other government agencies or organizations that work with Treasury to achieve our goals.
- **Select Performance Measures** lists a small set of indicators for measuring the strategic goal.
- **Performance Summary and Resources Invested** includes charts for people, funding and performance targets at the Strategic Goal level.

Strategic Objective

- **Strategic Objective and Key Outcome Overview** defines the strategic objective.
- **Performance Indicators and Resources Invested** includes charts for people, funding and performance targets at the Strategic Objective level.
- **Successes** lists Treasury accomplishments that support the strategic objective.
- **Challenges** identifies unmet performance target and corrective action.
- **Moving Forward** identifies important actions for FY 2005 and beyond that support achieving the strategic objective.

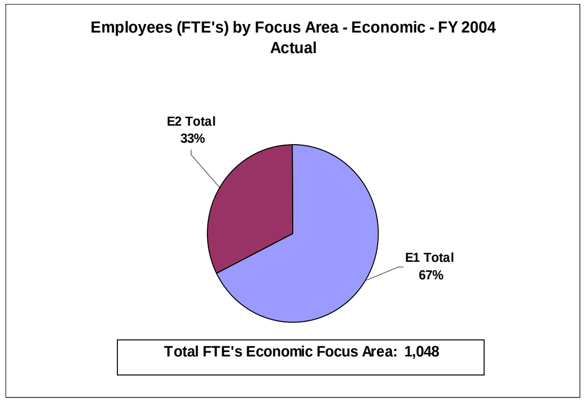
Each focus area is followed by its supporting strategic goals and objectives. The Economic Focus area is presented first, followed by the Financial Focus area, and then by the Management and Operations Focus.

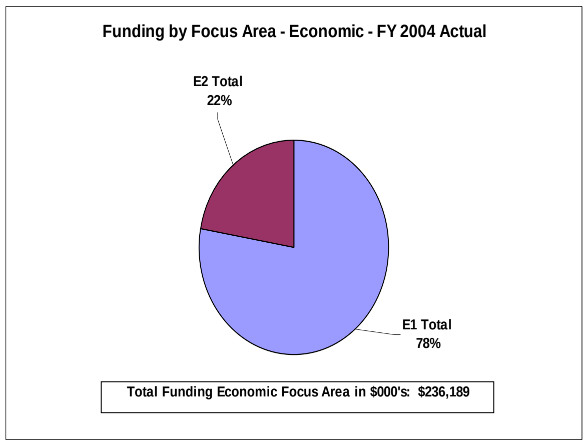
E Economic Focus

Focus Description

The Secretary of the Treasury plays a critical role in policy making by bringing economic and government financial policy perspective to issues facing the U.S. government. Treasury has both a policy and operational role in promoting prosperous U.S. and world economies, raising standards of living and protecting prosperity through secure and stable economic systems.

Treasury serves as an advisor to the President on measures to promote domestic economic growth and prosperity, and on methods for executing elements of the President's economic agenda. In the international arena, Treasury is the principal federal agency responsible for developing policies and guidance in areas of international monetary and financial affairs, trade in financial services, foreign direct investment in the U.S., international debt strategy and U.S. participation in international financial institutions. In addition, Treasury is a principal agency for developing policies in the areas of trade in goods and non-financial services and foreign investments abroad.





Strategic Goals

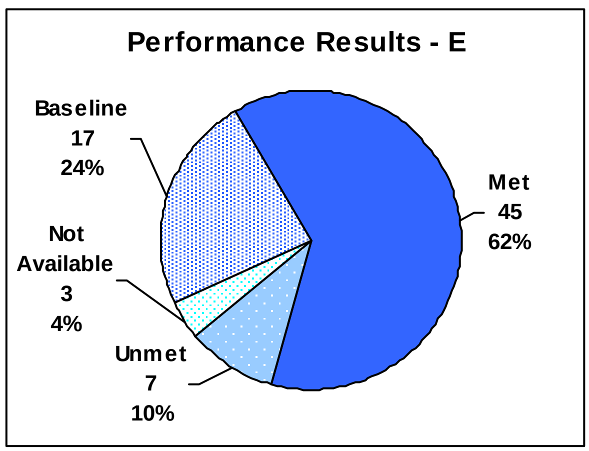
Treasury's Economic Focus consists of two strategic goals:

E1 **Promote Prosperous U.S. and World Economies**

E2 **Promote Stable U.S. and World Economies**

Summary Data

The charts shown include resources (both staff and dollars) by strategic goal and the percentage of targets that were achieved for all performance measures in the Economic Focus area.



E1 Promote Prosperous U.S. and World Economies

Goal Description

The goal to Promote Prosperous U.S. and World Economies 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

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 also pays particular attention to improving the economies of distressed communities.

Treasury serves American interests by promoting prosperity and stability in the international community. Treasury is responsible for the participation of the United States in the international financial institutions (e.g. 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.

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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.

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.

Public Benefit

The result of developing and implementing policies for economic development ultimately benefits the American public through the creation of good jobs. Job creation 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.

Promoting 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.

The U.S. benefits from a safe and sound national financial system. American citizens can be confident in placing their money and investments with these institutions, knowing that they have fair access to financial services and that they will be treated fairly. A flexible legal and regulatory framework is a key enabler in achieving this result.

A simple tax system not only improves compliance but also reduces the cost of tax compliance for businesses and individuals, and reduces the costs of tax administration. Additionally, 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.

Key Outcomes

- Improved current and future U.S. economic performance (aligns with E1A).
- Increased number of emerging markets to ensure greater economic opportunities (aligns with E1A).
- Improved standard of living abroad (aligns with E1A).
- Increased amount of global trade which will promote prosperity and peace (aligns with E1A).
- A safe and sound national financial system that promotes the growth of financial services (aligns with E1B).
- Fair access to financial services (aligns with E1B).
- Fair treatment of banking and thrift customers (aligns with E1B).
- Perform tax enforcement with fairness, efficiency, and effectiveness (aligns with E1C).
- Similarly situated taxpayers are treated the same (aligns with E1C).
- The tax burden is distributed equitably among all taxpayers with different abilities to pay (aligns with E1C).

Select Performance Measures

The measures shown below are a subset of the total measure set for Promoting Prosperous U.S. and World Economies. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

- Number of full-time equivalent jobs created or maintained in underserved communities.

- U.S. Real Gross Domestic Product (GDP) growth rate.

- U.S. unemployment rate.

- Percentage of licensing applications and notices filed electronically.

- Percentage of applications processed within timeframes.

For a full description and results of these measures, see PART IV.

Key Partners in Achieving this Goal

On domestic economic issues Treasury works with the Departments of Agriculture, Commerce, Housing and Urban Development, Interior, Health and Human Services, Transportation, Veterans Affairs, the Small Business Administration, the Social Security Administration, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Securities and Exchange Commission, the Federal Financial Institutions Examination Council, State Tax Agencies, the U.S. Postal Service, the Pension Benefit Guaranty Corporation, the Commodity Futures Trading Commission, the White House, the Congress and various advisory committees.

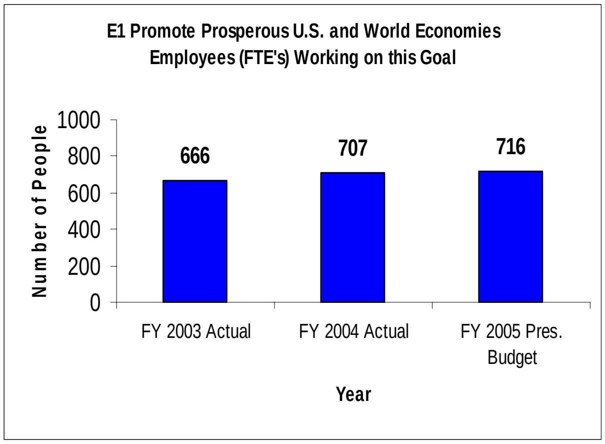
On global economic issues, Treasury's key partners include the Department of State, the Federal Reserve System, the Export-Import Bank, the Overseas Private Investment Corporation, the Office of the U.S. Trade Representative, the Organization for Economic Cooperation and Development, the Basel Committee on Banking Supervision, G7 partners, G8 partners, G10 partners, G20 partners, the International Monetary Fund, the World Bank and other multilateral development banks.

Performance Summary and Resources Invested[1]

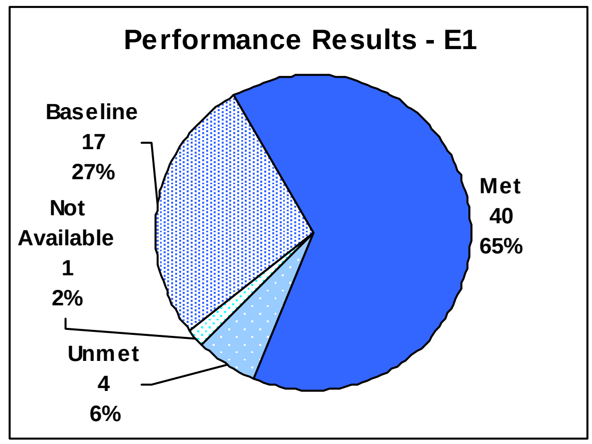
The charts shown reflect the resources Treasury devotes to the goal of "Promote Prosperous and U.S. and World Economies." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

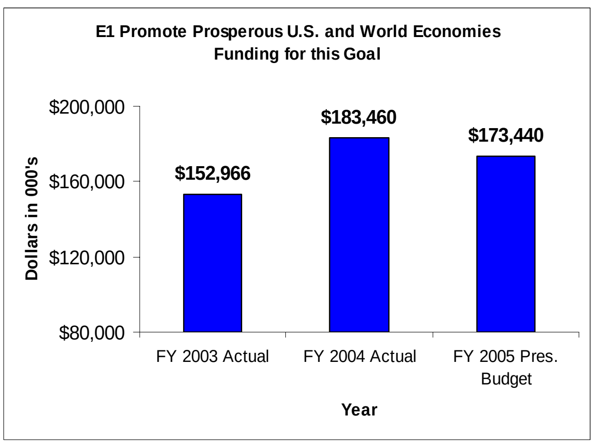
[1] The complete list of measures supporting this objective can be found in PART IV

A description of each strategic objective and the results achieved for Promoting Prosperous U.S. and World Economies follows.



E1 Performance Target Summary
Total Measures for E1



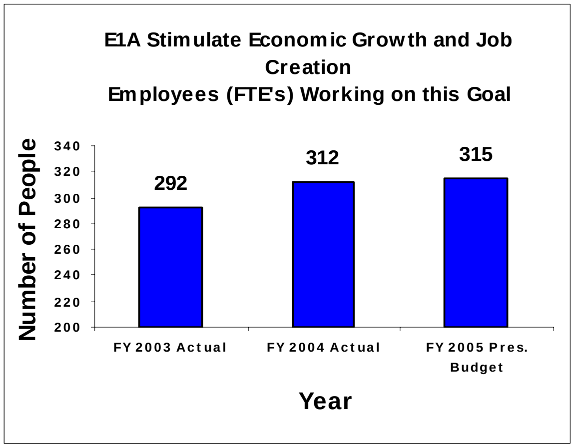


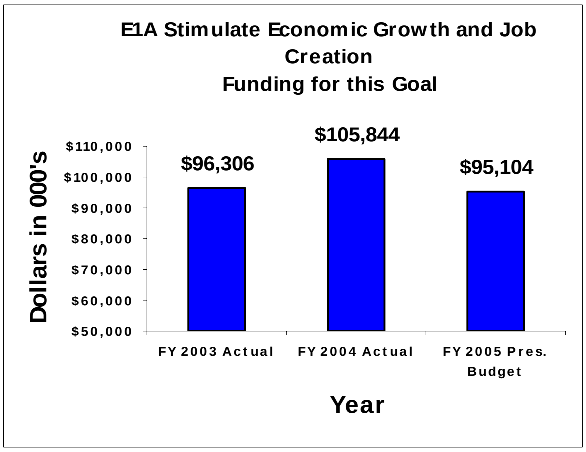
E1A Stimulate Economic Growth and Job Creation

Strategic Objective and Key Outcome Overview

Domestically, ongoing long-term initiatives include: pressing for tax changes, encouraging efficient savings and investment, designing policies that improve the efficiency and productivity of various sectors of the American economy and continuing to develop forecasting capabilities to project emerging trends and develop policies. Also, provide financing and technical assistance to financial institutions (e.g. community development banks, credit unions, etc.) that finance businesses and commercial real estate development in underserved communities, and tax credit authority to community development entities (CDEs) whose investments help create jobs and stimulate economic growth in low-income and underserved communities.

Internationally, Treasury's initiatives include negotiating for more open trade and investment, promoting reconstruction and re-engagement in key post-crisis countries (e.g., Afghanistan), encouraging private-sector led growth in developing countries, and promoting responsible policy regarding international debt, finance, and economics.

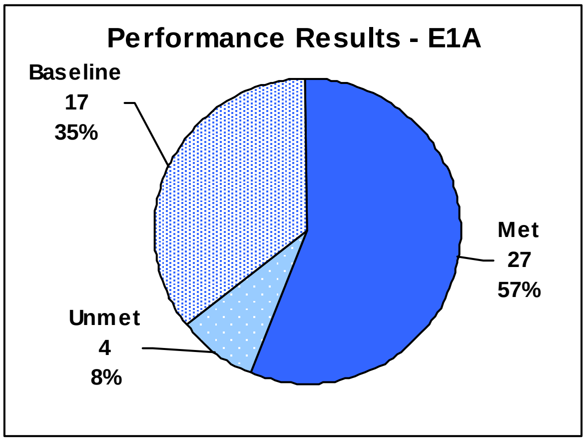




Performance Indicators and Resources Invested[2]

The charts shown reflect the resources Treasury devotes to the strategic objective of "Stimulate Economic Growth and Job Creation." These resources include: people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

E1A Performance Target Summary
Total Measures for E1A



[2] The complete list of measures supporting this objective can be found in PART IV

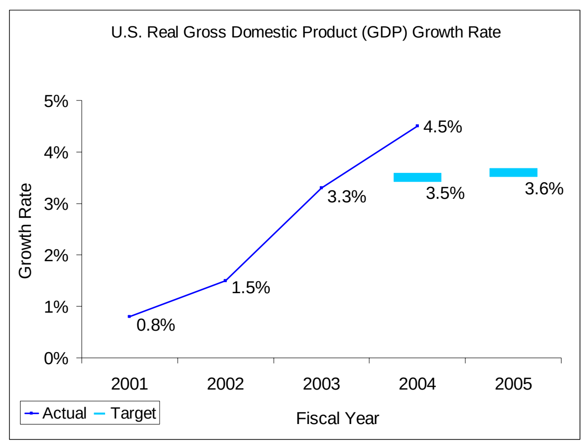
Successes

Domestic Policy. Treasury developed the Administration's Opportunity Zones initiative to provide tax benefits to areas hurt by poor economic conditions. To provide assistance to communities that have lost a significant portion of their job base and workforce in the past decade, Opportunity Zones encourage private and public investment in needy communities. In exchange for reducing local barriers to growth and development, these communities receive tax benefits to encourage businesses to locate, invest, and hire new workers. The plan includes incentives to spur development of residential construction. These areas will also receive priority consideration for Federal education, job training, and funding for housing.

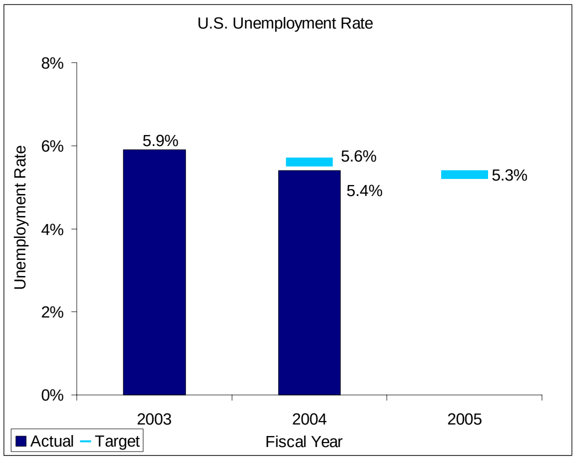
Treasury developed and updated revenue proposals, and with OMB, prepared the Receipts and Tax Expenditures chapters for the FY 2005 Budget and released Treasury's General Explanations of the Administration's Fiscal Year 2005 Revenue Proposals. These proposals include initiatives to encourage savings, to invest in health care, strengthen education, increase housing opportunities, increase energy production and promote energy conservation. Treasury also prepared baseline forecasts of tax receipts and revenue estimates for the Administration's tax proposals for the Mid-Session Review of the Federal Budget.

Treasury concluded revisions to a ground-breaking tax treaty with Japan which was approved by the Senate and implemented quickly. The new treaty reduces tax-related barriers to trade and investment between the United States and Japan, including a complete elimination of source-country withholding taxes on royalty income, interest income earned by financial institutions and dividend income paid by subsidiaries in one country to parent companies in the other. By reducing such barriers, the new treaty will foster closer economic ties between the United States and Japan, enhancing the competitiveness of business and creating new opportunities for trade, investment and jobs. In addition, a tax treaty with Sri Lanka, our first treaty with that country, was brought into force and protocols were negotiated amending treaties with the Netherlands and with Barbados to further facilitate cross-border investment and prevent abuse of the tax system. Treasury also negotiated the tax provisions of several new Free Trade Agreements (FTA), including the Australia FTA recently approved by the Congress.

Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 & the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. JGTRRA and EGTRRA unleashed the enormous economic potential of our free-market economy. Both were successful in revitalizing economic growth and turning labor markets around. The improvement of real growth subsequent to the passage of JGTRRA was impressive. Real GDP surged at a 7.4% annual rate in the third quarter of 2003, supported by a burst of personal consumption and business investment. Strength continued into 2004. Jobs began to grow by September of 2003, with 1.9 million employees added to nonfarm payrolls in the subsequent thirteen months. The unemployment rate declined by 0.9% from 6.3% in June 2003 to 5.4% in September 2004.



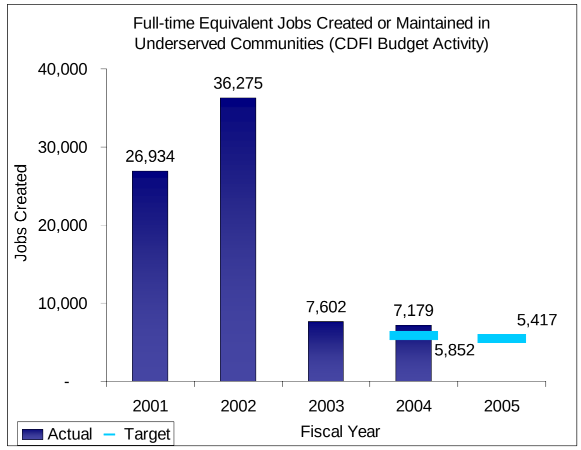
Treasury played a key role in the implementation of this legislation through policy formulation and analyzing the potential benefits, to the economy. Treasury prepared supporting materials for the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Act of 2003, including state-by-state estimates of the number of taxpayers affected by major provisions and examples of the impact on taxpayers, impacts on various demographic groups and marriage penalties. In addition, Treasury issued administrative guidance regarding this tax relief legislation to assist taxpayers in complying with, and receiving the benefits of, the new statutory provisions.



Health Care. Currently, the U.S. devotes nearly 15% of its total economic output to health care. Since this is an issue of critical importance to the federal budget and the economy as a whole, Treasury is examining the causes of growing health care costs in order to develop and identify policies that could moderate this growth and improve health care quality over the long-term. The provisions of the Trade Act of 2002 chartered Treasury (through the IRS) with establishing and implementing a new health coverage tax credit program. This program provides a refundable tax credit to eligible individuals for the cost of qualified health insurance for both the individuals and qualifying family members.

Social Security. The Administration has highlighted Social Security reform as a priority. Treasury developed a comprehensive set of presentations on criteria and assumptions for use in analyzing Social Security reform proposals. Further analysis will be driven by the priority of the reform.

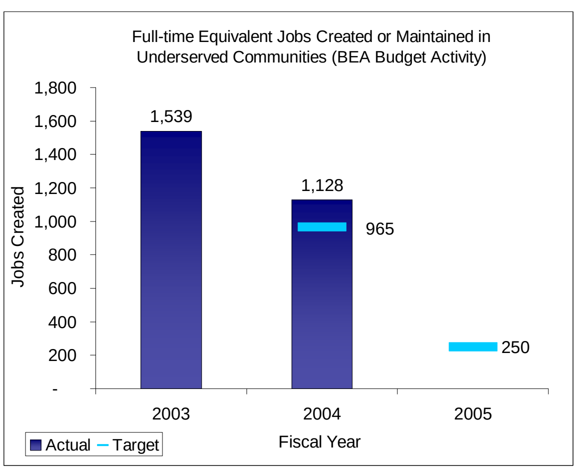
The Community Development Financial Institutions (CDFI) Fund. In FY 2004, the CDFI Fund continued to work to achieve Economic Growth in Underserved Communities. The CDFI Fund makes awards to CDFIs and allocates tax credits to Community Development Entities (CDEs). There is now a network of approximately 2,000 certified CDFIs and CDEs that are significant components in helping the nation deliver financing capital for stimulating economic growth in underserved communities, starting or expanding businesses, and promoting homeownership and wealth accumulation among low income and minority borrowers.



- In FY 2004, the CDFI Fund awarded $3.5 billion through the New Markets Tax Credit (NMTC) Program. The NMTC Program attracts private sector capital investment into urban and rural low-income areas to help finance community development projects, stimulate economic opportunity and create jobs. The NMTC Program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in CDEs.

- In FY 2004, the CDFI Fund awarded approximately $51.5 million in Financial Assistance and Technical Assistance awards through its CDFI Program. The projected impact of these FY 2004 awards include:
  - 7,500 jobs created or maintained.
  - 5,000 businesses financed.
  - 40,000 affordable housing units financed.
  - 7,500 home purchase mortgages provided.
  - 50 community facilities financed.
  - 45,000 new accounts opened at depository institutions.
  - 95,000 individuals and organizations provided with training or technical assistance, including consumer credit counseling, homebuyer counseling and business technical assistance.

- The CDFI Fund is already beginning to see the positive impact of its Native Initiatives efforts to increase the number and capacity of CDFIs that serve Native American communities. The number of certified CDFIs serving Native American communities increased from six in FY 1999 to 35 by the end of FY 2004.
- For FY 2004, the Fund received 66 applications requesting almost $25 million in awards, $34 million in increased financial assistance to CDFIs and $360 million in increased activities in distressed communities throughout the country. The Fund selected 49 FDIC-insured institutions to receive just over $17 million in awards. Awardees are headquartered in 20 states.
- The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending. Financial services in economically distressed community reinvestment leverages the Fund's dollars and puts more capital to work in distressed communities throughout the nation.



- In FY 2004, the CDFI Fund launched a new customer service tool called "myCDFIFund" to facilitate on-line electronic access to two of CDFI's largest program applications, including the New Markets Tax Credit (NMTC) Program. This tool provides Fund customers with a variety of services from a single internet address to create and submit program electronic applications electronically, access historical data, update organizational information, and communicate with Fund staff. In addition, the CDFI Fund upgraded its electronic mapping system with new and improved mapping features and capabilities to enable applicants to determine the eligibility of census tracts and counties under the Fund's various program criteria.

International Policy. FY 2004 offered the United States a major opportunity to advance its international economic and financial policy agenda, through Chairmanship of the G-7 (U.S., Japan, Germany, France, the U.K., Italy, and Canada) Finance Ministers' process. Key accomplishments included significant progress under the G-7 Agenda for Growth which focuses on boosting productivity and employment in the G-7 countries, creating an engine for worldwide growth. The U.S. also introduced "supply-side" surveillance into the G-7 process for the first time, a method for emphasizing the actions each country needed to take to enhance its potential for sustained and strong growth.

Afghanistan. Treasury actively engaged in post-conflict economic restructuring by providing assistance with the initiation of a streamlined government budget process, an improvement of the payment system for government salaries and the creation of a Debt Management Unit within the Ministry of Finance.

Bolivia and the Dominican Republic. Treasury helped both countries stay on track with their International Monetary Fund (IMF) macroeconomic stabilization programs, a key element of stability and solvency in these nations. In Bolivia, the resignation of President Sanchez de Lozada in October 2003 led to serious problems for government finances and the banking sector. Treasury secured rapid disbursement of loans from the World Bank and Inter-American Development Bank in December 2003 to pay public salaries and meet critical government obligations, and led the international community to commit $89 million to fill the country's 2004 fiscal gap. In the Dominican Republic, Treasury strongly supported engagement and assistance by the international financial institutions to help the Dominican Republic confront the economic and financial challenges stemming from the consequences of a major banking fraud. Senior Treasury officials also engaged with Dominican Republic leaders at critical moments to facilitate the adoption of needed economic policies to slow inflation, and prevent further depreciation of the peso.

China. Treasury engaged China in an intensive economic dialogue, focusing on the need for China to move to a more flexible and market-based currency regime, increase access to its markets, and accelerate the opening of its capital account. Treasury launched a technical cooperation program, under the leadership of Secretary Snow and Chinese Central Bank Governor Zhou, to facilitate China's capacity to make these changes, and actively assisted China in its financial reform efforts. In February, Treasury led an interagency mission to Beijing to discuss the supervising bank's foreign exchange risk and developing foreign currency derivatives. In June, a group of Treasury banking advisors went to Beijing to conduct intensive training on banking supervision, corporate governance, accounting standards, credit analysis and resolution of non-performing loans with a large group of state bankers, regulators, and asset management companies.

Haiti. Treasury worked swiftly to address the economic consequences of the sudden resignation of President Aristide in February 2004. Treasury helped organize an international donors' conference for Haiti in July 2004, where international donors committed more than $1 billion to fund reconstruction and development activities through 2006. Treasury also developed the proposal for the simultaneous private sector conference, which highlighted Haitian government reforms intended to make Haiti a more attractive destination for investment and commerce.

Treasury's Office of Technical Assistance provided program teams that offer valuable assistance in a number of areas.

- Helped to organize a Haitian investigation into the conversion of assets by the prior government.
- Examined the Haitian tax and customs organizations to determine their capacity to benefit from technical assistance.
- Provided budget assistance on discretionary accounts, fraudulent employment claims, and budget shortfalls.

Iraq. The Treasury-led effort at the Coalition Provisional Authority (CPA) aided in the development of a central budget, revitalization of the banking system, introduction of sound management practices, transparency at the Central Bank and Ministry of Finance, the creation of a trade bank, and a strengthening of efforts aimed at combating financial crimes and terrorist financing. All of these efforts are crucial for Iraq to achieve some fiscal stability, attract foreign investment that will provide resources for economic growth, and in turn create opportunity and prosperity for Iraqi citizens.

In FY 2004, Treasury facilitated an agreement among Iraq's official bilateral creditors on the need for substantial debt reduction and advanced the process for reaching a specific debt reduction agreement. Treasury pressed for prompt debt data collection by the Paris Club and the IMF, to facilitate timely debt reconciliation and urged the IMF to produce a thorough Debt Sustainability Analysis to serve as the basis for multilateral negotiations on a debt reduction agreement. At the Sea Island G-8 Summit in June 2004, leaders agreed that debt reduction for Iraq, sufficient to ensure sustainability and taking into account the IMF's analysis, should be achieved before the end of calendar year 2004.

Liberia. Struggling after protracted violence and the resignation of its president, Liberia represents the single most intensive Treasury engagement in Sub-Sahara Africa. With a destroyed domestic economy and enormous debts and arrears, and largely isolated from the international community, Liberia's transitional government requested U.S. assistance in opening up discussion of macroeconomic policy reforms and technical assistance, normalization of relations with international financial institutions, and identification of misappropriated assets.

Treasury named a Liberia Team Leader to coordinate U.S. Government, World Bank, IMF, and other international financial institutions efforts. Treasury staff participated in an interagency mission to Liberia to assess the forestry sector, with the goal of restructuring the industry to achieve revocation of United Nations (U.N.) sanctions on Liberian timber exports.

Treasury also provides technical assistance to the National Transition Government of Liberia. The overarching goal is to improve the government's ability to generate revenue, to create a transparent and sound government budget, to document existing debt and establish sound strategies for working cooperatively with creditors, and to transform the banking sector into an efficient means of allocating financial resources into productive economic activities.

Middle East Region. Formally launched in September 2003, the Partnership for Financial Excellence aims to provide training, technical assistance and policy advice to help Middle East countries modernize their financial systems. These countries lack strong, well regulated, and efficient financial systems that can allocate resources to productive activities that could provide employment, goods and services for a rapidly-growing population. By developing the financial sector, Treasury is helping to create jobs and a more secure and prosperous Middle East.

Treasury enlisted the cooperation and support of numerous other agencies and institutions to design programs that meet the specific needs of developing financial sectors in the Middle East. During FY 2004, Treasury led the effort to design a training program on banking supervision, and will launch that program in the region in December 2004.

Promoting Private Sector Growth. The US-sponsored Small and Medium Enterprise (SME) Fund, established by Treasury in 2000, leverages European Bank for Reconstruction and Development (EBRD) 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 reach $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.
- Treasury provided additional technical assistance funds to Tajikistan and Armenia for the first time.

Similarly, in the Western Hemisphere region, 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 on credit analysis and other techniques they need to increase their loan portfolio to small businesses.

These private businesses form a bulwark against political instability, which lessens the need for other kinds of U.S. assistance, and contributes to a countries' self-reliance and economic sustainability.

Remittances. Remittances are funds earned by immigrant workers in one country and then sent to family or friends in the worker's country of origin. The transmissions are legitimate monetary transfers, usually by wire services, but often happen in the informal sector where they can obscure other money flows that are illegitimate, like terrorist financing. Getting formal financial institutions, such as banks, to offer remittance services would help move remittance flows into the formal monetary sector, which would assist with the fight against terrorist financing by reducing traffic in the informal sector.

- During FY 2004, Treasury developed and led a global, multifaceted effort to address the economic and institutional barriers to the provision of cost-effective and accessible remittance services by formal financial institutions.

- At the June 2004 G-7 Sea Island Summit, each G-7 country committed to launch bilateral partnerships with major remittance recipient economies, work toward enhancing the data on remittance flows, and call for the development of international guidance (or best practices) on the regulation of remittance service providers.

- At the Special Summit of the Americas in January 2004, Western Hemisphere leaders committed to work together to halve the average cost of remittance transfers in the region by 2008. In addition to proposing this initiative, Treasury worked with other U.S. Government agencies and the Federal Reserve Bank of Atlanta to identify priority countries to focus the remittances work and to arrange a region-wide conference on cross-border payments systems, with the goal of increasing the speed and reducing the cost of such transfers.

- In June 2004, the Asian Pacific Economic Cooperation (APEC) Remittance Services Working Group, led by Treasury, held a successful Remittances Symposium in Tokyo to highlight the challenges and opportunities of shifting the flow of remittances to formal financial channels.

Trade. Free Trade Agreements (FTA's) between the United States and other nations effectively remove barriers to trade and investment, and directly benefit American workers by providing access to foreign markets for U.S. goods and services. In these negotiations, Treasury has the lead on financial services and foreign exchange debt issues and a lead supporting role on investment issues. By taking on high-level commitments in financial services (a core element of a country's economic infrastructure), our partners in these FTA's potentially can attain higher levels of sustained growth in the future, enhancing international stability and increasing U.S. exports even further. This year the U.S. completed negotiation of comprehensive FTA's with five Central American countries, the Dominican Republic, Morocco, Bahrain, and Australia. The U.S. also began FTA negotiations with three Andean countries, Panama, and Thailand. Treasury also helped draft the text of a new model Bilateral Investment Treaty (BIT) to give U.S. investors (and their shareholders) legal rights in countries that are not ready to negotiate more comprehensive free trade agreements with the U.S.

The Committee on Foreign Investment in the United States (CFIUS), chaired at the staff level by Treasury, examines proposed foreign acquisitions of U.S. companies to protect U.S. national security and economic interests. In FY 2004, CFIUS undertook 45 national security reviews, and initiated one investigation that required a report and recommendation for the President's decision.

Aid. Bilateral economic aid takes two forms: tied or untied. Tied aid requires a recipient government use financing to purchase goods or services from the donor country's firms (essentially a subsidy to donor country's firms). International rules constrain the use of tied aid, and the U.S. seeks similar rules for untied aid. The current lack of rules for untied aid means that donors can simply re-label their tied aid as untied aid, and engage in the same practices prohibited by the tied aid rules. Congress recognized this problem and has provided Treasury with an official mandate to undertake international negotiations to discipline untied aid.

These actions create the same competitive pressures on U.S. employers and exporters and the same potential budgetary pressures on U.S. taxpayers as tied aid, endangering the successful use of tied aid rules. Treasury prepared and presented a series of proposals to its international counterparts on how to discipline the use of untied aid. Agreement on the issue will require consensus by all the nations involved, but in FY 2004, Treasury was successful in conveying the importance of the issue to senior Administration officials, who added it to the agenda of the U.S.-hosted G-7 Summit in 2004 in order to give it the highest level of political attention.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective E1A, "Stimulate Economic Growth and Job Creation."

- Number of homebuyers in underserved markets that obtain purchase money mortgages or other home purchase financing.

- Number of accounts opened at insured depository institutions that are located in underserved communities.

- Level of MDB grant financing and satisfactory results measurements (African Development Bank/AFDF Grants).

- Level of MDB grant financing and satisfactory results measurements (Grants as a % of IDA FY Commitment).

E1A Challenge Summary. The performance targets in this objective were not achieved primarily due to unavailability of data. Some of these measures may be discontinued as better measures are developed that link more clearly to the strategic objective.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Economic Growth & Domestic Policy. Treasury will continue to study, recommend, and support Administration policy initiatives to strengthen the U.S. economy, create more American jobs, and enhance citizens' economic security. For example, Treasury is actively engaged in work that will improve the U.S. pension system, reduce health care costs and permanently improve the federal income tax system. Treasury will also continue to assess and forecast economic conditions.

Community Development - Community Investment Impact System (CIIS). CIIS is a sophisticated web-based system that allows for the collection of institution and transaction-level data from Community Development Financial Institution (CDFI) and Community Development Entity (CDE) awardees. CIIS was implemented in June 2004 and was being used by 240 Community Development Financial Institutions and 16 Community Development Entities as of the end of the fiscal year. Information provided by CIIS includes information on each loan and investment a CDFI and CDE awardee makes, including the purpose of the loan or investment, borrower or project location, borrower socio-economic characteristics, loan and investment terms, repayment status, and community development impacts. Transaction level data provides the specific location and characteristics of each loan in a CDFI/CDE's portfolio and will allow the CDFI Fund to measure impact at the census tract level. Transaction level data collected for the first time in FY 2004 compares CDFI/CDEs' lending behavior and community development impact to that of traditional financial institutions.

Once CIIS is fully operational, information will be available to better enable the Fund to measure the impact of its programs and the extent to which the Funds' revised goals are achieved. In FY 2005, the Fund will collect baseline data for these new measures. In FY 2006, the Fund will be able to measure its performance against its targets and demonstrate the extent of the Fund's achievement of its goals. Accordingly, most of the current program performance measures will no longer be used once this information is available.

International Policy. In FY 2005, Treasury will continue work to stimulate economic growth and job creation overseas in both developed and developing countries. We plan to advance bilateral policy discussions to support higher rates of economic growth worldwide, and to encourage private-sector led growth by promoting the formation of public-private partnerships in developing countries. Treasury will also work with the World Bank Group's International Finance Corporation to launch a lending facility (and begin making loans) that support small-medium enterprise development in the Middle East and South Asia.

Treasury will continue encouraging countries with fixed or inflexible currency policies to move toward more flexible systems. We will provide assistance to those countries by working with them to liberalize capital controls, strengthen banking systems, and create institutions and financial products that support flexible exchange rates.

Treasury-International Affairs will continue its emphasis on promoting reconstruction and re-engagement in post-crisis countries with work in Liberia, Haiti, Iraq, and Afghanistan. The Liberia Team plans to continue assisting in the arrears clearance process, and to coordinate with the IMF on technical assistance support. The Western Hemisphere office will continue supporting international engagement and fundraising for Haiti. Treasury will place representatives in Baghdad and Kabul to assist with economic and financial reconstruction efforts. And efforts will continue in Washington to identify and respond to "hot-spots" more rapidly.

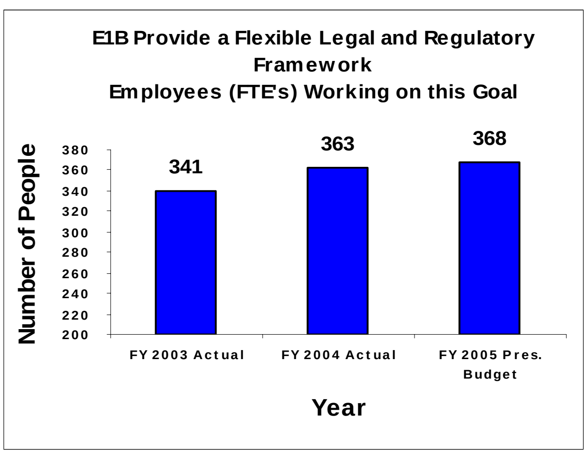
E1B Provide a Flexible Legal and Regulatory Framework

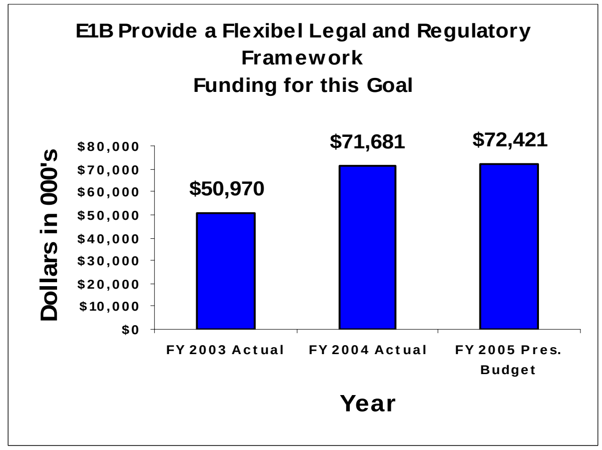
Strategic Objective and Key Outcome Overview

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.

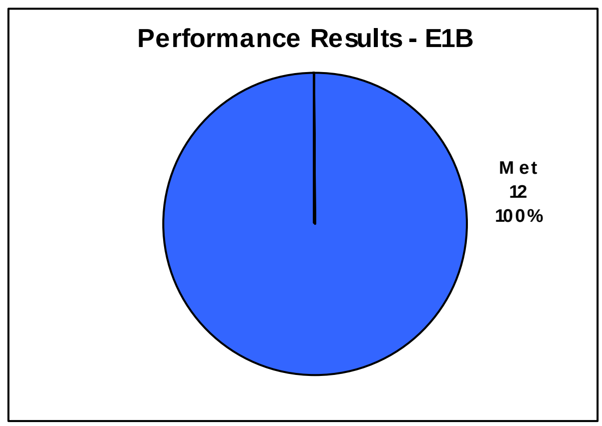
Performance Indicators and Resources Invested[3]

The charts shown reflect the resources Treasury devotes to the strategic objective of "Provide a Flexible Legal and Regulatory Framework." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





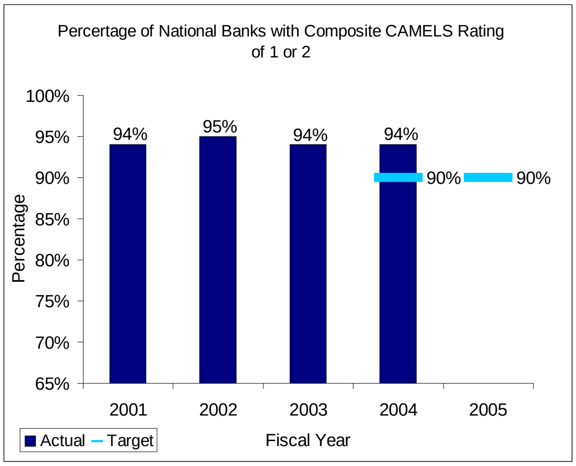
E1B Performance Target Summary
Total Measures for E1B



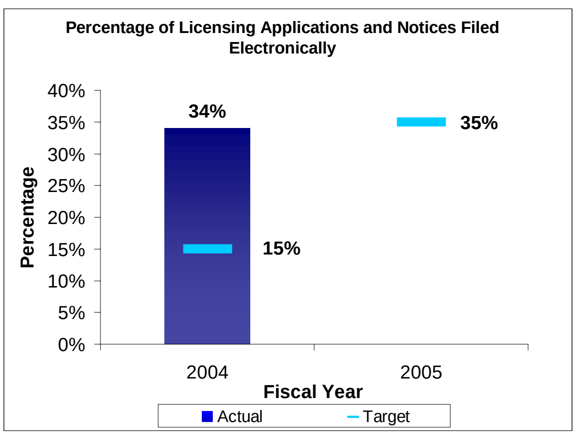
Successes

Through its licensing and regulatory processes, the Office of the Comptroller of the Currency (OCC) supports national banks' efforts to remain competitive and consistent with safety and soundness. The OCC works to streamline its licensing procedures and keep regulations current, clearly written, and supportive of an effective supervisory process. The OCC's program of risk-based supervision focuses on banks' abilities to properly manage and control risks and tailors an individual bank examination to the risk profile and condition of the institution. Federal-chartered banks operate under a set of uniform national standards.

[3] The complete list of measures supporting this objective can be found in PART IV



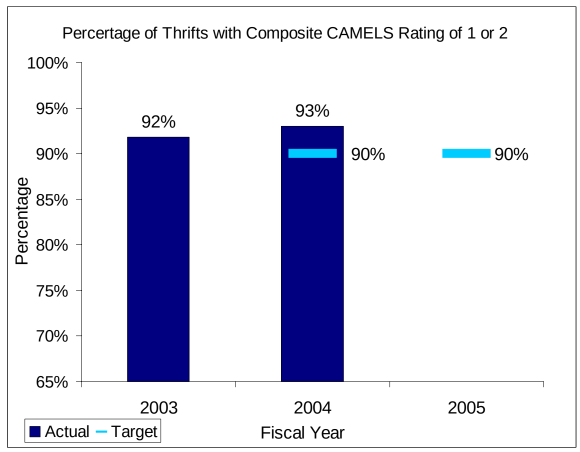
- The OCC experienced increases in both its licensing and regulatory work. The OCC completed 30% more corporate applications than anticipated. Both new national charters and the number and complexity of mergers, acquisitions, consolidations and restructuring of banks affected the licensing operations.



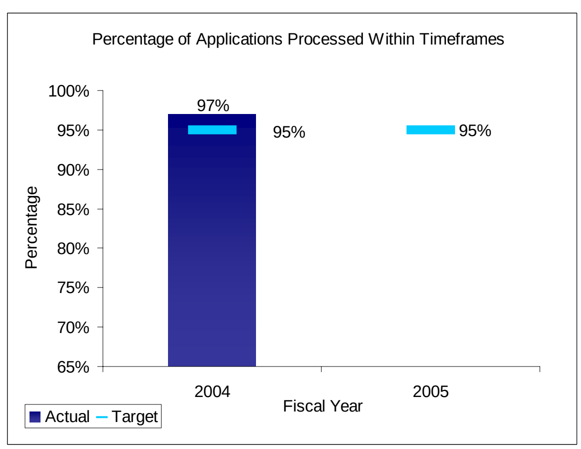
- Electronic filing of corporate applications grew at a faster rate than planned for the first full year of e-Corp. The OCC exceeded its targets for quality and timeliness in responding to the increased volume of applications.

- The OCC issued 29% more legal opinions than in FY 2003, while exceeding the target for timely issuances. The OCC's prompt responses to legal opinions requested by the banks are critical to ensuring they remain competitive and consistent with safe and sound practices.

The Office of Thrift Supervision (OTS) strives to reduce the regulatory burden on thrifts while maintaining effective supervision, improving the application process, limiting assessment rate increases, and reviewing statutes and regulations that may impose regulatory burdens on thrifts. It tailors examinations to the risk profile of the individual institutions, streamlines the examination procedures for small institutions, and conducts melded safety and soundness and compliance examinations. OTS ensures that the application process is responsive and streamlined, enabling the thrift industry to provide competitive financial services.



- OTS's application processing times have stayed within the projected targets as procedures are streamlined and delegated. OTS periodically reviews the outstanding delegation of applications to the regional offices to determine whether additional applications may be delegated.



- The OTS budgetary process strives to keep costs to regulatory entities as low as possible while ensuring that OTS has the necessary resources to effectively fulfill its supervisory responsibilities. The assessment rate increases for thrifts have remained below the inflation rate for the past two years. In May 2004, OTS replaced examination fees for savings and loan holding companies (SLHCs) with semi-annual assessments. The new system provides SLHCs with consistency and predictability regarding costs, allowing SLHCs to better plan for assessments related to supervisory work by eliminating annual fluctuation that occurred under the prior system. OTS ceased billing for regularly scheduled SLHC examinations and will phase in the new assessment system over the first year of its implementation.

Challenges

All performance targets were achieved for this strategic objective.

Moving Forward

In FY 2005, the OCC anticipates 35% of all corporate applications will be filed electronically through e-Corp, OCC's automated application system. The OCC will deploy electronic Part 24 CD-1 Community Development Investment application forms.

The OCC will issue a revised Bank Secrecy Act handbook. The OCC also will continue to work with other federal regulators on Basel II, to include a fourth quantitative impact study and a notice of proposed rulemaking on possible revisions to the agencies' risk-based capital standards relating to the framework.

The federal financial regulatory agencies began a multi-year effort in FY 2003 to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. The interagency Economic Growth and Regulatory Paperwork Reduction Act project team reviews regulations for unnecessary burden. During FY 2005, OTS will continue working with the Senate Banking Committee and House Financial Services Committee staff to promote the OTS' regulatory burden reduction initiatives.

Effective October 1, 2004, OTS reduced regulatory burden by modifying the existing "small institution" definition for thrifts under the Community Reinvestment Act (CRA). The new rule increased the "small institution" threshold for savings associations from $250 million to $1 billion and permits thrift institutions qualifying as small savings association to benefit from streamlined CRA examinations as well as reduced data collection and reporting burdens under the CRA. Approximately 190 institutions are affected by the rule change and are no longer required to report CRA data.

E1C Improve and Simplify the Tax Code

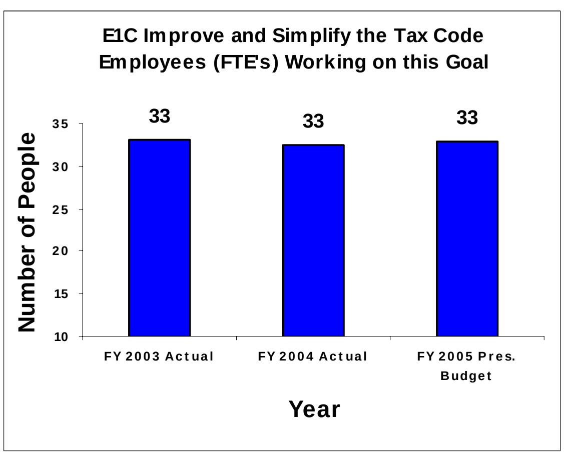
Strategic Objective and Key Outcome Overview

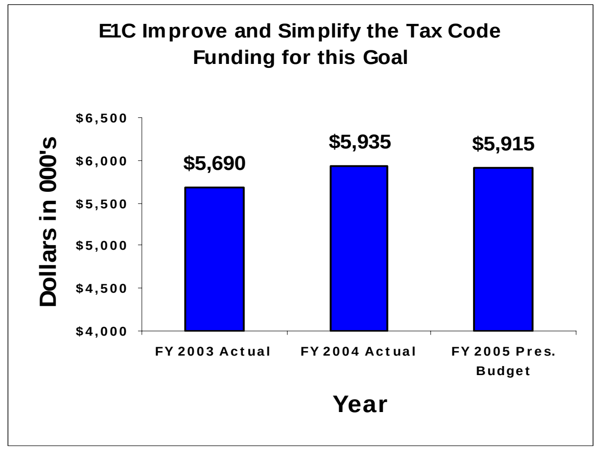
Treasury has primary responsibility for efforts to simplify and reform the tax code, to reduce the cost of compliance for businesses and individuals and drive economic growth. Treasury prepares draft tax reform legislation and works to secure its enactment, while developing the fact base (e.g. time and cost to file) that focuses and supports reform initiatives and helps measure the impact of tax code changes. In addition, Treasury works to simplify compliance through the administrative guidance process.

IRS will implement tax code reforms as the Congress passes corresponding legislation. IRS will also reduce the cost of compliance by simplifying tax forms, making electronic reporting seamless, and improving pre-filing guidance.

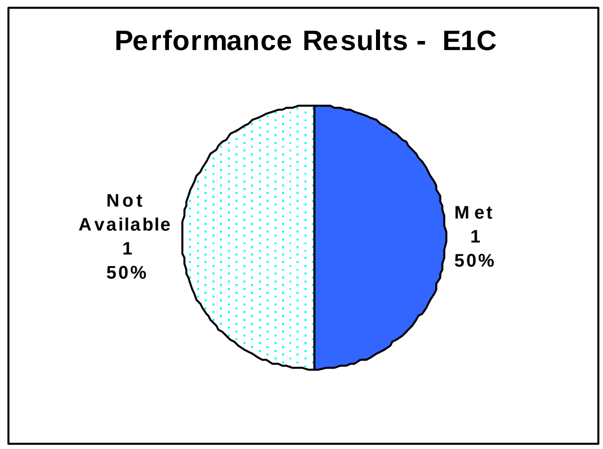
Performance Indicators and Resources Invested[4]

The charts shown reflect the resources Treasury devotes to the strategic objective of "Improve and Simplifying the Tax Code." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





E1C Performance Target Summary
Total Measures for E1C



Successes

Improve Procedures for Taxpayers Seeking to Resolve Their Tax Liabilities. There are two proposals to improve procedures for taxpayers seeking to resolve their tax liabilities. The first proposal would permit the IRS to enter into installment agreements that do not guarantee full payment of a liability over the life of the agreement. This will permit the IRS to work with a broader range of taxpayers who desire to resolve their tax liabilities. The second proposal would make counsel reviews of accepted offers-in-compromise more efficient without diminishing oversight of the offers that are accepted.

The projected 10-year revenue effect of this proposal is $505 million.

[4] The complete list of measures supporting this objective can be found in PART IV

Tax Simplification Proposals. The following proposals have been developed or are in development to simplify the tax code.

- **Reduce Burden on Single Parents.** Eliminate the household maintenance test and simply require that the taxpayer lives with their child.

- **Simplify the Earned Income Tax Credit (EITC**). Improve the administration of the EITC with respect to eligibility requirements for undocumented workers.

- **Consolidate and Simplify Higher Education Tax Benefits.** Simplify the choices students and parents face by consolidating the various provisions into two credits: the Hope credit and an expanded Lifetime Learning credit. The new Lifetime Learning credit would cover student interest (up to $2,500) and would apply on a per-student rather than a per-taxpayer basis. The phase out limits for both credits would be raised, and the dollar limits would be indexed. The definitions of "qualified higher education expense" and "qualified higher education institution" would be made uniform throughout the tax code. Other changes would be made to increase uniformity of definitions.

- **Make Computing the Child Tax Credit Easier.** Use the same income and residency tests for the refundable child tax credit and the EITC. It would also provide one computation to determine the credit amount.

- **Simplify the Taxation of Dependents.** Simplify and expand the standard deduction for dependents. It would tax young dependents based on only their income, and not on the income of their parents and siblings.

- **Simplify the Calculation of the Capital Gains Tax.** Eliminate the various special rates for particular assets. Instead, 50% of the gain on these assets would be taxed at ordinary income tax rates and the remainder at the standard capital gains rate. In addition, special treatment for certain newly-issued small business stock would be eliminated.

- **Ease Compliance Burden for Unemployment Insurance.** Allow household employers to annually report and pay a combined federal and state unemployment tax to the federal government. Unemployment insurance benefits for household employees would continue to be paid by the state and reimbursed by the federal government.

- **Make Uniform Various Definitions of a Qualifying Child.** Make the definition of a qualifying child the same for each of the five child-related tax benefits. In addition, the support test would be eliminated. Instead, taxpayers would be required to live with the child for over half the year, a much simpler test to apply. 10-year revenue effect of all simplification provisions: -$5.756 billion.

Challenges

The primary measure to assess our performance for this strategic objective is in development.

Moving Forward

A new measure will be implemented to report on the performance of this objective, "Average Tax Compliance Cost for Individuals and Small Businesses." The new measure will give Treasury insight into the efficiency of tax simplification proposals.

E2 Promote Stable U.S. and World Economies

Goal Description

The goal of Promote Stable U.S. and World Economies contains three important elements:

- Promote stability in the 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

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

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 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.

Key Outcomes

- Americans have adequate personal savings to support them in tough times or retirement (aligns with E2A).
- Consumers are protected from fraud and deception (aligns with E2A).
- Americans are prepared to manage their personal finances (aligns with E2A).
- International financial systems are stable in order to prevent or minimize the impact of financial crises (aligns with E2B).

Public Benefit

By creating conditions in which the American people feel economically secure, they will have the savings and other resources necessary to live as they desire, and are protected from frauds and other financial crimes.

International financial stability enables more predictable growth for the U.S. economy and minimizes costly intervention.

Select Performance Measures

The measures shown are a subset of the total measure set for Promoting Stable U.S. and World Economies. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

- U.S. Household Net Worth as percentage of disposable personal income.
- Number of crises in emerging markets as indicated by defaults.
- Number of crises in emerging markets as indicated by currency depreciations.

For a full description and results of these measures, see PART IV.

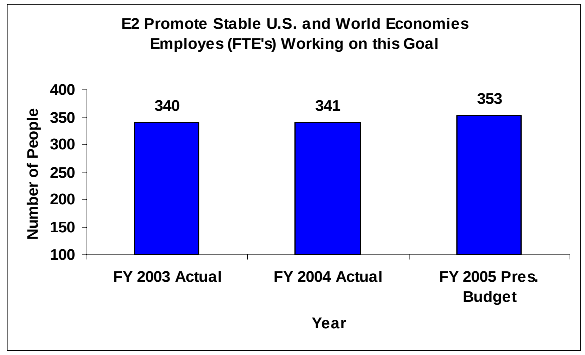
Key Partners in Achieving this Goal

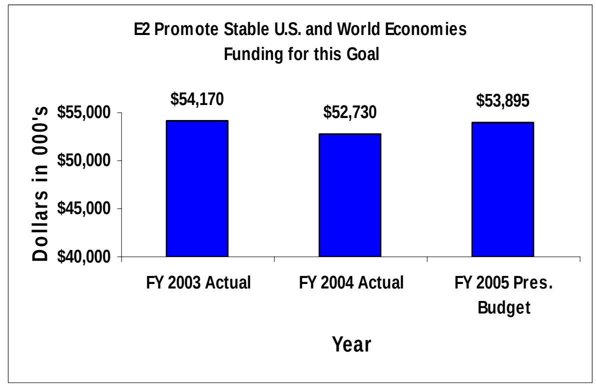
Domestically, Treasury works with, among others, the Federal Reserve System; the Food and Drug Administration; the Bureau of Alcohol, Tobacco, Firearms, and Explosives; the Federal Deposit Insurance Corporation; Customs and Border Protection; the Federal Trade Commission; the U.S. Trade Representative; state agencies; and the banking and thrift industries.

On global economic issues, Treasury's key partners include the Department of State, the Federal Reserve System, the Export-Import Bank, the Overseas Private Investment Corporation, the office of the U.S. Trade Representative, the Organization for Economic Cooperation and Development, the Basel Committee on Banking Supervision, the Interagency Country Exposure Risk Committee (ICERC), G7, G8, G10, and G20 countries, the International Monetary Fund, and the Multilateral Development Banks.

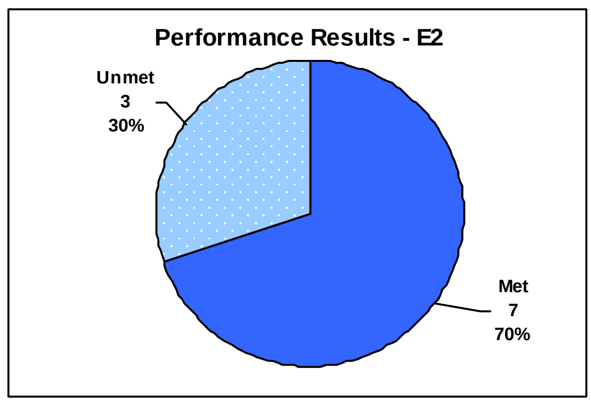
Performance Summary and Resources Invested[5]

The charts shown reflect the resources Treasury devotes to the goal of "Promote Stable U.S. and World Economies." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





E2 Performance Target Summary
Total Measures for E2



A description of each strategic objective and the results achieved for Promoting Stable U.S. and World Economies follows.

[5] The complete list of measures supporting this objective can be found in PART IV

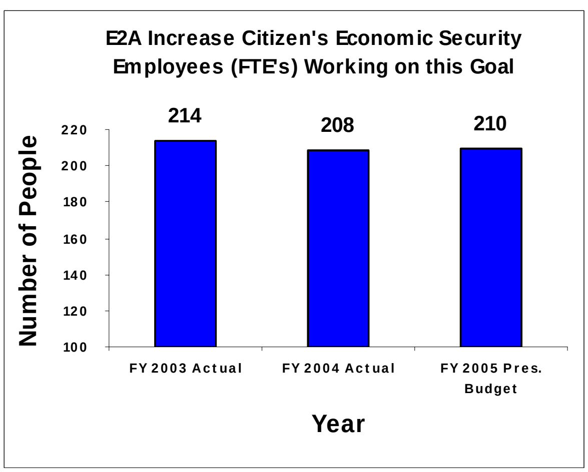
E2A Increase Citizens Economic Security

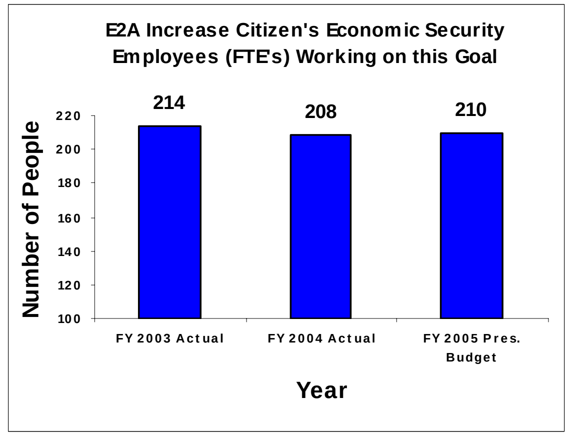
Strategic Objective and Key Outcome Overview

To increase the personal savings rate and ensure people make informed financial decisions, Treasury coordinates financial education efforts across the U.S. Government. Treasury also supports pension legislation that properly measures liabilities and aligns funding targets so that all pensions have the resources necessary to support their beneficiaries.

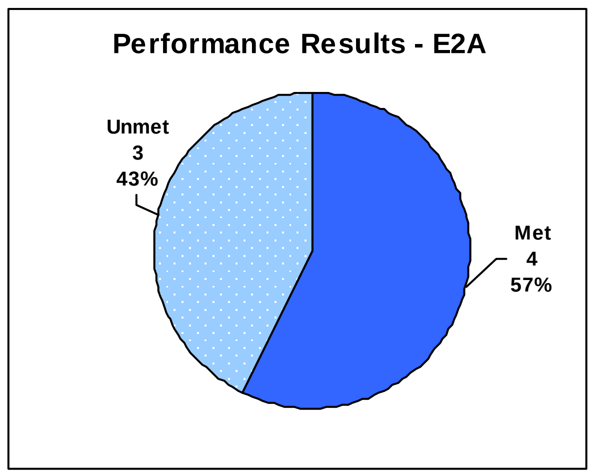
Performance Indicators and Resources Invested[6]

The charts shown reflect the resources Treasury devotes to the strategic objective of "Increase Citizen's Economic Security." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





E2A Performance Target Summary
Total Measures for E2A

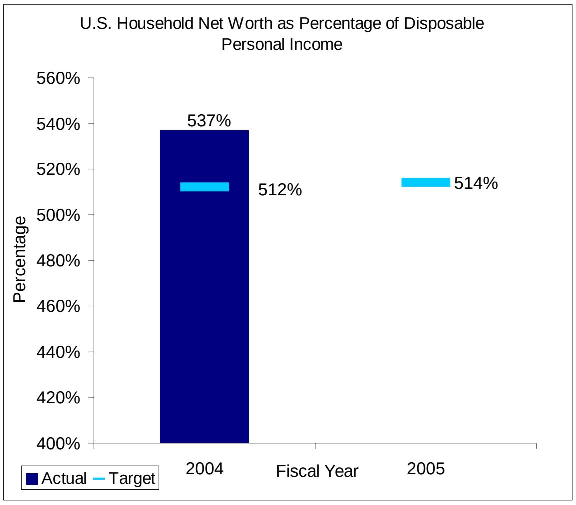


Successes

Financial Education. Treasury dramatically increased its outreach efforts to improve access for all Americans. As of February 2004, the online Federal Financial Education Directory provided improved access to information on more than thirty personal finance programs and initiatives in English and Spanish. In addition, Treasury promoted financial education through increased outreach at events, speeches, round-tables, teaching sessions, and by recognizing exemplary financial education programs across the country.

[6] The complete list of measures supporting this objective can be found in PART IV

In December 2003, the President signed the Fair and Accurate Credit Transactions Act, which called for the creation of a Financial Literacy and Education Commission (FLEC) comprised of more than 20 federal agencies. Treasury took the lead in rolling out the federal effort to make federal financial literacy resources more accessible, more effective, and more useful to the public.



Personal Financial Information Security. Treasury is fighting identity theft and promoting other measures to provide consumers better security of their personal financial information. The Federal Accurate Credit Transaction (FACT) Act, which Treasury was instrumental in developing and helping to implement, will enable consumers to obtain a free copy of their credit report and to implement a national consumer information security alert system. By promoting proposals designed to protect personal information, Treasury hopes to prevent citizens' personal information from being stolen and misused.

Alcohol, Tobacco Tax and Trade Application Program. Treasury ensured that only eligible persons entered into the businesses regulated by Alcohol, Tobacco Tax and Trade Bureau (TTB). Personal and financial background investigations, as well as inspections of premises to be used for the operations, were also conducted. In FY2004, TTB received 4,188 original permit applications and approved 3,935 for permits.

In late 2003, Treasury, through TTB, launched a web-based and entirely paperless system called Certificates of Label Approval (COLA) Online that gives alcohol industry members and third party filers the option to file these applications electronically via the internet. Treasury receives over 100,000 COLAs applications annually (paper and e-filed applications), an increase of 50% over the past five years. The introduction of this technology significantly reduces the paperwork burden on industry, and has made the operation of the bureau more efficient by improving procedures and workflow.

Treasury contributed to the World Wine Trade Group (WWTG) ongoing labeling agreement negotiations to ensure that U.S. consumers have a clear standard for content labeling of wines imported into the U.S. from participating countries. At the same time, Treasury showed its commitment to reducing trade barriers by facilitating the concept of a common wine label for use among WWTG trading partners.

Treasury completed its first phase of the Electronic Appellations Initiative by providing listings of authorized U.S. appellations of origin on the internet. This is the first step in developing an electronic "warehouse" of all U.S. and foreign authorized appellations of origin. This will facilitate the opportunity for foreign governments to review their appellation listings prior to publication.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective E2A, "Increase Citizen's Economic Security."

- Response to unsafe products and product deficiencies discovered.
- Percentage of Certificates of Label Approval (COLA) applications processed within 9 working days of receipt.
- Percentage of Specially Denatured Alcohol formula submissions completed within 10 days of receipt.

E2A Challenge Summary. The performance targets in this objective were not achieved, but most were just slightly under target. Significant impact on program performance was minimal. Some of these measures may be discontinued as better measures are developed that link more clearly to the strategic objective.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Treasury's Office of Financial Education will continue in its efforts to help all Americans learn how to save, invest, and to use the many financial products offered by our financial institutions. To accomplish this, Treasury will continue its financial education outreach efforts to cities throughout the United States. Treasury will continuously monitor and update the online Federal Financial Education Directory to ensure that it provides access to information on the most innovative and successful personal finance programs and initiatives in both English and Spanish.

Additionally, Treasury will continue coordinating the federal efforts of more than 20 federal agencies on financial literacy through quarterly meetings of the Financial Literacy and Education Commission (FLEC). Working with the FLEC members and gathering input from outside groups, Treasury will develop an effective national strategy to ensure that federal financial literacy resources are more accessible, effective and useful to the public.

In FY 2005 and beyond, Treasury will measure investment impact by enhancing the CDFI Fund's research capacity, and implementing market and portfolio analyses to measure the delivery of financial services to underserved communities. Treasury will critique the financial and program performance of CDFIs to improve performance reporting within the CDFI industry through its investment in the Community Investment Impact System.

E2B Improve the Stability of the International Financial System

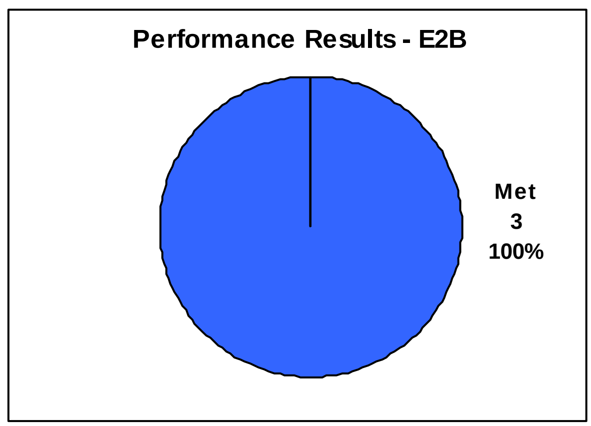
Strategic Objective and Key Outcome Overview

To improve the stability of the international financial system, Treasury develops and implements the U.S. Government's emerging markets strategy with the goals of less frequent crises, greater ownership of policy at the local level, increased private capital flows and higher credit ratings. Several important elements of this strategy include developing a framework for analyzing and resolving currency "mismatch" problems (i.e. overvalued or undervalued currencies) with the goal of avoiding sharp exchange rate fluctuations and potentially expensive interventions, and improving Treasury's measures of emerging market vulnerability in order to better predict and prevent crises.

Performance Indicators and Resources Invested[7]

The charts shown reflect the resources Treasury devotes to the strategic objective of "Improve the Stability of the International Financial System." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

E2B Performance Target Summary
Total Measures for E2B



Successes

Partnering with USAID for International Economic Development. The United States supports economic development through various channels. Through the United States Agency for International Development (USAID), the United States provides annual investment of more than $850 million to improve the quality of life and strengthen the economies of Latin American and Caribbean countries. These funds are used to strengthen educational systems, address key health concerns, and improve the climate and capacity for trade and investment with other countries.

[7] The complete list of measures supporting this objective can be found in PART IV

U.S.-Mexico Partnership for Prosperity. Treasury played the leading role in facilitating low cost remittance transfers and helping Mexico to promote private sector led growth and develop a secondary mortgage market. Treasury also had a role in promoting physical infrastructure investment, small and medium enterprise development, and corporate citizenship.

Multilateral Development Bank (MDB) Reform. Treasury improved the effectiveness of development aid with other countries by linking financial commitments by the U.S. to the multilateral development banks for the implementation of reforms. These reforms hold institutions accountable for spending resources more effectively, by providing more grants to the poorest countries, supporting countries with good policy performance, and increasing transparency.

The MDBs now routinely incorporate results measurement indicators in their loan and grant proposals that measure the impact of resources spent on development. Under U.S. leadership, the most recent funding replenishment of the International Development Association (IDA) included a fundamental shift toward this goal.

Treasury made considerable headway in achieving MDB transparency and accountability goals prescribed under Section 581 of the FY 2004 Foreign Operations Appropriations legislation (Section 1504 of the International Financial Institutions Act). Prominent examples include the following.

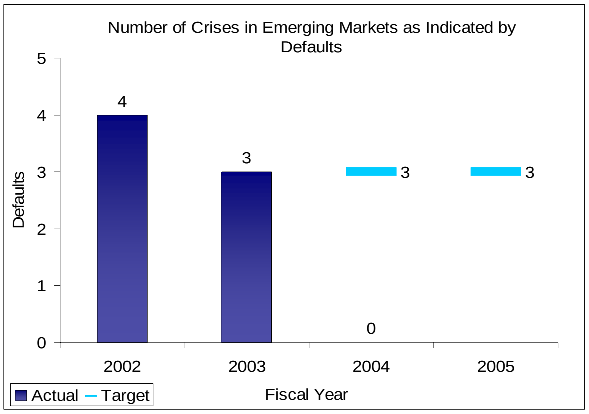
- The new Inter-American Development Bank information disclosure policy includes a provision for release of the Board minutes within 60 days of their approval, a first within the MDB system.
- The new African Development Bank policy includes a commitment to make country strategies and operation policies public at least 50 days prior to formal Board discussion.
- The new draft Asian Development Bank policy includes a large number of the transparency provisions of Section 581, including disclosing Board minutes and making public an annual report containing statistical summaries of fraud and corruption cases pursued by the bank's investigative unit.
- The World Bank started issuing information on results of individual projects during implementation.

Paris Club Debt Management. The Paris Club, an informal group of creditor countries, negotiates collectively with developing countries that are encountering external debt-servicing difficulties. The traditional approach with middle and lower-middle income countries encountering difficulties has been to reschedule payments. In FY 2004, creditors successfully provided debt rescheduling tailored to Kenya's situation, with an agreement that Kenya would exit from Paris Club treatments.

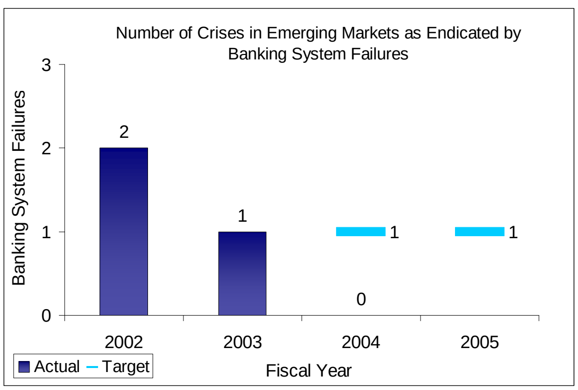
Sarbanes-Oxley Act. Treasury achieved progress in managing reforms and capital market regulations in the U.S. and Europe, in particular helping resolve tensions over implementation of the Sarbanes-Oxley Act. The Act requires numerous corporate reforms by U.S. firms to address deficiencies identified during recent corporate and accounting scandals, and also affects businesses in other countries. The U.S.-EU Dialogue provided a forum to successfully address the concerns of other nations regarding Sarbanes-Oxley. Other discussions within this forum brought clarity to how U.S. financial institutions will operate, how financial conglomerates will be supervised, and how international accounting standards can be adopted in the EU.

International Monetary Fund (IMF) Reform. Treasury contributed to IMF reform through the successful introduction of collective action clauses in external sovereign bonds contracts. Twenty countries used these clauses, making them the market standard in New York sovereign bond issues. This innovation is a major step towards facilitating orderly resolution of future sovereign debt crises and could help limit negative consequences in debtor economies and in the United States.

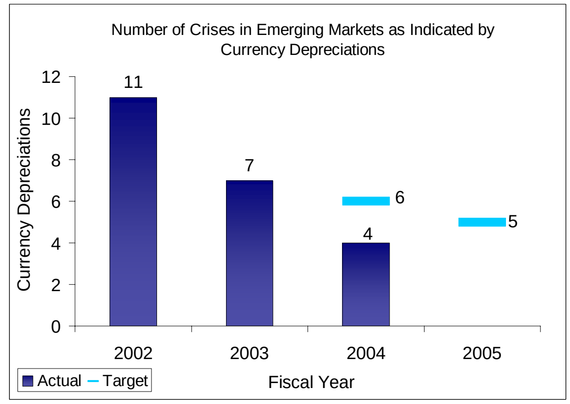
Early Warning System for Country Analysis. Treasury refined this tool, created in 2003, for senior government officials to maintain regular vigilance over countries that caused significant international economic disruption in the past (called the "*Blue Chip" Vulnerability Index*).



This system provides regular updates on economic and financial developments in emerging market countries to assess changes over time. Treasury began work to extend the system analysis to a second tier of emerging market economies, particularly those of strategic importance to the United States. The "Blue Chip" report facilitated the creation of a regular inter-agency



Vulnerabilities Working Group (VWG) chaired by Treasury. The VWG covers a range of countries as well as economic, political, and financial vulnerabilities. This type of knowledge sharing throughout the U.S. government increases the opportunities for quick responses to developing situations.



Challenges

All performance targets were achieved for this strategic objective.

Moving Forward

Treasury achieved success in FY 2004 with respect to Paris Club reform, securing agreement by members of the Paris Club to tailor debt-restructuring approaches to the needs of the debtor nations (the Evian Approach). In FY 2005, work will continue on the practical implementation of this new approach.

Treasury will measure its performance on U.S.-EU financial markets against a goal of maintaining and improving opportunities for U.S. financial institutions to compete in the EU and Japan. To accomplish this, Treasury will seek equivalency determinations by the U.K.'s Financial Services Authority and other European financial supervisory agencies for U.S. financial institutions operating in Europe. More broadly, Treasury will work with the EU to achieve a reinsurance directive that does not discriminate against the U.S., and advocate stronger corporate governance rules in Europe.

To advance IMF reform, Treasury has chosen two focus areas:

- Developing and maintaining a system to track IMF programs, detect potential concerns and intervene early with IMF staff to correct problems before new programs or program reviews are presented to the IMF Board.

- Promoting reforms in IMF operations, by discussing proposed reforms with other IMF member governments (e.g. through the G-7), and working with IMF management and its Executive Board to encourage timely implementation of reforms – particularly a new, non-borrowing vehicle to promote strong economic policies in member countries.

Treasury will also continue to work with the Multilateral Development Banks to improve the effectiveness of development aid. The primary goal in this area is to increase both the dollar amount and percentage of committed funds given to developing countries in the form of grants, rather than loans. The focus on grants is critically important, because it can help stop the vicious circle created by loaning poor countries money that they cannot pay back, and then requiring that they borrow even more money to pay off the loans. To complement the grants initiative, Treasury is focusing even greater attention on measures that are attached to the grants. Since grant money does not have to be paid back, the U.S. has a very strong interest in ensuring that proposed projects have a high probability of success, and that they are monitored regularly.

F Financial Focus

Focus Description

Treasury is the principal fiscal agent for the Federal Government, managing the Nation's finances by collecting money due the United States, making payments, managing 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 in recent years.

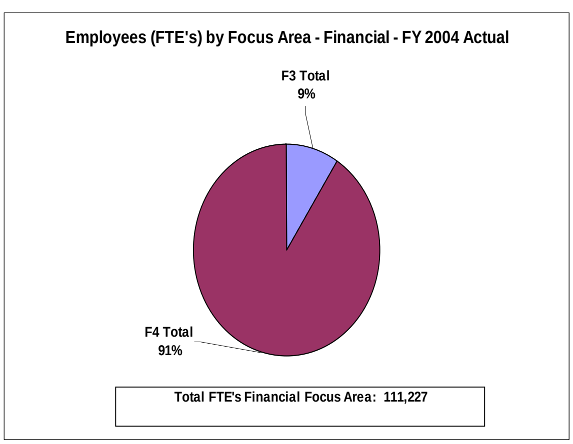
Strategic Goals

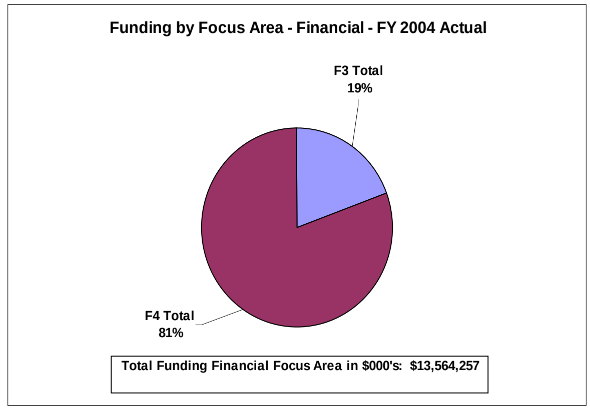
Treasury's financial focus consists of two Strategic Goals:

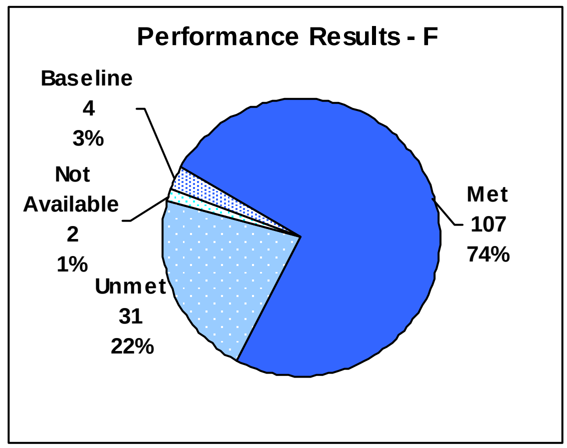
F3 Preserve the Integrity of Financial Systems
F4 Manage the Government's Finances Effectively

Summary Data

The summary charts depicted include resources (both people and dollars) by strategic goal and the percentage of targets that were achieved for all performance measures in the Financial focus area.







F3 Preserve the Integrity of Financial Systems

Goal Description

The goal of Preserving the Integrity of Financial Systems 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 the U.S.' vital interests.

Strategic Objectives

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, disrupting their support networks.

F3B Execute the Nation's Financial Sanctions Policies. Treasury is responsible for designing, implementing, and enforcing a variety of economic sanctions on foreign entities. These economic sanctions are based on U.S. foreign policy and national security objectives.

F3C Increase the Reliability of the U.S. Financial System. The Nation's financial system 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. Additionally, recent corporate scandals signal the need for better corporate governance to ensure the reliability of the U.S. financial system. 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.

Key Outcomes

- Stop the flow of money to terrorist groups, drug traffickers, and other criminals; and disrupt their support networks (aligns with F3A)

- Deprive target entities that threaten the national security, foreign policy, or economy of the U.S. of the use of their assets and/or deny them benefits of trade with the U.S. (aligns with F3B)

- The nation's financial system remains operational at all times (aligns with F3C)

Public Benefit

The U.S. must have a financial system that can operate without disruption, remain free and open to legitimate users, and be protected from those who threaten the Nation's vital interests. Treasury works to ensure that citizens will have access to their money during and after a disaster. Treasury is working with banks, stock brokerages, insurance companies and other financial service providers to strengthen their ability to recover from attack. By contining to take assertive and bold steps to prevent any potential disruption or misuse of the U.S. financial system, Americans and the world will continue to confidently place their investments in a U.S. financial institution.

The war on terrorist financing is a vital responsibility of Treasury. Terrorists – like any other organized criminals – rely on financial networks to fund and support their activities. Disrupting and dismantling those networks can make it more difficult for terrorists to carry out their deadly activities. Treasury's work to curb money laundering and terrorist financing will help to limit the financial capabilities of terrorists by:

- Shutting down the pipeline through which terrorists raise and move money.
- Informing third parties, who may be unwittingly financing terrorist activity, of their association with supporters of terrorism.
- Deterring non-designated parties, who might otherwise be willing to finance terrorist activity.
- Forcing terrorists to use potentially more costly, less efficient and/or less reliable means of financing.

Key Partners in Achieving this Goal

Treasury's key partners include the Departments of Justice (DoJ), State (DoS) and Homeland Security (DHS); the National Security Council (NSC); federal law enforcement agencies, including the Federal Bureau of Investigation (FBI), Bureau of Immigration and Customs Enforcement (BICE), and the U.S. Secret Service (USSS); federal financial regulators and supervisors, including the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), the Securities and Exchange Commission (SEC), the Commodities and Futures Trading Commission (CFTC), and the National Credit Union Administration (NCUA); state and local authorities; private sector financial institutions, including banks, credit unions, money service businesses, and securities broker/dealers; foreign jurisdictions and authorities; and international bodies, including the Financial Action Task Force (FATF), the G7, International Monetary Fund (IMF), World Bank, various FATF-Style Regional Bodies (FSRBs), various multi-lateral development banks, the Organization of American States (OAS), the Basel Committee on Banking Supervision, and the Egmont Group of Financial Intelligence Units.

Select Performance Measures

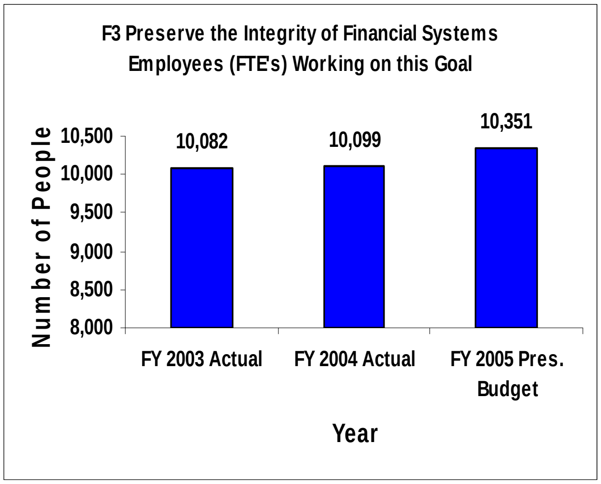
The measures shown below are a subset of the total measure set for Preserving the Integrity of Financial Systems. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

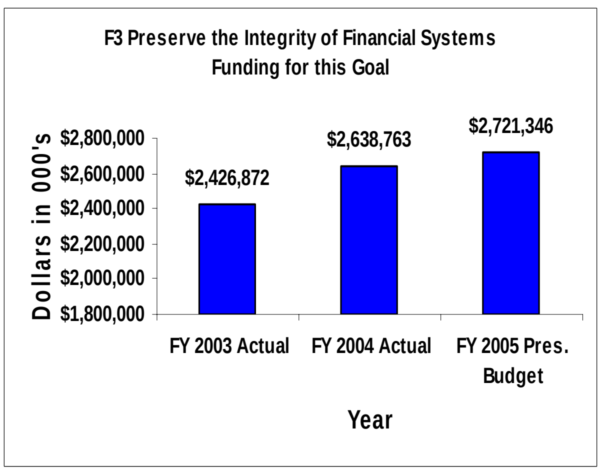
- Number of users directly accessing Bank Secrecy Act (BSA) data through FinCEN's Gateway process.
- Percentage of national banks with composite Capital adequacy, Asset quality, Management, Earnings, Liquidity & Sensitivity to market (CAMELS) rating of 1 or 2.
- Percent of thrifts with composite CAMELS rating of 1 or 2.

For a full description and results of these measures, see PART IV.

Performance Summary and Resources Invested[8]

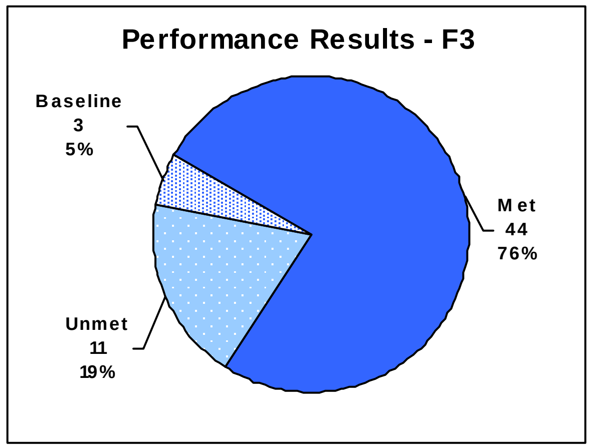
The charts shown reflect the resources Treasury devotes to the strategic goal of "Preserve the Integrity of Financial Systems." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





A description of each strategic objective and the results achieved for Preserving the Integrity of Financial Systems follows.

F3 Performance Target Summary
Total Measures for F3



[8] The complete list of measures supporting this objective can be found in PART IV

F3A Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate their Support Networks

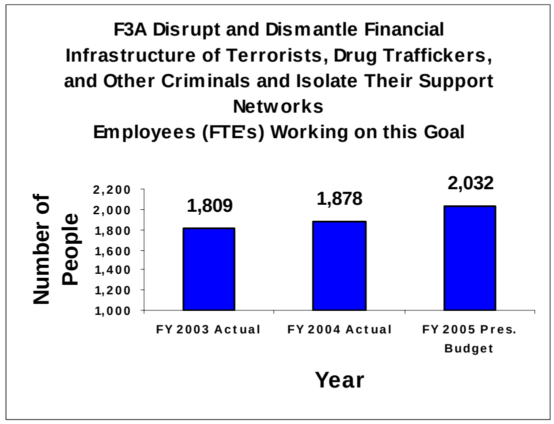
Strategic Objective and Key Outcome Overview

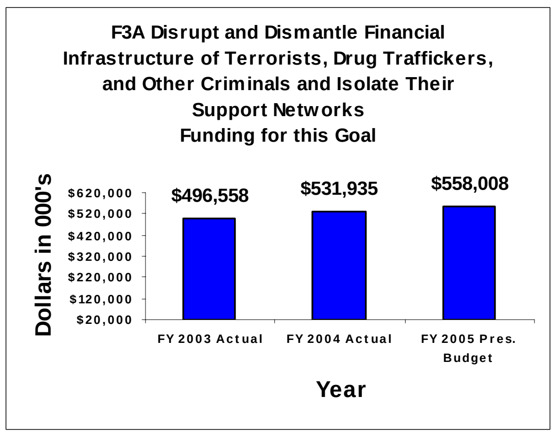
A key element in the global war on terror is finding and eliminating sources of funding for terrorists and other criminals. On the terrorism front, Treasury supports the U.S. anti-terrorist financing strategy and blocks terrorist financing networks by identifying donors, facilitators and fundraisers for terrorists and cutting the money off at its source. To achieve these goals, Treasury implements a coordinated, global attack on terrorist financing by engaging international partners and ensuring worldwide compliance on counter-terrorism financing standards. Treasury also leads interagency teams overseas working with foreign central banks, finance ministries, and regulators to tighten their laws and regulatory oversight of terrorist fundraising groups.

In addition to focusing on terrorist financing, Treasury also combats money laundering by narcotics traffickers, perpetrators of organized crime, corrupt foreign officials, and other criminals. In FY 2004, Treasury expanded the reach of anti-money laundering obligations under the Bank Secrecy Act (BSA) and the USA PATRIOT Act, ensuring compliance with those laws and regulations that enable the U.S. Government to deprive criminals of major sources of funding.

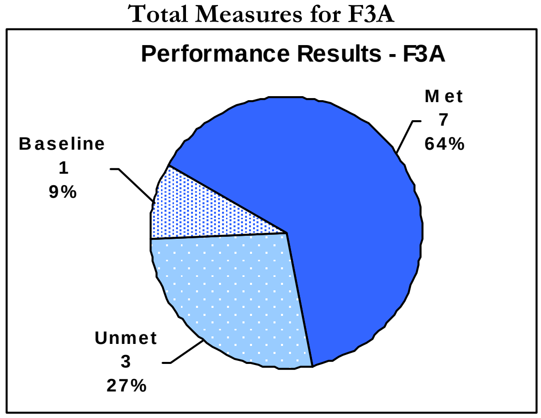
Performance Indicators and Resources Invested[9]

The charts shown reflect the resources Treasury devotes to the strategic objective "Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate their Support Networks." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





F3A Performance Target Summary
Total Measures for F3A



[9] The complete list of measures supporting this objective can be found in PART IV

Successes

Creation of the Office of Terrorism and Financial Intelligence (TFI). In March 2004, Secretary Snow announced the creation of TFI to lead Treasury's efforts to cut the lines of financial support to international terrorists. Treasury's Executive Office of Terrorist Financing and Financial Crimes (EOTFFC), the Financial Crimes Enforcement Network (FinCEN), Office of Foreign Assets Control (OFAC) and other internal resources were brought under the leadership of TFI. A key leadership position authorized by the Intelligence Authorization Act of 2003, the Under Secretary for Enforcement, was filled. This strengthens Treasury's policy-making and oversight of anti-terrorist efforts. Better integration of the management structure will allow for a strategic, consolidated and comprehensive approach to implementing Treasury's authorities against terrorists.

Through TFI, Treasury focuses on the financial war on terror, the protection of financial systems integrity, the enforcement of economic sanctions against rogue nations, and the ongoing hunt for Iraqi assets. Four goals have been set using the new management structure to combat terrorist financing.

- **Targeted Intelligence Analysis.** Combined use of intelligence and financial data is the best way to detect how terrorists are exploiting the financial system and to design methods to stop them. Better coordination of Treasury's intelligence functions and capabilities will enhance analytical capabilities, and the use of additional expertise and technology.

- **Aggressive Enforcement.** The USA PATRIOT Act passed in 2001 gave Treasury important new tools to detect and prevent the abuse of the financial system by terrorists and other criminals. TFI coordinates Treasury's aggressive effort to enforce these regulations.

- **Unprecedented International Coordination.** The unified structure promotes international engagement and allows Treasury to intensify outreach to counterparts in other countries.

- **Accountability**. A unified office is the best way to ensure accountability and achieve results for this essential mission.

Disrupting and Dismantling Terrorist Financing. Within Treasury, TFI leads the effort to locate, disrupt and dismantle terrorist financing networks.

Iraq. In FY 2004, Treasury played a key role in the confiscation of assets from the former Iraqi regime and their return to the Iraqi people. The President signed executive orders drafted by Treasury's Office of the General Counsel (OGC) which the Secretary implemented to confiscate over $2 billion in Iraqi assets. Beginning in March 2003, $1.7 billion in vested Iraqi assets were transferred to the U.S. Treasury Special Purposes Account at the Federal Reserve Bank of New York. Over a period of seven months, assets were withdrawn as U.S. currency and shipped to Iraq. An additional $192 million of vested Iraqi assets were also transferred to the Development Fund for Iraq. These transactions involved many complex legal, financial, accounting, procedural and logistical issues. Treasury worked with the Department of Defense's Defense Finance and Accounting Service (DFAS) and the Office of Management and Budget to resolve these issues, including how to budget, account for, and safeguard the cash. This program was implemented and executed with no instances of fraud or theft.

Saudi Arabia. In FY 2004, Treasury engaged the government of the Kingdom of Saudi Arabia to prevent the use of Islamic charities as fronts for money laundering and terrorist financing. Saudi Arabia responded positively to long-standing U.S. requests to curtail financial flows going to terrorists from their charitable institutions by replacing all existing international charities based in Saudi Arabia with a single, government run vehicle for Saudi citizens to make charitable donations abroad. Another result is the shut down of Al Haramain, and several other criminal charities complicit in money laundering and terrorist financing activities.

Other International Partnerships. Increasing the number of partners in the global war on terrorist financing is a key priority to extend the reach of anti-terror efforts. Through the Financial

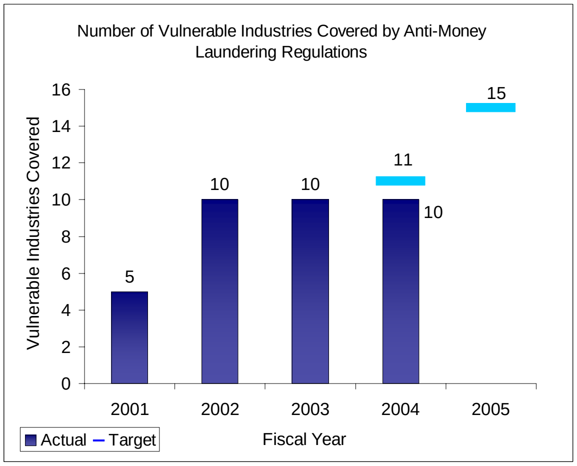
Crimes Enforcement Network (FinCEN), Treasury continues to support international partnership efforts to achieve greater sharing of financial information globally to fight money laundering, terrorist financing and other financial crimes. Treasury offers a wide array of technical assistance to foreign governments and existing or developing Financial Intelligence Units (FIUs) through a global organization known as the Egmont Group. Treasury also assists the FIUs with establishing or expanding their anti-money laundering and terrorist financing regulatory programs. In FY 2004, Treasury provided regulatory and technical assistance to over two-dozen countries and conducted training seminars for the Asia/Middle East and African regions. Treasury upgraded its content on the Egmont secure web site and connected with FIUs in 90% of member countries.

Significant achievements in ongoing bilateral outreach with key foreign governments:

- Developed a joint U.S.-Russia report and strategy on counter-terrorist financing.
- Identified the flows of terrorist financing funds.
- Worked to strengthen the position of foreign governments to fight corruption and assist in identifying assets that could be recovered from former corrupt regimes.
- 94 countries and jurisdictions now have FIUs that are members of the Egmont group, an increase of 36 countries since September 11, 2001. Over the past three years, terrorist financing laws have been strengthened or new ones implemented in over 100 countries.
- Treasury targets kleptocracy in the international financial markets - the financial networks responsible for stealing national funds that could be used by terrorists. Specific targets are those in Cuba, Haiti, and Liberia.

In FY 2004, the Internal Revenue Service (IRS) Criminal Investigation Division (CI) continued to actively support the national effort to combat terrorism by participating in two investigative taskforces, the Federal Bureau of Investigation's (FBI) Joint Terrorism Task Forces (JTTFs), and the Department of Justice's U.S. Attorney's Office of Anti-Terrorism Task Forces (ATTFs). CI's counterterrorism program is vitally important for national security. CI's Garden City Lead Development Center is dedicated to researching terrorist financing particularly the use of charitable tax-exempt organizations to fund terrorist activities. The Garden City Project uses distinctive analytical capabilities to conduct link analysis, data matching, and proactive data modeling designed to manage counterterrorism financial data in a way that leverages CI's expertise and enhances communication with its partners. CI also conducts investigations of domestic extremists that espouse anti-government, anti-compliance philosophies or file fictitious financial instruments.

Cracking Down on Drug Financing and Money Laundering. Efforts to eliminate money laundering operations and other sources of criminal funding are closely tied to those designed to eradicate terrorist and other criminal activities. CI works with the Drug Enforcement Administration (DEA) on the money laundering component of significant drug investigations, the Federal Bureau of Investigation (FBI) on terrorist financing cases, and investigates offshore tax shelters and other tax-related matters. CI's financial forensic expertise is critical to U.S. law enforcement in its attack on sources and schemes of terrorist financing. CI also plays a key role in detecting, disrupting and dismantling terrorist financing operations at home and abroad. The IRS exceeded its year-end plan for completed, narcotics-related criminal investigations by 27.5%. CI also stepped up its efforts to identify, investigate and punish tax cheats, and tax shelter promoters and users. Efforts to stop abusive tax schemes were also increased through the use of civil injunctions and criminal investigations.



Following September 11, 2001, Treasury on behalf of the U.S., has advocated that the International Monetary Fund and the World Bank include as a *regular* part of their financial sector oversight and surveillance responsibility, integrated and comprehensive assessments of country anti-money laundering and counter-terrorist financing regimes. The Financial Action Task Force (FATF) on Money Laundering's 40 Recommendations and eight Special Recommendations are now the global standard for the regular and ongoing review of the legislative and institutional capacities of all 184 International Financial Institution members in the areas of anti-money laundering and counter-terrorist financing. This institutionalizes the international fight against terrorist financing and money laundering, broadens the global effort, and helps countries identify and address priority shortfalls in their anti-money laundering and counter-terrorist financing regimes.

Narco-traffickers. Upon the inception of the Foreign Narcotics Kingpin Designation Act in 2001, Treasury has worked with other federal agencies and named 14 foreign businesses and 37 foreign individuals in Mexico, Colombia, and the Caribbean as derivative ("Tier II") designations. Designation of these kingpins allows Treasury to attack their financial infrastructures. A total of 104 organizations, individuals and businesses in 12 countries are now designated. On February 19, 2004, Treasury designated 40 key individuals and companies associated with prominent Colombian narco-terrorist organizations.

The identification and attack of the financial infrastructure of major drug trafficking organizations often involves long-term efforts. However, when properly implemented, these efforts can be devastating to criminal organizations. FY 2004 successes include:

- Treasury designation of 23 businesses and 118 individuals associated with the notorious Cali Colombia drug cartel leaders Miguel and Gilberto Rodriguez Orejuela. These names were also added to the Specially Designated Narcotics Traffickers (SDNTs) list, subjecting them to economic sanctions imposed against Colombian drug cartels.

- Colombian authorities, including more than 450 prosecutors and 3,200 police officers seized and forfeited assets from the entire nationwide chain, comprised of 432 businesses in 96 municipalities and 22 departments. Estimates of the value are 550 billion pesos, or about $220 million.

- This Specially Designated Narcotics Traffickers (SDNT) follow-up three SDNT actions in FY 2003 targeting several complex financial networks of the same two notorious drug cartel leaders in Colombia, Latin America, and Spain.

Asset Forfeiture. Another key component within Treasury's TFI is the Executive Office for Asset Forfeiture (TEOAF), which manages the Treasury Asset Forfeiture Fund to partly fund the war against both terrorist and criminal financing. In FY 2004, this special revolving fund received more than $300 million in forfeiture revenue from the combined efforts of the former Bureau of Alcohol, Tobacco and Firearms, the U.S. Secret Service, the Internal Revenue Service, and the Bureau of Immigration and Customs Enforcement. This is in addition to a combined total of nearly $35 million from the Super Surplus and Secretary's Enforcement Fund available for other Federal law enforcement needs. This represents a significant increase over FY 2003, in which TEOAF received over $247 million dollars of forfeiture revenue. This increase was realized despite the transfer of two of these bureaus to the Department of Homeland Security and one to the Department of Justice during FY 2003.

Included in the 2004 sum was over $65 million for equitable sharing to state and local law enforcement agencies, other federal agencies and foreign governments that contributed to forfeitures made by these bureaus. The funds must be used, with only limited exceptions, in the respective communities for law enforcement purposes. This arrangement encourages the participation of state and local law enforcement in federal investigations, which return significant financial resources on a yearly basis to many state and local communities.

Improving Financial Transparency. The U.S. is leading the global effort to increase financial transparency. Rules that guarantee a certain level of transparency are absolutely required if the U.S. is to be effective at tracking terrorist financing. The USA PATRIOT Act, Section 311 allows the government to protect financial systems from illicit funds emanating from jurisdictions that do not have such rules. With this authority Treasury's TFI can prevent jurisdictions and foreign financial institutions found to be of "primary money laundering concern" from doing business with the U.S.

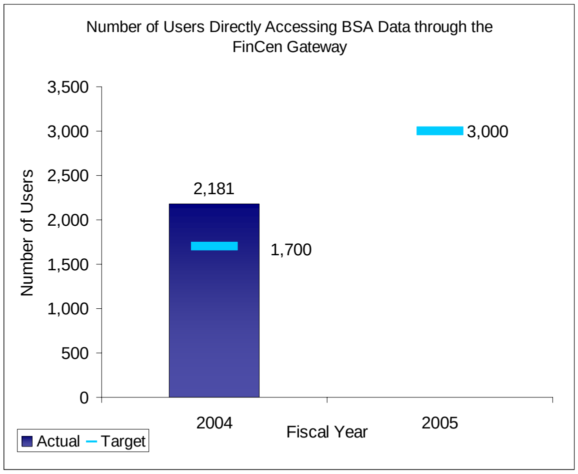
In May 2004, Treasury designated the Commercial Bank of Syria (CBS) a primary money laundering concern, based on practices relating to financial transparency, and problems observed with that institution, including terrorist financing. Treasury issued a proposed rule that, when issued in final form, will oblige U.S. financial institutions to sever all correspondent relations with the CBS. The CBS will either take effective steps to address these concerns, or be cut off from the U.S. financial system. These type of actions help cause jurisdictions and institutions to adopt real reforms that include an acceptable degree of financial transparency, and help protect the integrity of U.S. and other financial systems.

Promoting Regulatory Innovation. In FY 2004 the Financial Crimes Enforcement Network (FinCEN) continued to develop and implement regulations aimed at deterring money laundering and terrorist financing. Under the authority of the USA PATRIOT Act, FinCEN issued regulations requiring Suspicious Activity Reports (SARs) from futures commission merchants and commodity introducing brokers. FinCEN also issued eight rulings to clarify definitions for types of money service businesses, money transmitters, and responded to questions regarding other reporting requirements. In addition, FinCEN imposed special measures against one jurisdiction and two financial institutions and proposed special measures against an additional three financial institutions that were designated as being of "primary money laundering concerns." FinCEN also significantly expanded its interaction with industries that are newly covered by Bank Secrecy Act (BSA) regulations, and to more established industries already covered by BSA to improve overall quality of the data reported.

Treasury, worked with seven other federal agencies to issue the final rules for Section 326 of the USA PATRIOT Act. This will permit financial institutions to accept identification documents appropriate for their communities and customer base, as part of a positive effort to bring more people into the mainstream and out of the "underground" financial sector. The rule adopted by Treasury and all federal banking regulators requires financial institutions to develop effective methods for verifying the identity of their customers.

Using Technology to Improve Enforcement. In FY 2004, Treasury's FinCEN made significant progress on a long-term goal to upgrade the collection and retrieval processes by awarding a contract to build the Bank Secrecy Act (BSA) Direct. This system, scheduled to be operational by October 2005, will dramatically improve law enforcement and regulatory agency access and retrieval capabilities of BSA data. FinCEN also continued to implement electronic filing of this data and electronic reporting reached a goal of 20% in August and September. Under the new authority of Section 314(a) of the USA PATRIOT ACT, FinCEN processed approximately 200 information-sharing requests with over 1,400 subjects to approximately 30,000 financial institutions. This program is critical to law enforcement; as in every instance, information sharing has resulted in one or more new investigative leads for law enforcement. In addition, over 2,500 financial institutions have indicated that they are willing to share information with other financial institutions.

In FY 2004, access by federal, state, and local enforcement agencies to Bank Secrecy Act (BSA) data through FinCEN's Gateway and Platform programs increased about 30% over FY 2003. FinCEN experienced a significant shift in the number of cases received for basic BSA and other data checks, which directly correlated to increases in the use of the Gateway and Platform programs. Analysts completed nearly 800 complex cases with over 50% related to money laundering, narcotics, and terrorism. FinCEN produced over 250 proactive case referrals to law enforcement based upon analysis of information in these databases. FinCEN produced nearly 60 strategic analysis products to include four Suspicious Activity Report Reviews, two industry suspicious activity reporting guides, three advisories, seven threat assessments, fourteen country/region or industry analysis reports using the suspicious activity reports, and other statistical analysis. FinCEN also initiated an Analyst Exchange Program with the Financial Intelligence Units (FIU)s to support ongoing terrorism related investigations.



Challenges

Treasury did not achieve its targets in the following performance measures for Strategic Objective F3A, "Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals, and Isolate Their Support Networks."

- Number of vulnerable industries covered by anti-money laundering regulations
- Number of subjects in completed investigative analytical reports
- Percentage of FinCEN's customers rating its strategic analytical products as valuable
- Number of strategic analytic products

F3A Challenge Summary. The performance targets in this objective were not achieved primarily due to falling short on quality and customer satisfaction metrics. These metrics are important outcome measures at the bureau level, and corrective actions have been planned to generate the needed improvements.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

To effectively realize Treasury's goals, unique responsibilities and analytic capabilities in the terrorism context as well as money laundering and financial crime areas, a selection of FY 2005 highlights are provided.

- In its efforts to cover, as appropriate, all vulnerable industries, Treasury will continue its outreach to industries covered by anti-money laundering requirements, proposed to be approximately 15 industries by the close of FY 2005.
- Treasury will continue efforts to enhance Suspicious Activity Reports (SAR) data quality by providing targeted outreach to financial institutions as systemic filing errors are identified.
- Treasury will also establish a compliance oversight function to support and evaluate the effectiveness of the examination process of regulatory partners.

- To ensure effective and uniform enforcement of anti-money laundering regulations, Treasury will begin analysis of the Bank Secrecy Act (BSA) data for filing anomalies and refer anomalies to the regulators to be used to enhance regulators' compliance examinations.

- Treasury will increase the percentage of electronic BSA filings from 20% to 35-40% by the end of the fiscal year.

- Treasury will complete BSA Direct by October 2005, providing users with enhanced data access, specifically, the ability to analyze the BSA data to support their investigative efforts. In conjunction with this enhanced capability, customers will be encouraged to continue to use the Gateway process to perform their own investigative research. This will allow Treasury to redirect its resources to provide more in-depth and comprehensive research products, including additional proactive terrorism investigative targets and strategic analysis efforts.

- Globally, Treasury will continue to provide regulatory advice and play a key leadership role in the international network of Financial Intelligence Units (FIUs), known as the Egmont Group. This support includes expanding and systematizing the exchange of financial intelligence information, improving the expertise and capabilities of personnel employed by such organizations to globally fight money laundering and terrorist financing.

- In FY 2005, FinCEN will continue to increase Gateway access for Bank Secrecy Act data for law enforcement agencies across the country.

- In FY 2005, Treasury will continue to aggressively pursue financial transparency in accordance with the Patriot Act to prevent institutions that are primary money-laundering concerns from doing business with the U.S.

- Treasury will continue working with other agencies across the federal government in its efforts to shut down fraudulent, charitable tax-exempt organizations that are fronts for terrorist financing.

- Treasury will continue to aggressively pursue asset seizures for money launderers, drug traffickers and sources of terrorist financing.

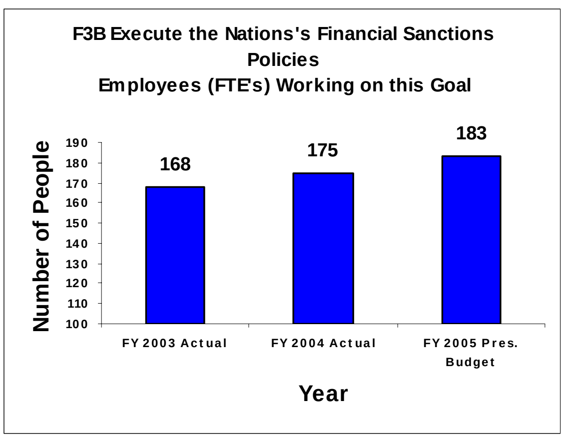
F3B Execute the Nation's Financial Sanctions Policies

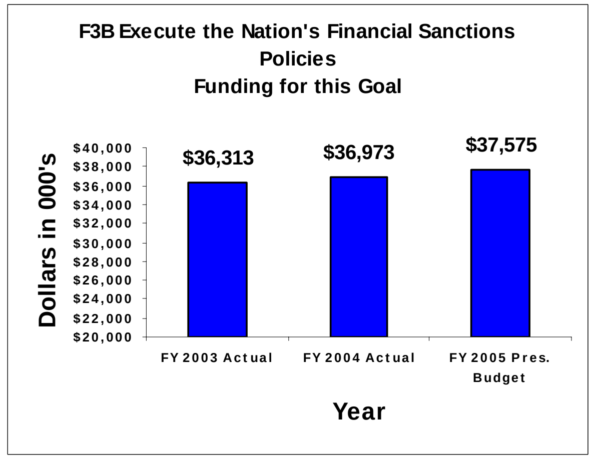
Strategic Objective and Key Outcome Overview

Treasury develops and implements the U.S. Government's financial sanctions policies. They identify, trace, and freeze sanctioned assets; issue licenses; support prosecutions related to financial sanctions policies; and impose fines for violations of sanctions policies. Treasury also works with international partners to coordinate global enforcement of sanctions policies. The design of economic sanctions also involves International Affairs and the Office of General Counsel.

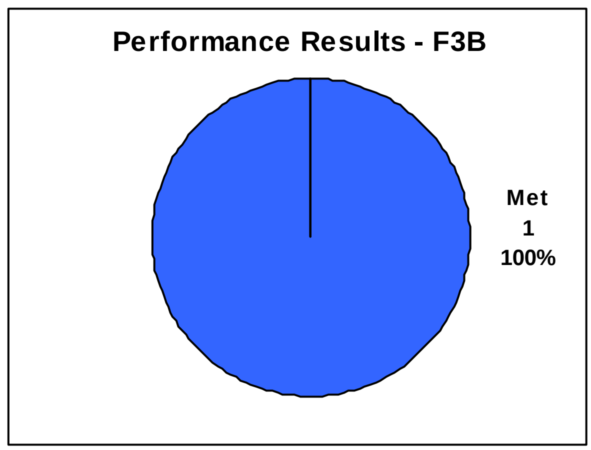
Performance Indicators and Resources Invested[10]

The charts shown reflect the resources Treasury devotes to the strategic objective "Execute the Nation's Financial Sanctions Policies." These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





F3B Performance Target Summary
Total Measures for F3B



Successes

The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those who engage in activities related to the proliferation of weapons of mass destruction. Cuba is a major focus of Treasury's sanctions program, and FY 2004 was an active year for Cuba policy.

[10] The complete list of measures supporting this objective can be found in PART IV

- Following President Bush's October 2003 call for enhanced enforcement of the Cuba trade and travel embargo in order to hasten the arrival of a new, free and democratic Cuba, Treasury increased inspections of travelers and shipments to and from Cuba, initiated significant new civil and criminal investigations of violations, imposed additional penalties such as fines and license suspensions, increased training programs and private sector outreach, and designated 12 companies controlled by the Cuban government as Specially Designated Nationals (SDNs) of Cuba.

- Treasury has issued new Cuban Assets Control Regulations (CACR) that have further restricted travel to Cuba and the amount of funds that travelers may take to Cuba or spend while in Cuba, as well as imposed additional restrictions related to remittances to Cuba and goods that may be brought back.

- Treasury has also established and chairs an interagency working group that is actively working to target mechanisms and entities used to violate the CACR.

- Through these actions, Treasury continues to restrict the Cuban government's access to capital, seeking to deny it the ability to further enrich itself and perpetuate its totalitarian regime at the expense of the Cuban people.

Key Nodes Approach and the Combatant Commands Relationship. Treasury, in coordination with the Department of Defense (DOD), has been developing the "Key Nodes" approach to identifying and targeting terrorists, terrorist organizations and their support networks. The Key Nodes approach is designed to significantly impair and deprive entire terrorist networks of their support by systematically identifying the networks and simultaneously acting against as many nodes within the network as possible. By simultaneously removing key support nodes – financial, material, logistical and operational – it may be possible to cripple the entire network.

Iraq Insurgency Executive Order. The Iraq insurgency, which threatens both combatants and noncombatants alike, is comprised of several different elements: former regime supporters, local militia, as well as terrorist groups, which often operate independently of each other in order to achieve similar but separate goals. However, existing authorities that were established to disrupt terrorist financing were not broad enough to allow the U.S. the flexibility to implement financial sanctions against all of these elements. To address this issue, Treasury has been working with other key partners in the U.S. government to develop a new executive order.

Operation Balkans Vice 1 – 4. Treasury continues to work closely with the U.N. Stabilization Force, the Office of High Representative (OHR) and U.S. Embassy Sarajevo, Bosnia-Herzegovina (BiH), to designate individuals and entities pursuant to Executive Order 13219, aimed at those obstructing implementation of the Dayton Peace Accords in Bosnia. Action focuses on those providing continuing material and financial support to Radovan Karadzic, a Person Indicted for War Crimes. In anticipation of the designations, the OHR developed their own parallel Treasury-style authority, with the assistance of Treasury's Foreign Terrorist Division, to block the assets held in BiH and prohibit their citizenry from having dealings with listed individuals. To date, there have been four successful actions.

Specially Designated Narcotics Traffickers. Treasury's International Program Division continues to develop targets for investigation under both the Specially Designated Narcotics Trafficker (SDNT) and Kingpin Act programs. In FY 2004, two major SDNT actions resulted in the designation of 62 drug cartel businesses and 213 individuals for a total of 275 designations. Several other investigations are completed and nearing designation and others are in various stages of completion. These investigations include targets in Colombia, Mexico, the Caribbean, Asia and the Middle East.

Kingpin Act Totals. The Kingpin Act has used economic sanctions as a tool against foreign narcotics traffickers since 1995. Actions in the past 15 months have raised the total number of persons designated under the Kingpin Act to 127.

Of that 127 total, 48 are "Tier I" drug Kingpins, 21 are companies, and 58 are other individuals. They are located in 12 countries.

Iran Action Plan. Treasury has targeted violators of the Iran sanctions against nuclear proliferation and instituted penalty enforcement action in more than 100 cases. The violators include financial institutions, brokerages, insurance companies and U.S. corporations.

Cuba Major Case Squad. Treasury has targeted companies, banks, and other entities engaging in illegal transactions with Cuba. More than a million dollars in civil monetary penalties have been collected in FY 2004 from these violators.

Termination of Libya Sanctions. On September 20, 2004, termination of the Libya sanctions program unblocked over $1.2 billion frozen under the Libyan Sanctions Regulations.

Challenges

All performance targets were achieved for this objective.

Moving Forward

The new office of Terrorism and Financial Intelligence (TFI) combines key Treasury offices to leverage Treasury's contribution to the war against terrorism.

Treasury will continue to work with its U.S. Government partners, especially the Department of Defense to significantly impair and deprive entire terrorist networks of financial, material, logistical, and operational support.

Treasury will continue to execute the nation's financial sanctions programs and will respond to new Presidential or Congressional mandates.

Treasury, working with the Department of Defense, will continue to invest resources in the Key Nodes approach in FY 2005 to significantly impair and deprive entire terrorist networks of financial, material, logistical, and operational support.

Treasury will continue to identify entities associated with drug trafficking and place them on the Specially Designated Narcotics Traffickers (SDNT) list which are subject to economic sanctions.

Treasury will continue to administer the 29 economic sanctions programs in existence, and will respond to any new Presidential or Congressional mandates.

F3C Increase the Reliability of the U.S. Financial System

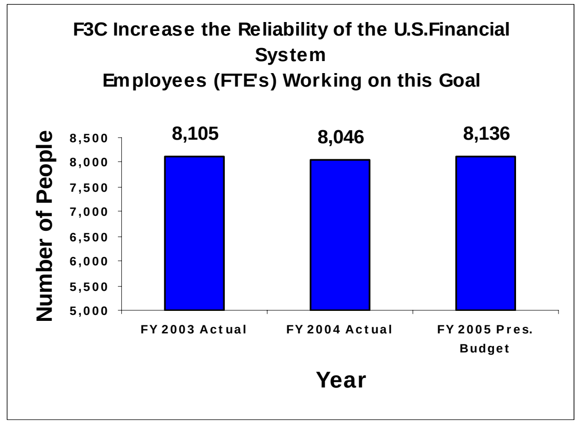
Strategic Objective and Key Outcome Overview

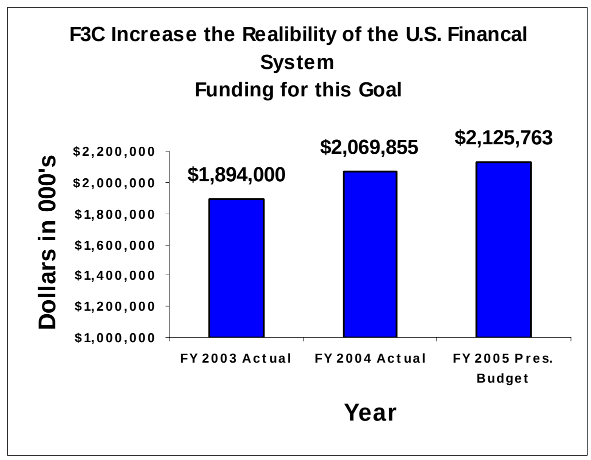
Treasury develops and implements critical infrastructure protection policies that strengthen both the U.S. financial system and the fiscal systems of Treasury. Through its broad authorities and expertise, Treasury is charged daily with preserving the integrity of the financial system through the following:

- Charting the counter-terrorist financing campaign.
- Setting and implementing anti-money laundering and counter-terrorist financing policies, regulations, and standards at home and abroad.
- Gathering and sharing financial information with law enforcement and foreign counterparts regarding financial crime.
- Implementing the nation's economic sanctions.
- Enforcing relevant regulations and laws related to these missions.

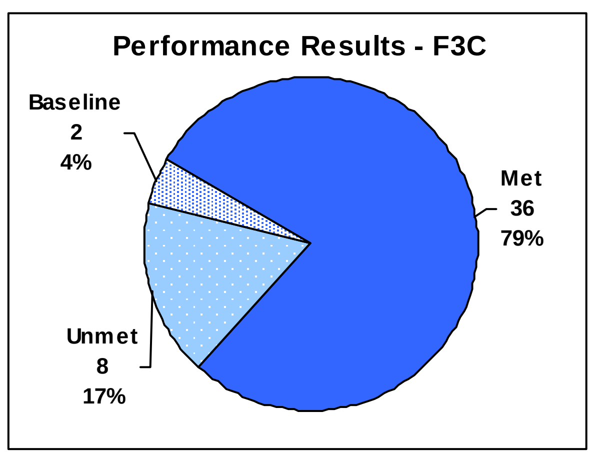
Performance Indicators and Resources Invested[11]

The charts shown reflect the resources Treasury devotes to the strategic objective of "Increase the Reliability of the U.S. Financial System." These resources include staffing (Full-Time Equivalent (FTE) employees and funding for three fiscal years.





F3C Performance Target Summary
Total Measures for F3C



[11] The complete list of measures supporting this objective can be found in PART IV

Successes

Treasury worked to improve information sharing between the public and private sectors. Treasury invested $2 million to create the Next Generation Financial Services Information Sharing and Analysis (FS-ISAC), which is charged with disseminating trustworthy and timely information to increase sector-wide knowledge about physical and cyber security operating risks faced by the Financial Services Sector.

Treasury, working in close cooperation with the Department of Homeland Security, other federal and state agencies, and the private sector, has greatly improved the security and resiliency of the U.S. financial system in many ways.

- Arranging for critical financial institutions to have access to priority telecommunications services to help their voice and data communications transmit successfully during times of crisis.
- Assisting in the coordination of protective responses by state and local authorities with critical financial institutions.
- Establishing systems and procedures that enable federal financial regulators to communicate among themselves and with the private sector during times of crisis as well as mitigating risks to the financial infrastructure.
- Promoting industry measures that maintain crucial financial communications among private sector participants.

Treasury's efforts were tested on August 14, 2003, when electrical power was lost across much of the Northeastern region of the United States. Recognizing the potential impact to the financial services sector, the Office of Critical Infrastructure Protection and Compliance Policy (OCIP) quickly activated the emergency communications protocols. As a result of the coordinated efforts of the private and public sectors, the American public did not panic and the impacted financial institutions were able to resume normal business.

Ensuring Private/Public Sector Coordination in Case of Attack or Other Disruption. Treasury undertook a variety of actions to strengthen the ability of financial institutions and other financial services providers to reduce vulnerability to terrorist attack and quickly recover from effects of any such attack. Treasury led nationwide efforts to identify and mitigate vulnerabilities in our financial infrastructure. Treasury established procedures to improve communication during times of crisis among the institutions and their regulators. Treasury also provided key federal and state financial regulators with secure telecommunications equipment for use in a crisis, and we are adding capacity for encrypted e-mail. Treasury tests these systems and procedures regularly and looks for opportunities to improve them.

By protecting the infrastructure and ensuring private/public sector coordination in case of attack or other disruption, Treasury helps ensure that citizens will have access to their money and to other financial services during and/or following a disaster.

Due to the continued, cooperative efforts of the private and government sectors to protect our financial institutions and systems, Americans and the world can continue to place their investments in a U.S. financial institution with confidence.

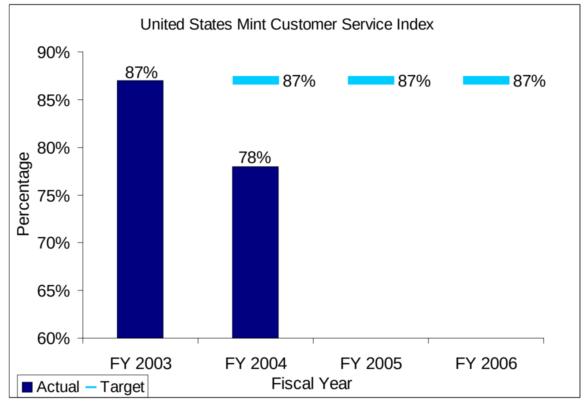
Ensuring the Reliability of the Housing Government Sponsored Enterprises (GSE). Fannie Mae and Freddie Mac are publicly traded corporations which were originally created by Congress to provide liquidity in the secondary mortgage market. The Federal Home Loan Banks are twelve geographically diverse institutions which were also created to help provide funding for the mortgage market. The Federal Home Loan Banks are cooperatives, owned by member institutions. Treasury helped to develop the policy to ensure the financial integrity of these Government Sponsored Enterprises (GSE), including promoting reform legislation and preventing enactment of insufficient legislation to ensure the continued prudent operation of the $2.3 trillion housing GSE system. Additionally, Treasury was instrumental in obtaining commitments from the housing GSE to voluntarily register a class of their securities with the SEC, thereby providing enhanced disclosure to the American public. Ensuring that the housing GSE are safe and sound will help to increase home ownership.

United States Currency. In the spring of 2004, the **United States Mint** introduced the first new nickel design in 66 years to commemorate the Lewis and Clark expedition and the Louisiana Purchase. The United States Mint is continuing its ten year 50 State Commemorative Quarter program, issuing new designs every ten weeks to honor each state.

Another new initiative for the United States Mint is their partnership with the National Endowment for the Arts (NEA). The partnership has created a pool of 24 accomplished artists and art students who will be invited to submit designs for selected projects, and continue the United States Mint's efforts to invigorate the artistry of coin design in America.

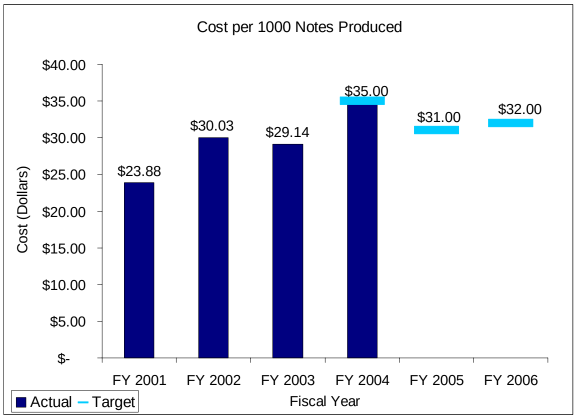
The United States Mint is transforming its operations to world-class status through lean manufacturing and improved strategies to increase efficiency and cut costs. As of October 2001, the United States Mint has reduced the time it takes to get a product to the market by 370 days. The inventory turnover rate has increased from 1.96 turns per year in FY 2003 to 2.48 turns per year in FY 2004. The cost to manufacture per 1,000 coin equivalents produced (coin equivalents are a measure of the total production volume) decreased by 20% in FY 2004 compared with FY 2003.

The United States Mint has also achieved excellence in its customer satisfaction rating. The American Customer Satisfaction Index (ACSI) score of 87 in 2003 was the highest of any government agency and second highest of all entities evaluated, both public and private. This high score reflects world-class customer service and high product quality.



For the first time in almost a century, the **Bureau of Engraving and Printing (BEP)** is producing currency that features colors other than green and black with the introduction of subtle background colors. The new "Color of Money" began circulating with the redesigned $20 in the fall of 2003 and continued with the redesigned $50 in the fall of 2004. This achievement was the culmination of efforts led by Treasury's Advanced Counterfeit Deterrence Steering Committee, the Federal Reserve, the United States Secret Service (USSS), and BEP. The new designs for the $20 note and $50 note reflect a coordinated strategy built around a state-of-the-art design that allows the new bill to be safer, smarter and more secure. The new currency is safer because it is harder to copy and easier to authenticate; smarter to stay ahead of tech-savvy counterfeiters; and more secure to protect the integrity of U.S. currency.

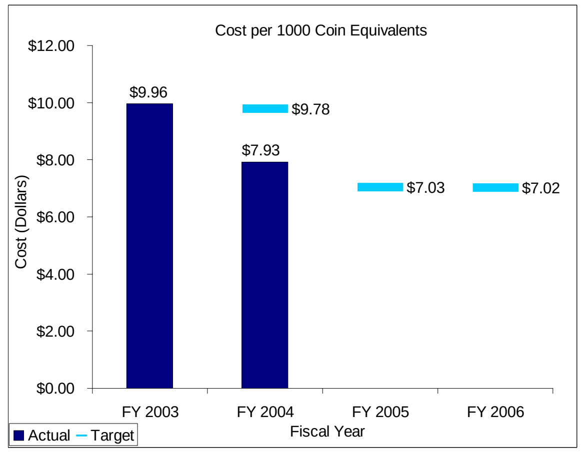
BEP is the world's largest producer of paper currency. BEP produced and delivered 8.7 billion Federal Reserve notes on time and significantly below budget while successfully converting both the $20 and $50 note to a new design featuring subtle background colors. BEP strives to be a world-class securities printer by consistently providing a high-quality security product on which the public can rely and that contributes to public



confidence and preserves the integrity of U.S. currency. BEP measures its overall efficiency and effectiveness using program performance measures similar to those used by private sector manufacturers. Direct manufacturing costs are closely tracked and quality controls are monitored throughout the manufacturing process to ensure operational efficiency and effectiveness.

For the second straight year, BEP has pursued and achieved important operational performance measures. Actual cost performance against target depends on the BEP's ability to meet annual spoilage, productivity and capacity utilization goals. Performance in all areas was favorable compared to targets established for FY 2004. This enabled BEP to realize significant cost savings which it passed along to its customer, the Federal Reserve, by reducing the average billing rate for currency by 6% in FY 2004 following a 10% reduction in the previous year. This was primarily due to lower than expected spoilage on all denominations and improved manufacturing performance overall. Also adding to the reduction was a significant decrease in lost time due to injuries and cost savings due to staff reductions that resulted from the BEP's timely use of retirement incentives.

Manufacturing and Sales. The core responsibility of the United States Mint is to produce the circulating coins used to conduct commercial transactions across the nation. New circulating coins are shipped to the Federal Reserve Banks (FRB) as they are needed to replenish inventory and fulfill commercial demand. Included in these shipments are the popular 50 State Quarters and recently minted Lewis and Clark Nickels. The United States Mint assesses the effectiveness of coin production by measuring the conversion cost to produce 1,000 coin equivalents. Coin equivalents normalize the production level to account for the different metal content and denomination mix produced in a year.



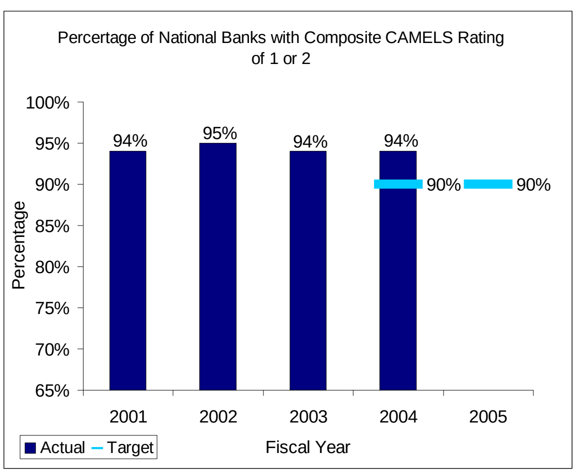
In FY 2004, the cost per 1,000 coin equivalents was reduced to $7.93, compared with $9.96 in FY 2003. The improvement was due to efforts to cut costs at the manufacturing facilities as well as increased production volumes. The United States Mint also tracks selling, general and administrative (SG&A) expenses. SG&A expenses improved to 12.3% in FY 2004 from 15.3% as a percentage of non-bullion reserve in FY 2003.

Numismatic. Numismatic sales include annual sets, commemorative coins and medals, and precious metal coins for collecting or investing. Numismatic programs generated revenue of $656.9 million in FY 2004, compared with $470.3 million in FY 2003. Numismatic profits increased to $44.1 million in FY 2004 from $4.2 million in FY 2003. The increase in revenue and profits is due to new products coming to market, cost cutting efforts, and price increases on select products to cover the rising costs of the metals.

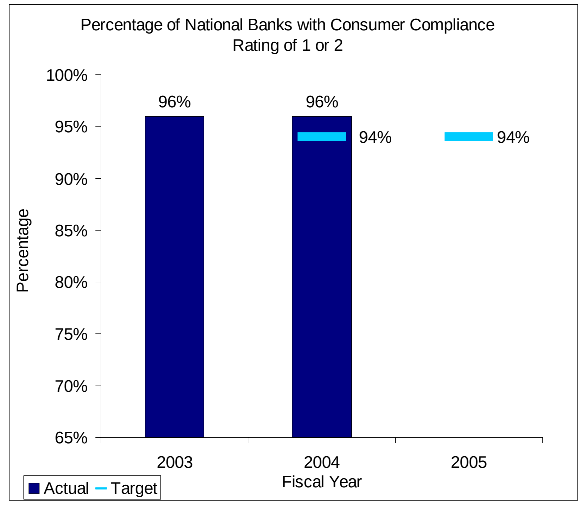
Transfers to the Treasury General Fund. The net income resulting from the operations of the United States Mint are returned to the Treasury General Fund on a regular basis. In FY 2004, $665 million was returned to Treasury as a result of operations, compared with $600 million in FY 2003.

Administration of Bank and Thrift Supervision Programs. Treasury promotes the increased reliability of the U.S. financial system by administering bank and thrift supervision programs. These programs consist of those ongoing supervision and enforcement activities undertaken to assure that each national bank or thrift is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank or thrift and the customers and communities it serves.

Bank Supervision. At the beginning of FY 2004, the Office of the Comptroller of the Currency (OCC) completed the transition to a continuous supervision process for all national banks. Under this process, a supervisory strategy is developed based on the risk profile and condition of each banking institution. Examination activities include safety and soundness, consumer compliance, information technology, and asset management examinations. During FY 2004, OCC's examination activities indicated that national banks continued to operate in a safe and sound manner. For the past two years, 99% of all national banks have been well-capitalized at year-end, exceeding the target of 95%. For the past two years, 94% of all national banks received composite Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitive Rating System (CAMELS) rating of 1 or 2, exceeding the target of 90%.

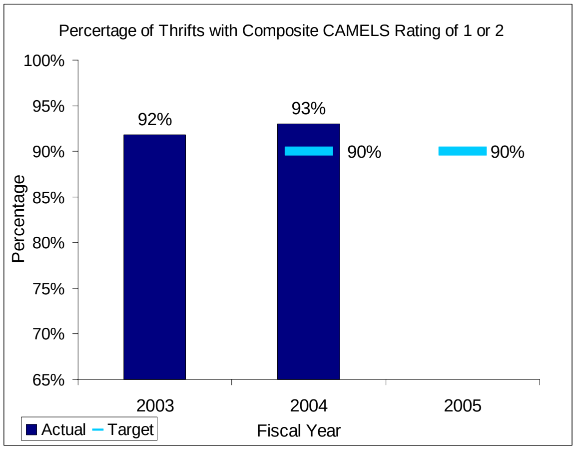


The OCC took responsible action within 90 days of all banks that became critically undercapitalized. The OCC also worked diligently to rehabilitate problem banks. Of the 121 institutions with a composite CAMELS rating of 3, 4, or 5 on September 30, 2003, 36 had improved CAMELS ratings by the end of FY 2004. Another 14 of the 121 banks were sold, merged or left the system without loss to the insurance fund during the year. The OCC achieved a 41% rehabilitation rate exceeding the performance target of 40%. This was an increase over the 32% achieved in FY 2003.



Consumer compliance remains high with 96% of all national banks earning a rating of 1 or 2 again in FY 2004. The FY 2004 target was established at 94% and reflects a national banking system that effectively complies with consumer laws and regulations. This is the threshold level for ensuring that the overall national banking system supports fair access to banking services and fair treatment of bank customers.

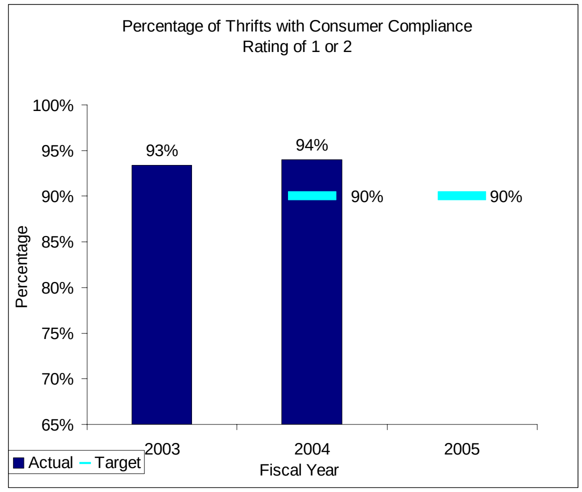
Thrift Supervision. The Office of Thrift Supervision (OTS) adopted the CAMELS rating performance measure in 2003, establishing a target of 90% based on historical experience and a review of supervisory resources needed if more than 10 % of the industry was adversely rated (not rated highest at 1 or 2). OTS adjusts its resources to ensure adequate regulatory oversight in response to industry conditions. OTS uses the CAMELS rating to evaluate an institution's capital, asset quality, management, earnings, liquidity, and sensitivity to market risk.



Favorable economic conditions and the regulatory oversight of the OTS contribute to a thrift industry that has operated in a safe and sound manner and performed extremely well, achieving a 93% level for this measure during FY 2003 and FY 2004. OTS examines institutions every 12-18 months for safety, soundness, and compliance with consumer protection laws. During these exams, the thrift's ability to identify, measure, monitor, and control risk is evaluated. When weaknesses are identified, supervisory action is taken. OTS continually assesses its examination procedures to ensure that there is an adequate review of institution controls and risk management processes.

The few thrift failures that have occurred in the past few years have been due to idiosyncratic factors versus systemic economic factors. The assets of problem thrifts (those with low composite examination ratings of 4 or 5) declined to $493 million in June 2004 compared with $5 billion as of June 2001. The thrift industry has also benefited from the low interest rate environment over the past few years. In the past several months, the Federal Reserve has increased interest rates, but in small increments. This has allowed the industry time to react and adjust their balance sheets to offset additional interest rate risk exposure.

OTS adopted the compliance ratings performance measure in 2003, establishing a target of 90% based on historical experience and a review of supervisory resources needed if more than 10% of the industry was adversely rated (not rated highest at 1 or 2). OTS adjusts its resources when compliance ratings fall below the target to ensure that the thrift industry effectively complies with consumer protection laws and regulations. The thrift industry achieved a 95% level for this performance measure during FY 2003 and 94% for FY 2004.



OTS began to combine safety and soundness and compliance examinations in 2002 to make exams more efficient and to improve risk assessment. Exam teams assess an institution's capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk, and compliance with consumer protection laws and regulations by conducting comprehensive examinations whereby OTS issues one report covering safety and soundness and compliance disciplines. Using these comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process. OTS also provides technical assistance and training events to industry executives regarding community reinvestment responsibilities and opportunities.

OTS' Community Affairs Program supports the thrift industry's efforts to meet the convenience and needs of the communities they are chartered to serve and meet their Community Reinvestment Act (CRA) obligations. They also provide safe and sound loans, investments and financial services for low and moderate income individuals and communities, and areas of greatest need.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective F3C, "Increasing the Reliability of the U.S. Financial System."

- Inventory Turnover.
- Yield.
- Lost Time Accident Rate.
- Cycle Time.
- Customer Service Index.
- Percentage of Consumer Complaints Closed Within 60 Calendar Days of Receipt.
- Number of Consumer Complaints Opened During the Fiscal Year.
- Number of Consumer Complaints Closed During the Fiscal Year.

F3C Challenge Summary. The performance targets in this objective were not achieved in a number of operational, efficiency, and customer satisfaction areas. In many cases, there were improvements over last year's performance, but targets were not achieved because challenging stretch goals had been established. In other instances, increases in work complexity and/or volume caused slightly reduced productivity. Action plans have been established to generate the needed improvements.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

An uneven economic recovery may leave certain business segments and bank portfolios vulnerable to continued credit quality concerns and earnings pressures. Higher interest rates may place renewed pressures on asset liquidity and investment portfolios, bank core deposits, and mortgage banking activities and related fee income. As a result, credit quality, adequacy of allowance of loan and lease losses, off-balance sheet activities, and liquidity and interest rate risk management will continue to require close supervisory attention.

OCC

Industry consolidation and earnings pressures will continue to create incentives for banks to reduce overhead, outsource technology- or people-intensive operations to third party vendors, and search for new or expanded products and services. Assessing the adequacy and effectiveness of bank transactions and strategic and reputation risk management processes will continue to be a critical component of the Office of the Comptroller of the Currency's (OCC) supervisory strategies. Effective bank supervision will also include consumer and compliance issues, such as Bank Secrecy Act/Anti-Money Laundering (BSA/AML), privacy, predatory lending, and the Community Reinvestment Act (CRA).

The OCC has two important information systems projects planned for FY 2005. It plans to enhance its BSA/AML work. The Quantity of Money Laundering Risk Identification project will allow the OCC to gather quantity of money laundering risk information for each mid-size and community bank. This information will be used to develop unique supervisory strategies, allocate examiner resources, and quantify money laundering risks across this population of national banks. The Suspicious Activity Reports (SAR) data base will increase OCC's ability to detect existing and emerging operational risks associated with suspicious activity reported by the banking community and develop appropriate supervisory responses to those risks.

OTS

To combat fraud, money laundering, and protect the integrity of financial systems, the Office of Thrift Supervision (OTS) examines thrifts for compliance with the requirements of the Bank Secrecy Act (BSA), the USA PATRIOT Act, and other anti-money laundering laws. The following actions demonstrate OTS's vigorous and diligent efforts to ensure maximum compliance of the BSA and the USA PATRIOT Act:

- Reduction in the interval between BSA examinations.

- Education of the industry and OTS staff.

- Expansion in the number of examiners who are reviewing BSA and Patriot Act compliance on an on-going basis.
- Implementation of a new BSA tracking and monitoring information system.
- Implementation of additional internal controls governing data collection, examination, and enforcement activities.
- Adoption of supervisory guidance and enforcement policies.
- Implementation of a new BSA Quality Assurance audit program.
- Creation of a Memorandum of Understanding between OTS, the federal banking agencies, and FinCEN to formalize and enhance the information sharing process.

OTS works with both domestic and international financial supervisors to ensure that the thrift industry remains a healthy and robust component of the global financial services marketplace. The Basel Committee and U.S. bank and thrift regulators are attempting to improve the current system by making capital standards more risk sensitive. OTS is evaluating potential issues to ensure that the new framework results in safe and sound capital allocation and fair competition among all financial institutions. OTS has also engaged in dialogue with European financial supervisors. The European Union (EU) is seeking to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor of U.S. based thrift holding companies, including a number of financial conglomerates active in the EU. In order to supervise these institutions, OTS is seeking equivalency status under the European Union Financial Conglomerates Directive, which goes into effect January 1, 2005.

During 2005, through Community Reinvestment Act (CRA) evaluations, outreach, and other means, OTS will identify competitive initiatives and strategies and provide information about community development best practices, investment authority, and subsidy resources to thrifts. OTS will also offer technical assistance or sponsor training opportunities that support responsive community reinvestment and the prudent use of an association's community development investment authority.

United States Mint

In 2004, the first newly designed nickels in 66 years were introduced to honor the Louisiana Purchase and the Lewis and Clark Expedition. In 2005, a contemporary image of President Jefferson will appear on the nickel, along with two new designs that recognize the American Indians and wildlife encountered by the Lewis and Clark expedition. Depictions of Monticello and Thomas Jefferson will return to the nickel in 2006. The 50 States Commemorative Quarter program will continue its successful run, introducing 5 new quarters each year until all 50 states are represented by the end of 2008. The United States Mint is exploring the possibility of manufacturing 24-karat gold bullion coins in 2005. Currently, the United States Mint produces 22-karat gold bullion coins. Producing 24-karat gold bullion coins would allow the United States Mint to compete in new markets in which 24-karat gold is the standard. The United States Mint will remain focused on producing coins efficiently and cost-effectively. These new coin programs are undertaken not only to ensure adequate coinage for commerce and collectors, but also to provide beautiful designs in which the nation can take pride.

BEP

The Bureau of Engraving and Printing (BEP) is introducing redesigns of currency to thwart the technological advances available to counterfeiters and to maintain the integrity of the nation's money supply. Redesigns of the $20 note and $50 note were introduced into circulation in FY 2004, and in 2005, the redesign of the $10 note will be unveiled, with introduction into circulation in 2006. BEP is continuing to research additional counterfeit deterrent features for the redesign of the $100 note.

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

Goal Description

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

F4A Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law. Treasury must collect the revenue due to the U.S. Government in a manner that is not only timely but also fair. Treasury works to educate all Americans and help them meet these obligations. Treasury also works to increase the electronic collection of payments and improve the ease of payment.

F4B Manage Federal Debt Effectively and Efficiently. Treasury is responsible for borrowing what is necessary to meet the U.S. Government's financing needs. The sum of all borrowing is called the gross federal debt. Treasury's goal is to provide government financing at the lowest cost over time. Issuing debt regularly and in predictable quantities fulfills this mission. The risks to regular and predictable issuance includes unexpected changes in borrowing requirements, demand for securities, and anything that inhibits timely sales of securities. To reduce these risks, Treasury closely monitors economic conditions, fiscal policy, and market activity. Treasury also responds with changes in debt issuance based on thorough analysis and discussions with market participants. Treasury seeks to lower government borrowing costs by ensuring timely, reliable sales of securities through continuous improvement in the auction process.

F4C Make Collections and Payments On-Time and Accurately, Optimizing Use of Electronic Mechanisms. Treasury collects approximately 95% of total federal receipts, such as individual and corporate income and other taxes, duties, fees, debts, and other money owed to the U.S. Government. Treasury devotes the bulk of its resources to collecting taxes. Each year the IRS collects more than $1.5 trillion primarily through the Electronic Federal Tax Payment System (EFTPS) online. Financial Management Service (FMS) administers a number of collection systems, including EFTPS which is the world's largest collection mechanism and facilitates efficient collections by promoting electronic collections to federal agencies. The purpose of this objective is timely, complete collection of all monies due the government consistent with good customer service and "best practice" business efficiency. FMS disburses 85% of the U.S. Government's payments to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veterans' benefits. In FY 2004, 75% of these disbursements were made electronically.

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. To accomplish this objective, Treasury must closely monitor the government's receipts and payments and accurately forecast the government's current and future daily cash requirements. In addition, Treasury must execute borrowing operations in an efficient and reliable manner.

Key Outcomes

- Improve taxpayer compliance (aligns with F4A).
- Provide government financing at the lowest cost over time (aligns with F4B).

- Complete collections and payments on-time, accurately and cost-effectively (aligns with F4C).

- Accurately forecast the government's current and future daily cash requirements to minimize costs (aligns with F4D).

Public Benefit

The U.S. government must manage its finances effectively and efficiently. As the primary fiscal agent for the U.S. Government, Treasury manages the Nation's finances by collecting money due the United States, making payments, managing borrowing, performing central accounting functions, and producing coins and currency to meet demand. A vast array of activities are performed to generate value for the American public, and include the following.

- Taxpayer education.
- Early intervention in tax issues.
- Improved regulations.
- Reduction in the length of the appeals process.
- Improved pre-filing guidance.
- Assistance for taxpayers filing returns.
- Increasing electronic filing options.
- Multi-lingual customer assistance.
- Rapid refund payments.
- Electronic funds transfer.
- Paper check conversion.
- 100% paperless savings bond program.

Many of these activities are aimed at making it easier for Americans to work with the IRS and other government agencies involved in collecting revenue or making payments. Other activities are performed to increase the efficiency and effectiveness of financing the operations of the U.S. Government so that ultimately the tax burden on Americans is reduced.

Key Partners in Achieving this Goal

Treasury works with, among others, the Departments of Transportation, Education, Agriculture, Veterans Affairs, Labor, Justice (and FBI), Transportation, Homeland Security (and USSS), Housing and Urban Development, Health and Human Services, the U. S. Postal Service, the Pension Benefit Guaranty Corporation, the National Credit Union Administration, State tax agencies, practitioner and preparer associations, community based coalitions, low-income tax clinics, the banking and thrift industry, tax software professionals, the Federal Reserve System, the Joint Financial Management Improvement Program (JFMIP), and international financial institutions.

Select Performance Measures

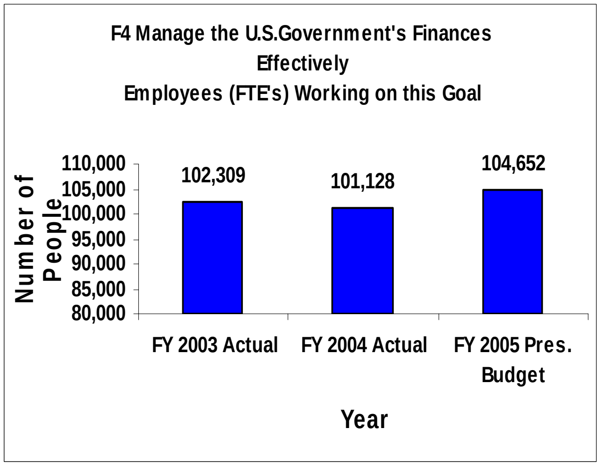
The measures shown below are a subset of the total measure set for Promoting Prosperous U.S. and World Economies. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

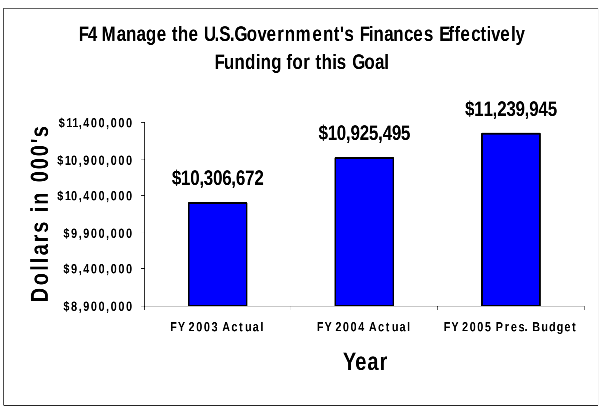
- Customer Service Representative (CSR) Level of Service.
- Percent of Individual Returns Processed Electronically.
- Dollars Collected per Dollar Spent (Alcohol and Tobacco Tax and Trade Bureau).
- Percent Reduction in the Rate of Increase in Transaction Costs to Collect Federal Government Receipts through the Electronic Federal Tax Payment System.
- Percent Collected Electronically of Total Dollar Amount of Federal Government Receipts.
- The Dollar Amount of Collections Transacted through Pay.Gov.
- Percent of Auction Results Released in Two -Minutes Plus or Minus Thirty Seconds.
- Percent of Treasury Payments and Associated Information made Electronically.
- Percent of Government-wide Accounting Reports Issued Accurately.
- Percent of Government-wide Accounting Reports Issued Timely.

For a full description and results of these measures, see PART IV.

Performance Summary and Resources Invested[12]

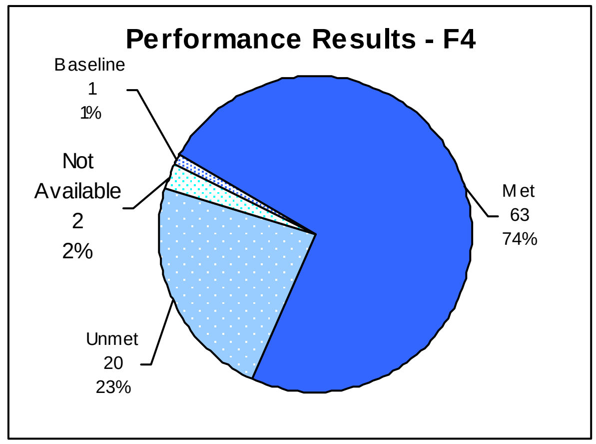
The charts shown reflect the resources Treasury devotes to the goal "Manage the U.S. Government's Finances Effectively." These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





A description of each strategic objective and the results achieved for Managing the U.S. Government's Finances effectively follows.

F4 Performance Target Summary
Total Measures for F4



[12] The complete list of measures supporting this objective can be found in PART IV

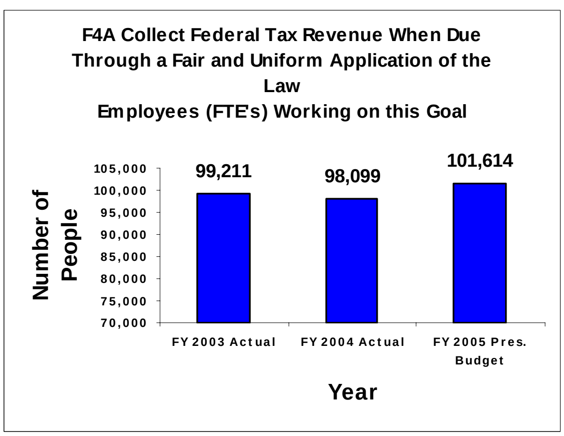
F4A Collect Federal Tax Revenue When Due through a Fair and Uniform Application of the Law

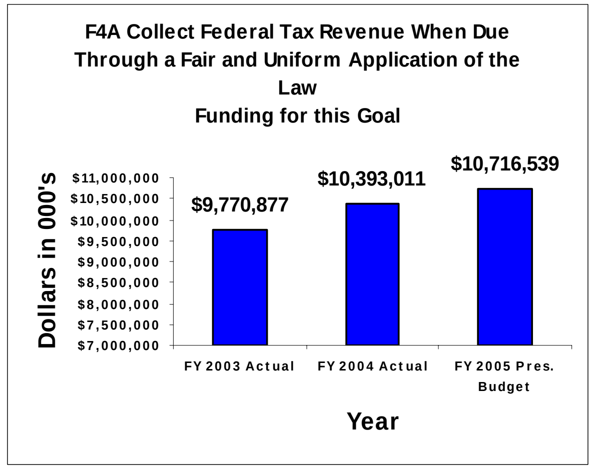
Strategic Objective and Key Outcome Overview

Treasury must collect the revenue due to the Federal Government in a manner that is timely and fair. In the context of tax collection, fairness is primarily a product of compliance. Treasury works to educate all Americans and help them meet these obligations. Treasury also works to increase the electronic collection of payments and improve the ease of payment.

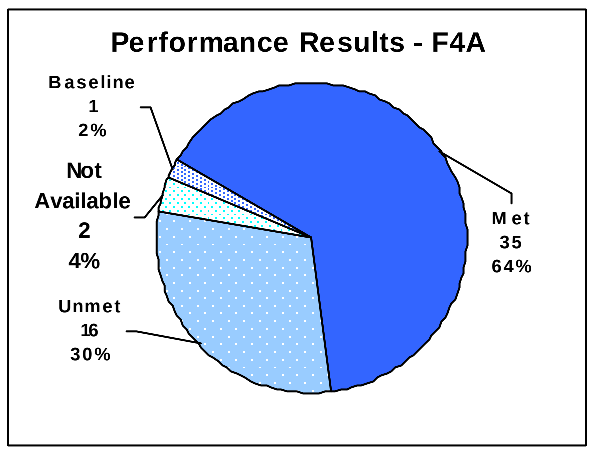
Performance Indicators and Resources Invested[13]

The charts shown reflect the resources Treasury devotes to the objective of "Collect Federal Tax Revenue When Due through a Fair and Uniform Application of the Law." These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





F4A Performance Target Summary
Total Measures for F4A



A description of each strategic objective and the results achieved for managing the U.S. Government's finances effectively follows.

Successes

Compliance. Treasury is working to increase compliance with tax laws by supporting the Internal Revenue Service (IRS) compliance initiatives and initiating, completing and updating tax information exchange treaties with other

[13] The complete list of measures supporting this objective can be found in PART IV

nations. Treasury is also implementing a variety of procedures to enhance the timeliness and quality of administrative guidance to ensure that taxpayers understand their responsibilities, and to administer the tax laws appropriately and fairly. On the legislative front, Treasury is working to enhance proposals to combat abusive tax shelters and legislation authorizing the use of private collection agencies to collect delinquent debt.

Treasury works to improve compliance through better and more targeted taxpayer education, enhanced reporting, more voluntary agreements, improved regulations, earlier intervention and a reduction in the length of the appeals process. Treasury is maximizing the collection of delinquent non-tax debts and referring delinquent non-tax debt owed by commercial vendors, separated employees, and nongovernmental agencies to the Financial Management Service (FMS) for collection.

The IRS is enhancing its pre-filing guidance in order to improve taxpayers' understanding of complex tax law provisions. The IRS is modernizing its work processes and expanding partnerships with individuals and organizations to help taxpayers file returns, increase electronic filing options, make communications more understandable, expand multi-lingual customer assistance, and pay refunds faster.

To aid taxpayer compliance and assist small businesses, the IRS made available several resources for free on the internet (IRS.gov). Taxpayers visited the web pages to learn how the tax code treats different business structures, apply for an Employer Identification Number or make tax payments.

To increase compliance, the Alcohol and Tobacco Tax and Trade Bureau (TTB) is working with statistical methods to measure and analyze compliance with tax laws. TTB is performing full personnel and financial background checks of all applicants that request an operating permit to ensure that only qualified applicants enter the alcohol and tobacco business. Using the new statistical techniques, TTB has moved from random selection to risk-based selection of audit targets.

TTB is enhancing online information for taxpayers and other industry members to make complying with regulations easier. TTB is providing regulations, forms, and other information in plain language format, and continuing to create alternative excise tax return filing methods through e-Government initiatives.

The Taxpayer Advocate Service (TAS) automated its process to request assistance from the IRS Operating/Functional Divisions (O/FDs) in resolving taxpayers' problems. The new procedure provides data to TAS and the O/FDs for tracking and analyzing such requests. This is part of IRS's efforts to improve its systemic processes and reduce the number of times taxpayers must contact the IRS for assistance.

Electronic Government. Each year, more taxpayers choose to pay their federal taxes electronically using the Electronic Federal Tax Payment System (EFTPS), a joint project of IRS and FMS. In FY 2004, 72 million payments were processed through EFTPS for a total value of $1.6 trillion, an increase of 6% over last year.

The enhancement and expansion of electronic services, including the IRS website, electronic filing, and electronic payments, is a top priority. **Electronic transactions save the Federal Government money**. IRS will expand electronic document repositories and develop a multilingual centralized database.

IRS also released three new electronic e-Services tools for tax professionals. Disclosure Authorization and Electronic Account Resolution give tax professionals online options for working with the IRS. The Disclosure Authorization tool gives eligible tax practitioners an online option for submitting Power of Attorney or Taxpayer Information Authorization forms. Electronic Account Resolution allows tax practitioners to electronically correspond with the IRS. IRS also launched a new service through the IRS GuideWire list server to make technical guidance available via e-mail to tax professionals when the documents are issued.

In FY 2004, the IRS deployed Modernized E-file, which provides e-filing for the first time to large corporations and tax exempt organizations. In addition, IRS deployed additional on-line e-Services functionality for tax practitioners and other third parties, such as banks and brokerage firms that file Form 1099.

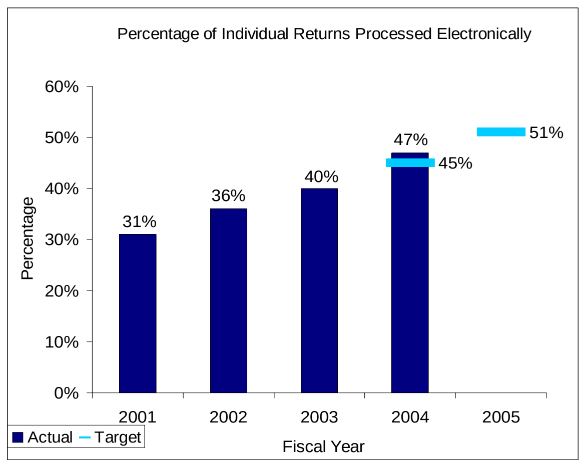
Over the past nine months as part of its Business Systems Modernization program, the IRS has been introducing a number of e-Government services on the internet for tax practitioners and other tax advisors known collectively as e-Services. Specifically, these services include application for e-Services, Electronic Return Originator application, Disclosure Authorization application, Preparer Tax Identification application, Electronic Account Resolution, Taxpayer Identification Matching, and Transcript Delivery.

The IRS launched a new program, Express Enrollment for New Businesses, designed to boost electronic payment of taxes. This development offers taxpayers new, faster access to an electronic payment system. This initiative is available using the EFTPS, a service offered free by two Treasury bureaus: IRS and FMS.

- Treasury collects more than $1.6 trillion annually in electronic tax payments through a network of more than 10,000 financial institutions.
- EFTPS enables taxpayers and tax professionals to make federal tax payments electronically online, by phone, or with batch provider software for professionals.
- Business taxpayers with a federal tax obligation will be automatically pre-enrolled in EFTPS to make all of their Federal Tax Deposits.

Electronic filing at the IRS set a record and reached over 70 million returns. This represents an increase of approximately 16% from last year. These trends will help IRS move towards its goal of 80% of individual returns filed electronically by 2007.

- Home computer usage by individuals to prepare and e-file tax returns soared to over 14 million returns.
- Tax professional use of e-file jumped more than 15%, with 42.8 million electronic filings.
- In its second year, "Free File," the public-private partnership between the IRS and a consortium of tax software companies saw 3.5 million taxpayers use the free on-line filing service, a 26% increase from last year.
- IRS continues to expand electronic tax products for business, implementing electronic filing of corporate 1120/1120S returns and the tax-exempt 990/990EZ returns in February. To date, 48,501 and 775 returns were filed, respectively.



More taxpayers used the IRS web site, including the "Where's My Refund?" feature, which allows taxpayers to inquire if the IRS received their return and whether their refund was issued. There were almost 24 million inquiries to the on-line service to check on refunds, and 739 million IRS internet downloads. 49 million taxpayers chose direct deposit for their refunds this year, an increase of approximately 11%.

With record numbers of Americans e-filing their tax returns and recently announced e-filing options for corporations and tax exempt organizations, this year the IRS launched a new online form that gives tax professionals a faster, easier method for applying to become an authorized e-filer.

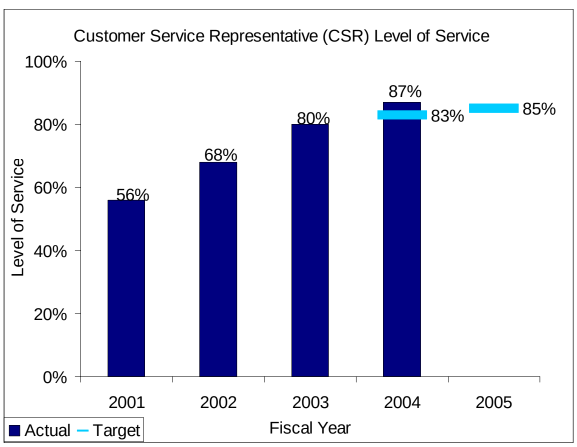
- Tax professionals now have an online application form that cuts processing time and reduces errors associated with using the paper Form 8633, Application to Participate in IRS e-file.

- Once the application is approved by the IRS, tax professionals can e-file returns for their clients.

With more account and tax law inquiries moving to the Internet for resolution, the toll-free level of service improved to 87%.

Operations. Treasury collected $2.0 trillion in FY 2004, processed 220 million tax-related documents and collected nearly $3 billion in delinquent non-tax debt.

For the 2004 filing season, the IRS processed over 131 million individual returns, and issued approximately 100 million refunds totaling nearly $208 billion. IRS representatives answered 35 million telephone calls, and the automated telephone system handled nearly 34 million calls.



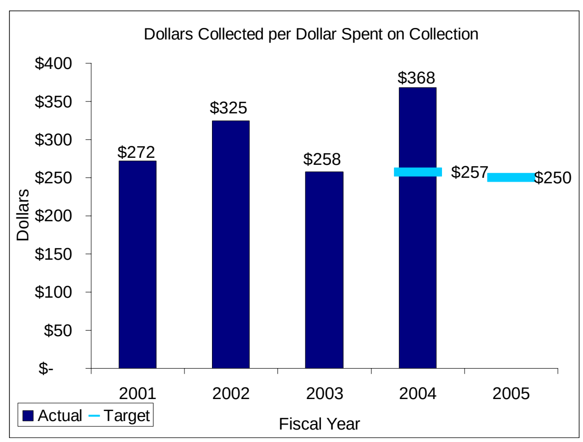
- The quality of phone service continues to trend upward, and is at 87%; this can be attributed to the implementation of new telephone lines and less complicated scripts used to answer taxpayer questions.

- Time spent waiting improved substantially. The average wait time is 158 seconds, down 21% from FY 2003. Continued improvements are necessary to achieve private sector standards.

- For the 2004 filing season, taxpayers received correct responses to 80% of tax law questions and 89.6% of account questions.

TTB's Revenue Collection Program is responsible for collecting alcohol, tobacco, and firearms and ammunition excise taxes which in FY 2004 totaled $14.8 billion. Approximately 97% is collected from the alcohol and tobacco industries (roughly 4,600 taxpayers). Alcohol represents 46% and tobacco represents 51% of annual tax receipts and revenue collections. It is important to note that about 400 taxpayers (8%) account for approximately 95% of annual tax collections in these industries. As the third largest tax collection agency, TTB's goal is to improve service to the taxpayer and reduce the burden of complying with federal tax laws.

As a result of the Debt Collection Improvement Act of 1996, FMS provides debt collection operations services. FMS delinquent debt collection continues to exceed performance goals as a result of continued improvements to its Debt Management Program. For FY 2004, FMS achieved collections of more than $3.0 billion.



Legislation was enacted in FY 2004 establishing a permanent indefinite appropriation to reimburse financial institutions for services they provide as depositories and financial agents to the Federal Government. These services support FMS programs that "collect revenue" electronically, including the EFTPS, the Lockbox Network, the Plastic Cards Network, and CA$HLINK.

The Department achieved major milestones in its strategy to curb abusive tax shelters. The IRS and Treasury have addressed 31 abusive transactions in formal guidance, and have put in place regulations that significantly improve the IRS's information about potentially abusive transactions and those that promote them. The IRS has dramatically increased civil and criminal investigations of the professional firms and individuals who promote tax shelters or inappropriately provide legal opinions.

Outreach and Education. This year, IRS conducted a public education campaign for low-income workers who are eligible for and claim the Earned Income Tax Credit (EITC). An IRS online EITC preparer tool kit was developed and e-mail messages were sent to over 220,000 tax preparers promoting it. The IRS also unveiled the EITC Assistant, a new tool to help tax professionals determine whether their clients are eligible for the Earned Income Tax Credit. The new application is available in English and Spanish. The EITC Assistant is another step being taken by the IRS to maximize taxpayer participation while minimizing EITC errors. The EITC Assistant will help determine eligibility for the credit, filing status of the taxpayers and if the taxpayers' children meet the definition of "qualifying children" for EITC purposes.

The IRS awarded $7.5 million in matching grants to Low Income Taxpayer Clinics (LITCs). In 2004, IRS awarded these grants to 135 clinics representing 49 states, the District of Columbia and Puerto Rico. LITCs are qualifying organizations that represent low-income taxpayers involved in tax disputes with the IRS or that inform taxpayers for whom English is a second language or have limited English proficiency of their tax rights and responsibilities. The IRS matching grant program, which is in its sixth year, encourages the creation and growth of Low Income Taxpayer Clinics across the nation. These clinics provide an important resource to taxpayers that cannot afford to hire a tax professional.

The IRS hosted a series of six Tax Forums to help educate and serve the tax practitioner community. The three-day Forums were offered in July, August and September. Attendance at the forums, now in their 14th year, has grown steadily. More than 16,000 tax professionals attended the Forums in 2003; in 2004, 17,500 attended, a 9% increase. The agenda for the 2004 Forums included seminars on the new IRS e-Services program, retirement plans for small businesses, abusive tax avoidance transactions, the proposed revisions to IRS guidance on ethics and professional responsibility, privacy, faster account resolution, tax law changes, and compliance initiatives, among others.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective F4A, "Collect Federal Tax Revenue when Due through a Fair and Uniform Application of the Law."

- Individual Returns Examined – Field (SBSE & LMSB) >$100,000.
- Examination Customer Satisfaction (SBSE).
- Correspondence Exam Accuracy.
- Compliance Services Collection Operation Accuracy.
- Examination Customer Satisfaction (LMSB).
- Examination Quality (LMSB) Coordinated Industry.
- Examination Quality (LMSB) Industry.
- Field Collection Quality of Cases Handled in Person.
- Number of TEGE Compliance Contacts.
- Individual Returns Examined – Field (SBSE & LMSB) <$100,000.
- Customer Accuracy-Customer Accounts Resolved (Adjustments).
- Customer Accuracy-Toll Free Tax Law.
- Field Assistance Accuracy of Tax Law Contacts.
- Percentage increase in amount of debt collected for every dollar of debt collection program cost.
- Total published guidance items.
- Percentage of voluntary compliance in filing tax payments timely and accurately (TTB).
- Percentage of total tax receipts collected electronically.

F4A Challenge Summary. The performance targets in this objective were not achieved in a number of operational, efficiency, and customer satisfaction areas. Customer accuracy and quality metrics fell short due to increases in work complexity, volume or insufficient training of personnel. Action plans have been established to generate the needed improvements.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Compliance. The FY 2005 President's Budget included proposals to increase and enhance opportunities to collect delinquent debt. Treasury continues to work toward enactment of the following legislative proposals to support increased debt collection efforts:

- **Information Comparisons and Disclosure to Assist in Federal Debt Collection.** This proposal would authorize the Secretary of Health and Human Services (HHS) to match information, provided by the Secretary of the Treasury with respect to persons owing delinquent debt to the Federal Government, with information contained in the HHS National Directory of New Hires, and to disclose to Treasury information obtained from matches. Information obtained from the National Directory of New Hires would facilitate FMS' debt collection efforts by providing employment information about debtors enabling FMS to issue wage garnishment orders in appropriate cases.

- **Increase in Continuous Levy for Certain Federal Payments.** This proposal would allow IRS, working through FMS, to continuously levy up to 100% of a Federal vendor payment to collect outstanding tax obligations. Under current law, FMS is authorized to continuously levy up to 15% of specified Federal payments. (Note: This proposal was enacted as part of P.L. 108-357.)

- **Elimination of Limitations Period on Offset.** This proposal would eliminate the 10-year limitation period applicable to the offset of Federal nontax payments to collect debts owed to Federal agencies. Except for student loan debt, under current law Federal payments being made to payees who owe delinquent debt to the government cannot be offset if the debt has been outstanding for more than 10 years.

- **Offsets of Past-Due, Legally Enforceable State Unemployment Compensation Debts Against Overpayments.** This proposal would expand the tax refund offset program to allow for collection of past-due, legally enforceable state unemployment compensation debts.

New projects are planned in the next several years to help assistors provide better quality answers to customer account questions and to provide private collection agencies a support application that will help the IRS collect delinquent taxes.

Electronic Government. For FY 2006, FMS increased its target to 83% for the measure, percentage collected electronically of total dollar amount of Government receipts. FMS will continue to provide collection mechanisms that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers. This will be accomplished through the enhancement and marketing of the following initiatives.

- **EFTPS-On Line** allows businesses and individuals to enroll and pay all Federal taxes through a secure Website. Prior to FY 2005, EFTPS was maintained and operated by two financial agents. By FY 2006, the system will be run by only one financial agent, yielding additional efficiency and provide a substantial savings to the Government ($90 million annually).

- **Paper Check Conversion** is technology that allows a paper check to be scanned, capturing the financial institution and account information, and then converting the payment to an electronic transaction using the Automated Clearinghouse (ACH). The result is a more reliable and efficient method for citizens and businesses to pay the Government and it provides each point-of-sale customer with a cancelled check and transaction receipt.

- **Check Truncation** is the process of removing the paper check from the clearing process and sending the check data/digital representation through the check clearing system, potentially reducing the cost of check processing and accelerating the collection time. Check Clearing for the 21st Century Act (Check 21) was signed into law in October 2003 and is effective in October 2004. To facilitate check truncation, the Check 21 authorizes a new negotiable instrument called a substitute check that is a paper copy of the front and back of the original check and is its legal equivalent.

Operations. The IRS will increase or maintain their level of service.

- The goal in Taxpayer Service in FY 2005 is to maintain the high level of performance IRS is achieving in FY 2004 and continue to offer self-service options to taxpayers.

- Toll Free Assistor Level of Service will be 87% or higher.

- 67 million individual returns will be filed electronically, a 10% increase over FY 2004.

- Taxpayers will expand their use of self-service options on IRS.gov, downloading 200 million more forms and instructions.

- Other taxpayer satisfaction and accuracy measures for Taxpayer Service programs will be maintained at current levels or slightly increase above the high FY 2004 levels.

- In FY 2005, the processing of individual paper return filings are projected to decrease by 4.4 million as a direct result of the increase in electronic filing.

F4B Manage Federal Debt Effectively and Efficiently

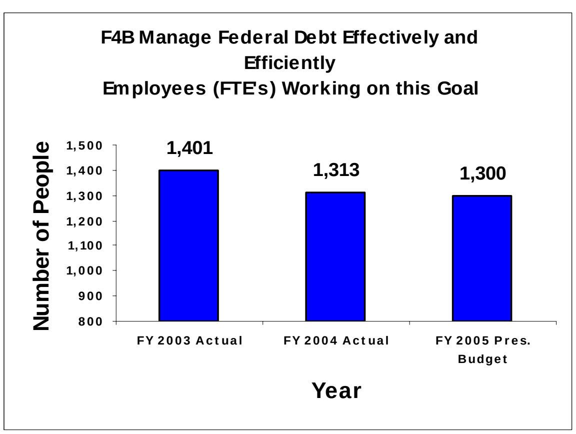
Strategic Objective and Key Outcome Overview

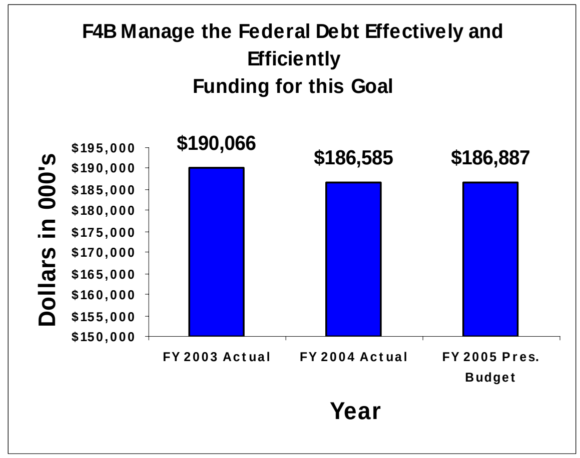
Treasury works to effectively finance government operations, including efficiently meeting the Government's borrowing needs. In order to measure success, Treasury is developing and using metrics to track the relative cost of financing the U.S. Government. As part of that effort, Treasury is moving to a 100% paperless savings bond program, and aiming to achieve "two minute auction" performance. The auction is administered by the Bureau of Public Debt.

As part of that effort, Treasury is moving to effectively finance government operations, and efficiently meet the borrowing needs of the U.S. Government. Treasury is also working to secure a long-term legislative solution to the debt ceiling issue.

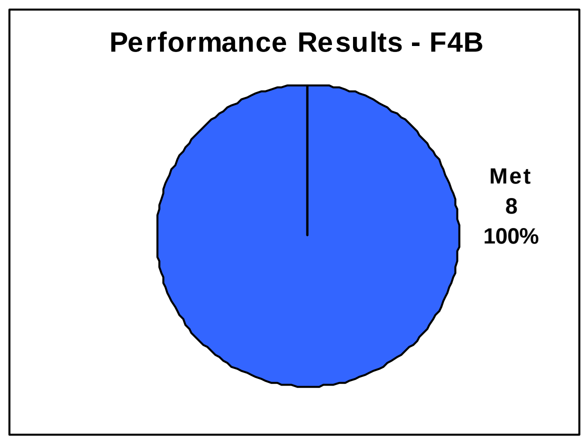
Performance Indicators and Resources Invested[14]

The charts shown reflect the resources Treasury devotes to the objective of "Manage Federal Debt Effectively and Efficiently." These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





F4B Performance Target Summary
Total Measures for F4B

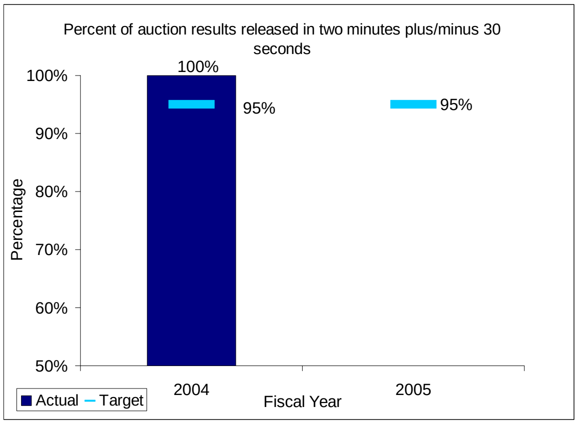


A description of each strategic objective and the results achieved for Managing the U.S. Government's finances effectively follows.

Successes

In support of Treasury's objective to achieve the lowest cost of financing over time, the Bureau of the Public Debt (BPD) is continually enhancing its auction systems and processes, and increasing the

[14] The complete list of measures supporting this objective can be found in PART IV



efficiency of its securities operations. At the end of FY 2003, BPD completed a multi-year effort to dramatically reduce the time needed for completing auctions and announcing the results. Throughout FY 2004, BPD consistently released results after the auction close within the new Treasury standard of two minutes, plus or minus 30 seconds. This is important because shorter and consistent auction release times reduce the period of time auction bidders are exposed to uncertainty as to whether their bids were successful and at what price. By virtually eliminating this period of uncertainty, the need for bidders to build in a risk premium is also eliminated, resulting in lower cost financing for Treasury and the American taxpayer.

BPD is continuing its efforts to improve the efficiency of the securities services it offers to retail investors. The cornerstone of this effort is BPD's new TreasuryDirect system, which, when fully implemented, will enable investors to purchase and manage all of their Treasury securities holdings online through a single portfolio account. The system currently offers both Series I and EE savings bonds in electronic form, holds more than $1 billion in over 225,000 accounts, and will be expanded to include marketable Treasury securities offerings. Because it is fully electronic, TreasuryDirect provides a more efficient platform for offering securities products to retail investors and at the same time substantially improves the services that BPD can provide via the internet to these investors.

In the past year, Treasury diversified its portfolio of securities offerings through the addition of 5-year and 20-year Treasury Inflation-Protected Securities (TIPS). A diversified portfolio helps the government maintain flexibility in its borrowing and management of its cash balances and to broaden its investor base, all of which help to keep borrowing costs down.

Challenges

All performance targets were achieved for this objective.

Moving Forward

Treasury is committed to financing the Federal Government at the lowest possible cost over time. BPD will support Treasury by continuing to meet the "two minute" auction standard and redesigning the auction system to ensure it keeps pace with business and contingency needs. At the same time, BPD will continue to progress towards a totally paperless environment for savings bonds. While paper savings bonds will remain available through conventional channels for some period of time, a conversion feature will be added to TreasuryDirect in FY 2005 that will permit the more than 55 million Americans who hold 700 million paper savings bonds to convert them to electronic form. Marketable Treasury bills and notes will also be offered in TreasuryDirect in FY 2005.

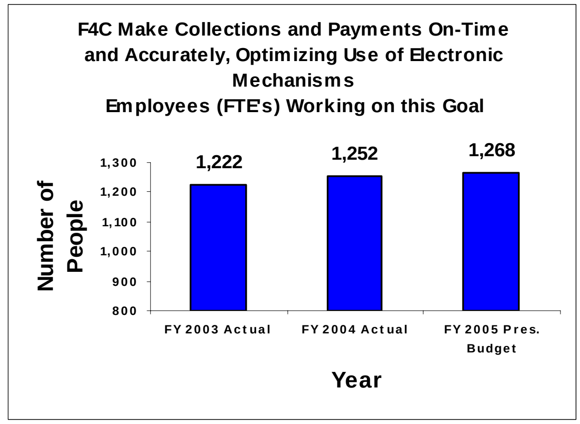
F4C Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms

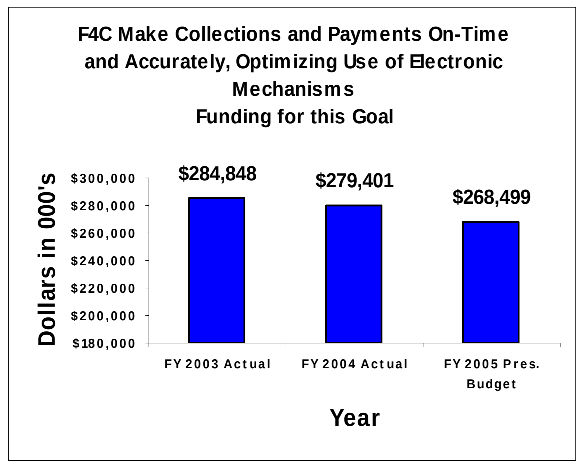
Strategic Objective and Key Outcome Overview

Treasury continues to concentrate efforts on converting remaining check payments to Electronic Funds Transfers (EFT). Treasury is currently working with the Federal Reserve System and the Social Security Administration on initiatives involving EFT research, marketing, and education campaigns. Treasury will collect business taxes electronically through expansion of electronic collections such as Electronic Federal Tax Payment System (EFTPS) On-Line. The Financial Management Service (FMS) continues to promote the use of technology in the collections process and assists agencies in converting collections from paper to electronic media. For instance, Treasury will use paper check conversion at its lockbox sites to reduce paper processing at lockbox banks and improve the efficiency of the lockbox system.

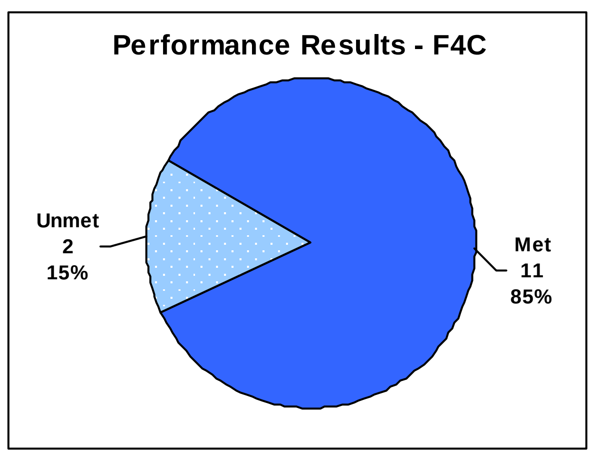
Performance Indicators and Resources Invested[15]

The charts shown reflect the resources Treasury devotes to the objective of "Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms." These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





F4C Performance Target Summary
Total Measures for F4C

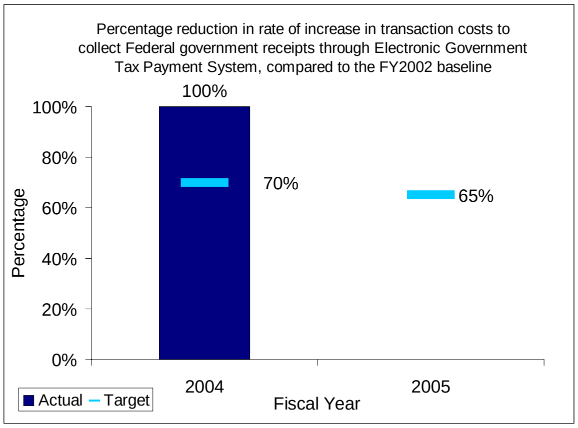


[15] The complete list of measures supporting this objective can be found in PART IV

A description of each strategic objective and the results achieved for managing the U.S. Government's finances effectively follows.

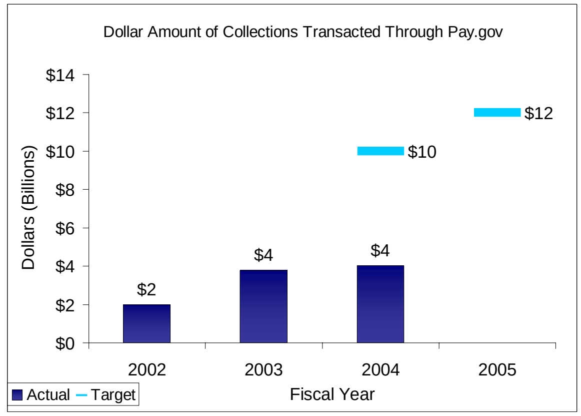
Successes

FMS and the IRS, along with the small business community and tax practitioners, are working on strategies to significantly increase the number of



EFTPS enrollments. Additionally, the FMS is continuing to explore methods for reducing the costs of its banking services, using less expensive electronic mechanisms such as Paper Check Conversion at lockbox sites.

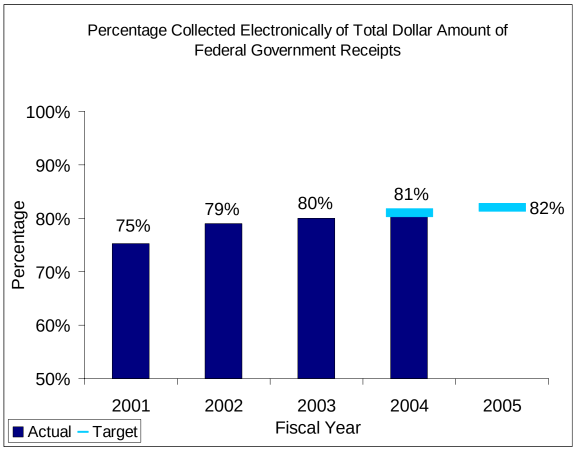
FMS is working to improve the efficiency of the lockbox network which supports processing of collections for Federal agencies. FMS will be finalizing implementation of the General Lockbox Network Rebid by conducting individual cash flow bids, developing a standard process for selection of financial agents, either through a designation or competitive selection and making selections of financial agents to manage the competitive accounts up for renewal or rebid. The General Lockbox Network Rebid sought financial institutions interested in providing services that would implement cost-cutting measures like imaging technology, check truncation, Paper Check Conversion (PCC), Pay.gov, and linking credit card collections to the



lockbox processing operations. The goal of this effort is to reduce paper processing by converting paper transactions to ACH and transmit data using internet-based technology to enhance the efficiency of the government's cash management operations.

Provide federal payments in a timely and accurate manner, move toward an all-electronic Treasury for payments, and determine the optimal payment processing environment for the future. FMS disburses 85% of the Federal Government's payments to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veterans' benefits. In FY 2004, FMS issued approximately 950 million non-Defense payments, with a dollar value in excess of $1.7 trillion. Approximately 75% of these transactions are issued by EFT, an increase of 1% over FY 2003. Paper checks account for the remainder of disbursements.

Provide timely collection of Federal Government receipts, at the lowest cost, through an all-electronic Treasury. FMS collects more than $2.0 trillion annually through a network of more than 10,000 financial institutions. It also manages the collection of Federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases. FMS establishes and implements collection policies, regulations,



standards and procedures for the Federal Government. FMS develops and operates a variety of collection mechanism and systems (e.g. EFTPS, lockboxes, Treasury General Accounts, debit/credit cards, and Pay.gov) to meet program agency needs. The majority of the dollar amounts of FMS collections, 81% for FY 2004, are made electronically. FMS continues to promote the use of technology in the collections process and assists agencies in converting collections from paper to electronic media.

FMS has also undertaken efforts to modernize its payment systems by incorporating new technologies and making full use of the internet. The Secure Payment System (SPS) replaces the Electronic Certification System, which has reached technological obsolescence. SPS is the cornerstone of the payments process in which agencies certify the accuracy, validity and legality of their payments. SPS provides a significant technological upgrade that is more efficient, user friendly and web accessible while providing greater integrity and security to the payments process.

Automated Standard Application for Payments (ASAP.GOV) is a new web-based system built jointly by FMS and the Federal Reserve Bank of Richmond as a replacement for the original ASAP System. It is an all-electronic grant payment system through which organizations such as states, universities, for-profits and non-profits, receive federal funds from accounts pre-authorized by federal agencies. Total disbursements to organizations in calendar year 2003 were $384 billion. Nineteen federal agencies transitioned to the new ASAP.gov in February 2004. FMS expects disbursements to dramatically increase as new users are brought on-line and will continue working with FRB Richmond to improve service to Federal agencies and their clients by adding functionality to ASAP.gov.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective F4C, "Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms."

- The dollar amount of collections transacted through Pay.gov.
- Percentage of payments customers indicating an overall rating of "satisfied" or better.

F4C Challenge Summary. The performance targets in this objective were not achieved for one system measure and for one survey measure. The system measure fell short on transitioning payments to a new system called Pay.Gov. Lack of features, scalability, and maintenance issues contributed to scheduling impacts that affected the amount of collections transitioned to this system. The primary software developer was switched as a corrective action. A new question added to the FMS's survey of its customers for payment process improvements caused the survey results to be slightly lower. FMS continues to focus on payment process improvements.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

In FY 2005, more than 700 million payments will be made electronically, however, challenges remain in increasing growth in electronic payments. Overall, the direct deposit growth rate for Federal benefit payments has leveled off to less than 0.7% a year, a decrease of almost two-thirds since the late 1990's. As the government prepares for the huge increase in retiring Baby Boomers, Treasury will work to increase direct deposit usage.

A pilot marketing campaign, called Go Direct, targets 10 counties across three states and in Puerto Rico. The goal of the campaign is to identify the best ways to increase Direct Deposit participation and encourage check recipients to switch to Direct Deposit. Strong public outreach and education programs will be critical to the success of this campaign. Treasury issues over 170 million benefit payments, such as Social Security, each year. Taxpayers will save $.62 for each check converted to Direct Deposit, or approximately $100 million per year.

FMS continues to expand the use of electronic media to deliver Federal payments, improve service to payment recipients, and reduce Government program costs. These efforts help decrease the number of paper checks issued and minimize costs associated with postage, re-issuance of lost, stolen, and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits. Some of the programs FMS will continue to focus on include:

- **Stored Value Card (SVC)** is a "smart card" with electronic money stored on an embedded computer chip. The SVC program is aimed at reducing the float loss associated with the more than $2 billion in coin and currency in circulation at military bases, ships at sea, and other closed government locations around the world. Stored value cards reduce the high costs of securing, transporting, and accounting for cash.

- **Treasury Check Information System (TCIS)** replaces the outdated Check Payment and Reconciliation (CP&R) System. TCIS was designed by a Federal Reserve Bank, which acts as Treasury's fiscal agent, and is a web-based application that uses commercial off-the-shelf software for process flow, accounting, reconciliation and reporting functions for all Treasury checks. Phase two of the Treasury Check Information System (TCIS) project will merge the PACER On-Line System with TCIS. The Automated Clearing House (ACH) payments database will be moved under TCIS and a single interface will provide access for ACH and check payment inquiries. Continued development will occur to move ACH claims processing and case management to TCIS, which will reduce the cost to process payments.

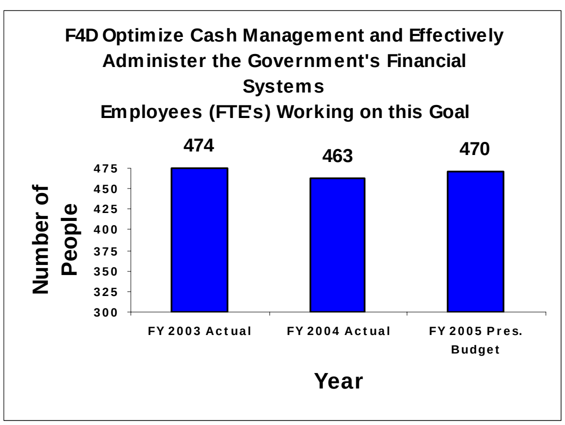
F4D Optimize Cash Management and Effectively Administer the Government's Financial Systems

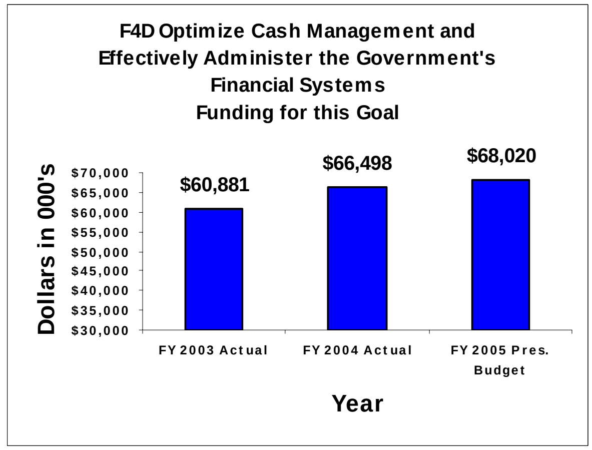
Strategic Objective and Key Outcome Overview

Treasury will make the management of the Federal Government's cash program more efficient and effective by continually enhancing the government's cash management systems and improving and formalizing models for projecting the government's cash position and will ultimately produce savings for the American public.

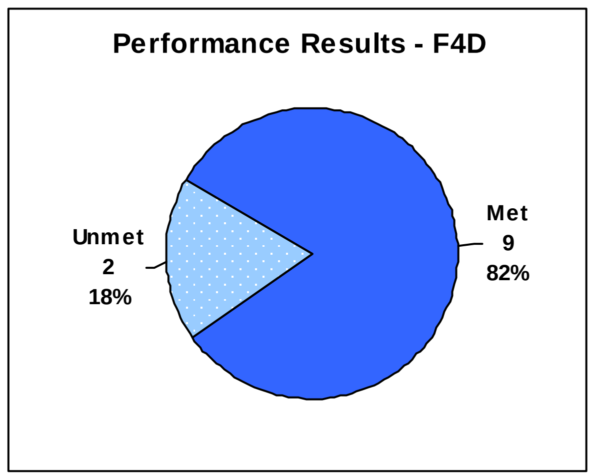
Performance Indicators and Resources Invested[16]

The charts shown reflect the resources Treasury devotes to the objective of "Optimizing Cash Management and Effectively Administer the Government's Financial Systems." These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





F4D Performance Target Summary
Total Measures for F4D



A description of each strategic objective and the results achieved for managing the U.S. Government's finances effectively, follows.

Successes

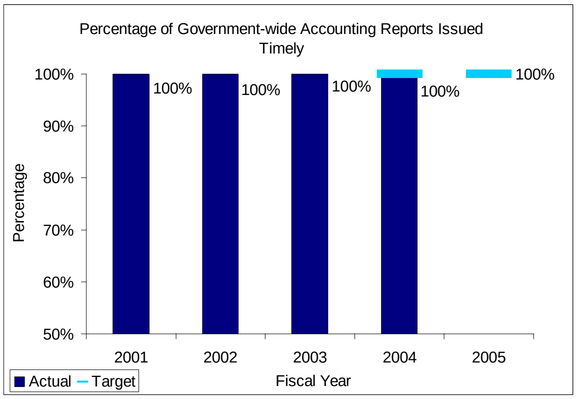
In support of Treasury's strategic objectives to improve the quality, timeliness and integrity of the U.S. Government's financial reports, the Bureau of Public Debt (BPD) plays a critical role for meeting these objectives in its accounting for what is currently the single largest liability on the U.S. financial report – the more than $7 trillion Federal

[16] The complete list of measures supporting this objective can be found in PART IV

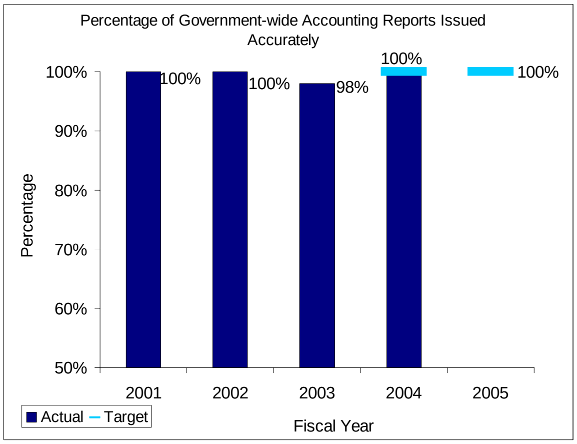
debt. BPD has consistently received unqualified opinions on annual audits of its Schedules of Federal debt. BPD has been successful in assisting other Federal agencies to produce more accurate reporting into the overall financial reports and will continue providing this support. BPD is also working to improve the clarity, utility and availability of federal debt information, to make it more understandable and accessible to the public.

Financial Management Service is building and implementing a system to improve the exchange of financial information among FMS, Federal Program Agencies (FPAs), the Office of Management and Budget (OMB) and the banking community. Once completed, this Government-wide Accounting (GWA) Modernization Project will comprehensively:

- Replace current government-wide accounting functions and processes (internal and external to FMS).
- Improve the reliability, usefulness and timeliness of the Government's financial information.
- Provide FPAs and other users with better access to that information.
- Eliminate duplicate reporting and reconciliation burdens by agencies.
- Provide better tools for reporting financial information and access to daily account statements



During FY 2003, FMS implemented the on-line, real time Account Statement module of the GWA project, when fully rolled-out, will enable agencies to balance their fund balance with Treasury on a daily basis. In addition, FMS has accelerated the release of the Monthly Treasury Statement which is the definitive report on the Government's receipts, expenditures, and resulting surplus/deficit, from the fourteenth to the eighth business day.



Treasury's Office of Fiscal Projections (OFP) performs two mission critical functions: 1) forecasting the Federal government's financing needs; and, 2) managing the Federal government's cash and debt positions. OFP relies on a forecasting system that allows staff to forecast short and mid-term cash and debt needs, track the level of Federal debt outstanding and manage the Federal government's daily cash and debt positions. The cash and debt forecasting system is a mission critical asset, designated by the National Critical Infrastructure Assurance Office (CIAO) impacting both national and economic security.

A multi-bureau team from Treasury headquarters, FMS and Public Debt completed a software and hardware upgrade resulting in a more stable operating environment and system configuration for Treasury. The upgrade consisted of a migration from a legacy system at Treasury headquarters to a state-of-the-art infrastructure located at Public Debt's primary data center in Parkersburg, West Virginia. Additional features were installed to increase file and general system access logging for security purposes. The upgrade further supports continuing efforts to strengthen contingency and continuity plans for Treasury.

Treasury worked to develop a new contingency plan for both the new systems and the Fiscal Projection System 1.0 application. The new design improves on the legacy infrastructure by significantly decreasing recovery time. In the event of a disaster at the primary Public Debt data center, users at Main Treasury can instantaneously connect to a disaster recovery server at a contingency site that is updated with production data at regular intervals. This system and its new infrastructure benefit the taxpayer by providing Treasury with timely information to maximize investment earnings and minimize borrowing costs.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective F4D, "Optimize Cash Management and Effectively Administer the Government's Financial System."

- Marketable Debt Issuance.
- Percentage of reporting locations with reconciliation differences, for deposits and payments, less than three months old.

F4D Challenge Summary. While the performance targets in this objective were not achieved, there were improvements over last year's performance and the previous two years' performance. The 95% target remained constant as the specification for this metric improved from six months to 3 months over the course of two years. To achieve this goal in the future, FMS developed a Quarterly Scorecard showing the results of Federal Program Agency's (FPA) financial reporting performance to measure compliance with FMS reporting requirements.

A full explanation of these measure and its results may be found in PART IV.

Moving Forward

BPD will continue to accurately account for and report on Federal debt. To improve the availability and usefulness of financial information, BPD will begin producing public debt financial statements on a quarterly basis in FY 2005, then monthly in FY 2006, and finally move to daily statements in FY 2007.

FMS will continue the multi-year project to rebuild the Government's central accounting system for reporting budget execution information. As part of the system redesign, FMS will provide agencies a web-based account statement resembling a bank statement. It will contain summarized Treasury fund account balance activity. Agencies will have daily access through a web-based system to the detail data supporting the items on the account statement for reconciliation and fund reclassification, rather than having to use multiple systems. As a result, final monthly and year-end fund balance information will be available to agencies a full week earlier than today. This will move the Government one step closer to achieving its objective of producing year-end financial information more quickly and reliably.

Treasury will continue to place increased emphasis on improving the quality, timeliness and integrity of the Federal Government's financial data. FMS' Government-wide Accounting Modernization Project will improve the reliability, timeliness, and exchange of financial information between FMS, FPAs, OMB, and the banking community. This new system will improve the reliability and timeliness of the Government's financial information and provide FPAs and other users with better access to information.

Treasury 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. During FY 2004, the Federal Government's cash position, budget surplus, and deficit information was on schedule and accurate 100% of the time. FMS is working to continue that consistency in FY 2005.

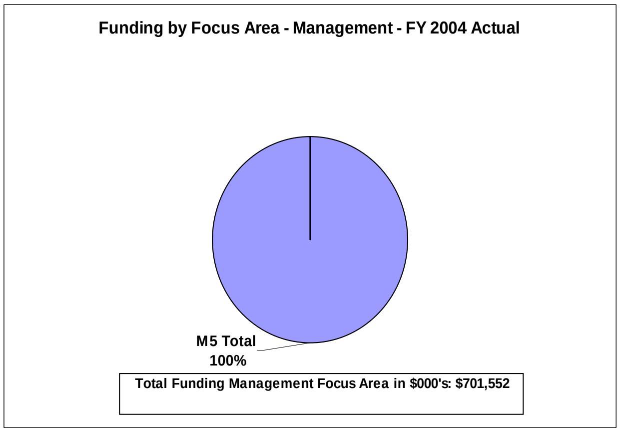
Treasury leads the effort to establish best practices for U.S. Government financial reporting, and to make the U.S. Government financial report a model for forward-looking financial reporting. Treasury is exploring ways to issue a guide to government financial reports that would help citizens interpret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

Government financial reporting. Treasury is also working with the Private Sector Council to create a committee of independent financial management professionals to review the financial report. The committee will provide feedback on the readability of the report and offer suggestions for improvement.

M Management and Operations Focus

Focus Description

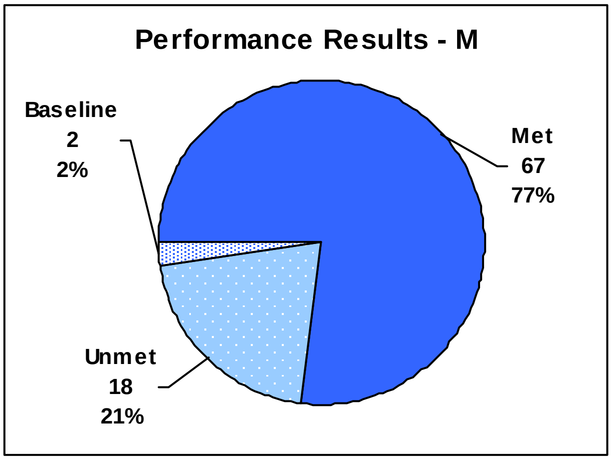
Treasury achieves its strategic goals in part by building a strong institution, which is citizen-centered, results oriented, and actively promotes innovation through competition. Treasury works effectively and efficiently to implement the President's Management Agenda across all Treasury bureaus and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



Strategic Goals

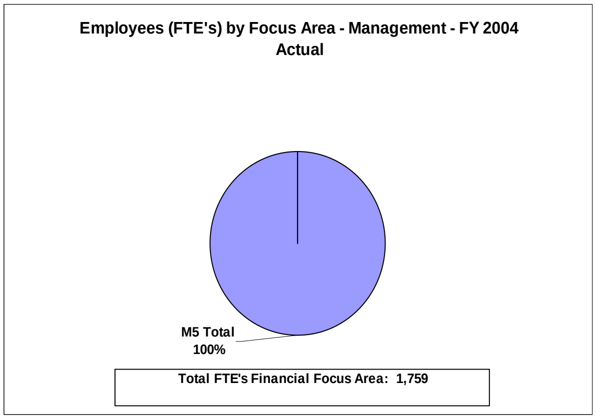
Treasury's Management and Operations focus consists of one Strategic Goal:

M5 Ensure Professionalism, Excellence, Integrity, and Accountability in the Management of the Department of the Treasury



Summary Data

The summary charts depicted below include resources (both people and dollars) by strategic goal and the percentage of targets that were achieved for all performance measures in the Management and Operations focus area.



M5 Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

Goal Description

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.

Strategic Objectives

M5A Protect the Integrity of the Department of the Treasury. Treasury is committed to preserving and protecting its integrity and the integrity of its programs, policies and initiatives. Treasury will ensure fairness, integrity, independence, objectivity, proficiency, and due care in performing its work.

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 our human resources, financial, and information technology capabilities. Finally, Treasury is committed to reviewing results and assessing performance, and taking those results to implement necessary improvements.

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)

Key Outcomes

- Treasury's weaknesses are identified (aligns with M5A)
- Improvements have been recommended (aligns with M5A)
- Actions have been implemented (aligns with M5A)
- Achieve green status in all President's Management Agenda initiatives (aligns with M5B)

Public Benefit

Treasury maintains the public trust and confidence by being citizen-centered and results oriented. Treasury acts as a steward of U.S. economic and financial systems. By maintaining effective management practices and influencing the international economy, Treasury is able to meet and exceed its strategic goals.

Select Performance Measures

The measures shown below are a subset of the total measure set for Preserving the Integrity of Financial Systems. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

- Provide integrity briefings to 33% of IRS employees during the fiscal year
- Percentage of statutory audits completed by the required date
- Complete investigations of EEO complaints in 180 days
- Percent reduction in the injury and illness rate over FY 2003 baseline – Treasury-wide, including DO
- Percent of all Treasury IT systems that are currently certified and accredited to operate

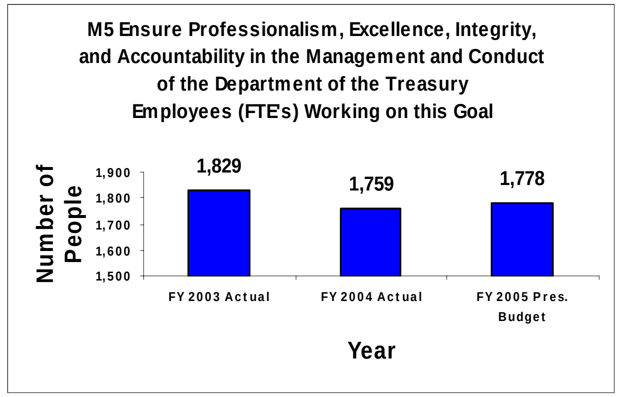
For a full description and results of these measures, see PART IV.

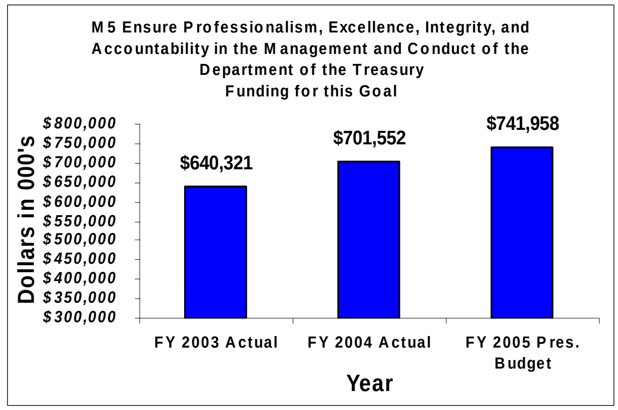
Key Partners in Achieving this Goal

All Treasury bureaus, external evaluators, and other agencies are partners with Treasury in achieving the President's Management Agenda and driving Treasury to achieve world class performance.

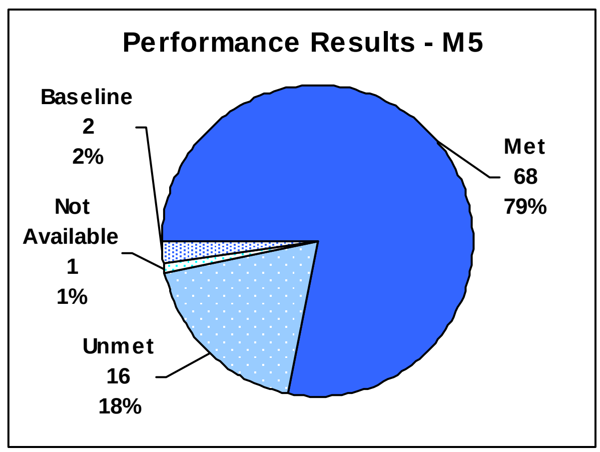
Performance Summary and Resources Invested[17]

The charts shown reflect the resources Treasury devotes to the goal of "Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury." These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.





M5 Performance Target Summary
Total Measures for M5



A description follows for each strategic objective and the results achieved.

[17] The complete list of measures supporting this objective can be found in PART IV

M5A Protect the Integrity of the Department of the Treasury

Strategic Objective and Key Outcome Overview

In order for Treasury to preserve its integrity, it must rely on the advice, guidance, and counsel of both internal and external independent auditors. Treasury values the recommendations, suggestions, and oversight provided by its independent auditors. Treasury continues to use these recommendations in making the Department more efficient and effective.

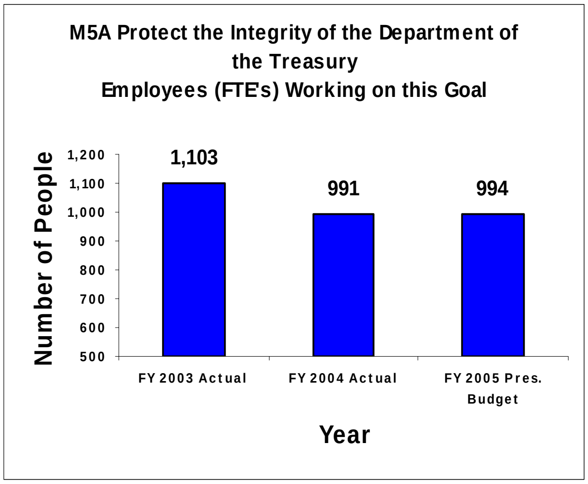
The independent effort of an inspector general helps to promote fairness, integrity, independence, objectivity, proficiency and due care. The recommendations provided by an inspector general are used to address areas of concern. These recommendations inspire corrective actions and improve the general management of Treasury programs. Treasury has two separate entities that perform inspector general functions: The Office of the Inspector General (OIG) and The Treasury Inspector General for Tax Administration (TIGTA).

The OIG conducts and supervises audits, evaluations, and investigations in Treasury (non-IRS) programs and operations. The OIG promotes policies designed to prevent and detect fraud, waste, and abuse. The OIG keeps the Secretary of the Treasury and the Congress fully and currently informed about problems and deficiencies in Treasury programs and operations, and the need for and progress of corrective actions.

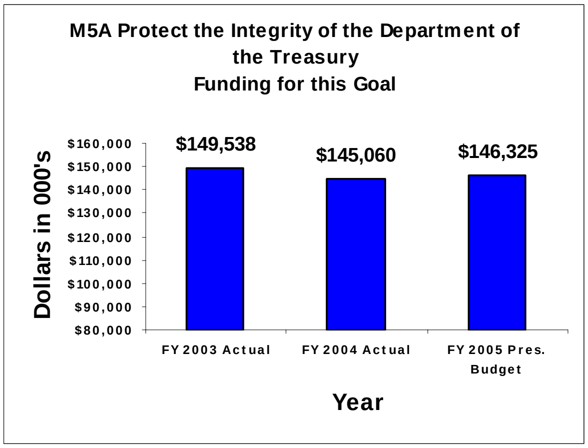
TIGTA's mission is to provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws. TIGTA ensures that the Internal Revenue Service (IRS) is accountable in its administration of almost $2 trillion in revenue. Through its audits and investigations, TIGTA fosters economy and efficiency while protecting against corruption both internally and externally. TIGTA's oversight extends to not just the IRS but includes the IRS Chief Counsel, IRS Oversight Board and all federal income tax administration. Ensuring the tax system is working fairly and effectively is critical to maintaining America's confidence in our economy.

Performance Indicators and Resources Invested[18]

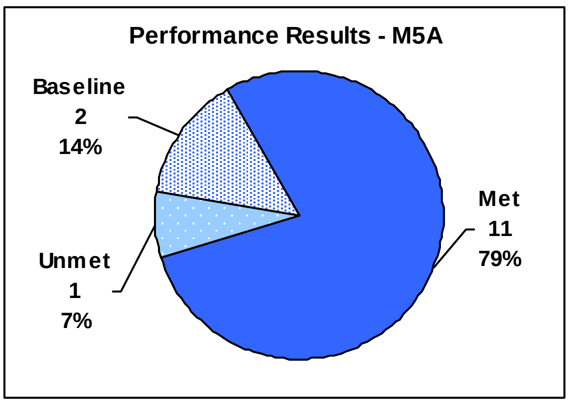
The charts shown reflect the resources Treasury devotes to the strategic objective of "Protect the Integrity of the Department of the Treasury." These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.



[18] The complete list of measures supporting this objective can be found in PART IV



M5A Performance Target Summary
Total Measures for M5A



Successes

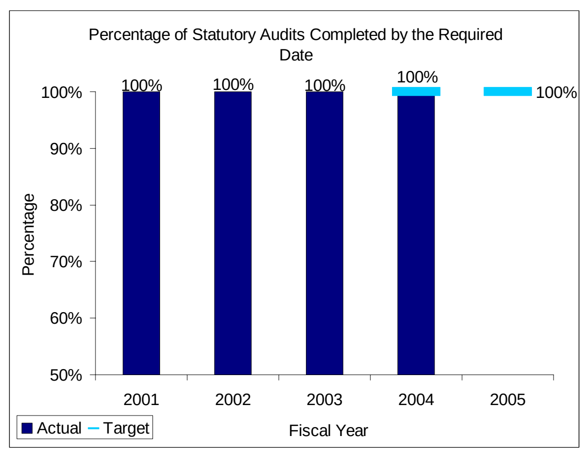
Office of Inspector General (OIG)

Audit Program. In FY 2004, the OIG met its three Audit Program performance goals. It issued 49 audit and evaluation reports, completed all statutory audits by the required dates, and met applicable standards for sampled audits. The OIG issued the audit report on Treasury's FY 2003 consolidated financial statements by November 14, 2003, which was 2 ½ months ahead of the FY 2003 financial reporting deadline established by Office of Management and Budget (OMB). This was the second year in a row that the OIG supported the Secretary's goal of accelerated financial reporting.

Investigations Program. The OIG met the three Investigations Program FY 2004 performance goals. All investigations sampled met applicable PCIE standards. The OIG referred 36 investigations for criminal prosecution or civil litigation within one year of initiation. Thirty-two investigations for routine misconduct were referred to management for administrative adjudication within 4 months of initiation. As in the Audit Program, continuing resource limitations from the March 2003 divestiture of personnel to the Department of Homeland Security have affected the Investigations Program. Importantly, overall program performance could have been higher, but the OIG had to complete several unanticipated high priority investigations relating to the actions of senior Treasury officials and significant programs and operations. The sensitivity and urgency of these labor intensive investigations required the OIG to reassign criminal investigators from other planned and ongoing investigations.

Treasury Inspector General for Tax Administration (TIGTA)

In FY 2004, TIGTA consistently met or exceeded performance metrics for its two primary responsibilities – audit and investigative services. In FY 2004, TIGTA's potential return-on-investment for every dollar invested was $45. There were 139 audit reports issued and 3,445 investigations opened.



Three primary strategic goals guide the organization's efforts to achieve results.

- Promote the Economy, Efficiency, and Effectiveness of Tax Administration
- Protect the Integrity of Tax Administration
- Be an Organization that Values its People

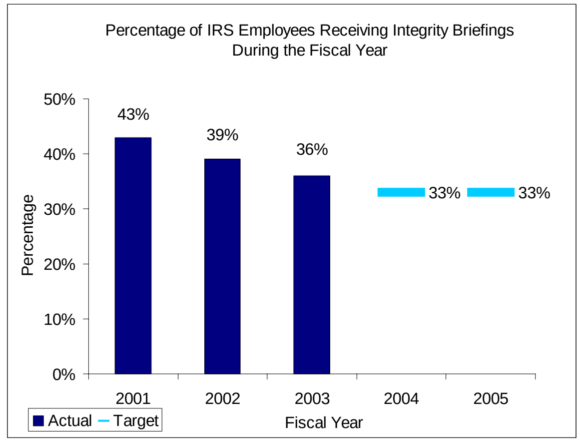
Audit Program. TIGTA's annual audit plans communicate audit priorities for the IRS, Congress and others, addressing both IRS' fundamental goals as well as major management challenges. Audit reports recommend more effective methods of administering the nation's tax system in addition to producing quantifiable outcomes.

For example in FY 2004, TIGTA's audit work identified potential cost savings of almost $1.07 billion and $4.6 billion in potential increases or protected revenue, and positively impacted over 49.8 million taxpayer accounts. This is significantly higher than the performance projections because results vary considerably from one audit to another, and are inherently difficult to estimate in magnitude until the process has begun. The following two reports issued in FY 2004 represent a significant portion of the total outcome measures:

- The Internal Revenue Service's Individual Taxpayer Identification Number Creates Significant Challenges for Tax Administration *(Reference Number 2004-30-023, dated January 2004)*

- Opportunities Exist to Transition Taxpayers From Submitting Computer-Prepared Tax Returns on Paper to E-Filing *(Reference Number 2004-40-079, dated March 2004)*

Investigation's Program. TIGTA's investigative work plays a vital role in assuring IRS' integrity by providing comprehensive investigative services that accept and analyze allegations and conduct investigations into misconduct and criminal activities. Pursuant to this goal, Investigations developed a Performance Model that both guides the activities of Investigative personnel and articulates the value of its accomplishments to its external stakeholders. This model includes key emphasis areas in support of the mission: employee integrity; external attempts to corrupt tax administration; and, employee infrastructure security. For example:



- In FY 2004, roughly 44% of TIGTA's investigative efforts focused on employee integrity cases.

- 43% of IRS employees briefed on employee integrity issues, surpassing the goal of 33%.

- Investigative casework resulted in financial recoveries of $32 million.

- Cases producing results, at 64% compared to an estimated 50% in FY 2003.

- An IRS agent was indicted for conspiracy, bribery, structuring, and causing failure to file legally mandated reports. The agent allegedly enabled co-conspirators to obtain over $400,000 in cash and allegedly received over $30,000 in compensation by attempting to avoid currency transaction reporting requirements.

Challenges

Treasury did not achieve its target on the following performance measure for Strategic Objective M5A, "Protect the Integrity of the Department of the Treasury."

- Average calendar days to issue final report

M5A Challenge Summary. The performance target in this objective was not achieved primarily due the increased complexity of the audits performed, which required additional time. Understanding the complexity of future audits will assist in determining how to staff audit activities to achieve performance targets.

A full explanation of this measure and its result may be found in PART IV.

Moving Forward

In FY 2005, the OIG Audit Program anticipates issuing 53 audits and evaluations, completing all statutory audits by the required dates, and meeting applicable standards for sampled audits. In addition to mandated work, audits are designed to support Treasury's efforts to execute the President's Management Agenda and to address high-risk programs and operations throughout Treasury. The OIG intends to provide some level of audit coverage to all Treasury offices and bureaus.

In FY 2005, the OIG Investigations Program anticipates that all investigations sampled will meet applicable PCIE standards. The OIG expects to refer 11 investigations for criminal prosecution and/or civil litigation within one year of initiation. The OIG has modified its third Investigations performance measure to better reflect its workload. Under this revised measure, the OIG plans to refer 60 routine misconduct investigations and/or identified or suspected weaknesses or vulnerabilities to management for corrective administrative action. In previous years, this measure included referrals sent to bureau and departmental management for known, potential, and identified deficiencies in Treasury programs and operations. This modification adds referrals for self-assessments and corrective actions that management deems appropriate. The OIG will continue to investigate serious misconduct, fraud, and certain financial crimes. The OIG will seek to resume law enforcement oversight reviews, perform spot checks of statutory/regulatory compliance and enforcement, assist Treasury to secure its information technology critical infrastructure, and extend its outreach efforts.

In FY 2005, TIGTA will continue its audit activities that are focused on promoting the sound administration of the nation's tax laws through comprehensive, independent performance and financial reviews of the IRS' programs, operations, and activities by assessing efficiency, economy, effectiveness, and program accomplishments. The Office of Audit anticipates providing 128 audit reports. A portion of these audits represent mandatory coverage imposed by the IRS Restructuring and Reform Act of 1998, and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. The balance of audit work is discretionary and will focus on the major management issues facing the IRS, the IRS' progress in achieving its strategic goals, and supporting the IRS' efforts to implement the President's Management Agenda initiatives.

Also, in FY 2005, TIGTA's Office of Investigations will continue to help protect the ability of the IRS to collect revenue for the Federal Government. Investigative activities are centered in three critical areas: Employee Integrity, External Attempts to Corrupt Tax Administration, and Employee and Infrastructure Security. Approximately 44% of TIGTA's investigative work in FY 2004 focused on employee integrity cases. In FY 2005, it is anticipated that a large number of cases will be in this critical area and again integrity briefings will be an important factor in maintaining the integrity of the tax administration.

M5B Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

Strategic Objective and Key Outcome Overview

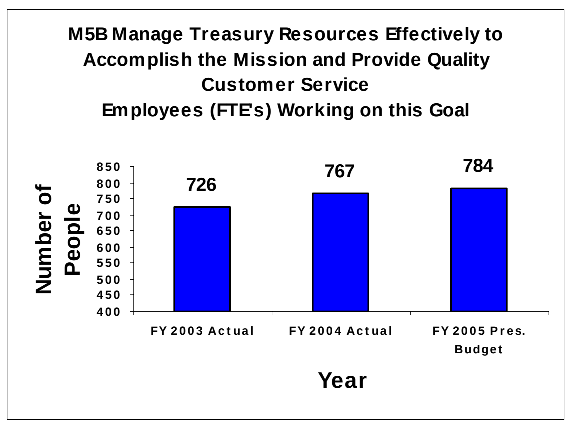
Effective management of Departmental resources allows Treasury to meet its most basic duties of strengthening the economy, fighting the financial war on terror and financing the U.S. Government. Treasury seeks to ensure that taxpayers are getting the most efficient and effective use of their tax dollars. Emphasis is placed on infrastructure issues within Treasury so all mission requirements are met at the lowest cost. Treasury also seeks to maintain and strengthen our financial, human resources, and information technology capabilities. Finally, Treasury is committed to reviewing results and assessing performance, and taking those results to implement necessary improvements.

To achieve many of Treasury's management goals, Treasury uses two Office of Management and Budget Government-wide initiatives: the President's Management Agenda (PMA) and the Program Assessment Rating Tool (PART). The PMA is used to evaluate the agency's progress on five key initiatives: Human Capital, Competitive Sourcing, Financial Performance, E-Government and Budget and Performance Integration. The PMA was launched by OMB in August 2001 as a series of initiatives that managers use to make the Federal Government more citizen-centered, results-oriented and market-based. Treasury uses the PMA to help manage its workforce and financial resources effectively, implement technology appropriately, and improve the efficiency of its operations. As part of its ongoing efforts to improve program performance – an effort that complements Treasury management reforms -- Treasury uses PART, an evaluation process through which Treasury and OMB assess the performance of 20% of Treasury's programs each year.

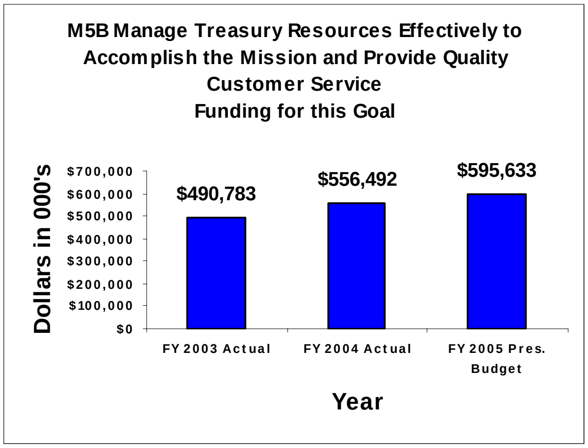
Details of Treasury's PMA accomplishments and of the management improvements that Treasury has undertaken for its programs that underwent PART evaluations in FY 2004 follow the summary of Treasury's management achievements in this section.

Performance Indicators and Resources Invested[19]

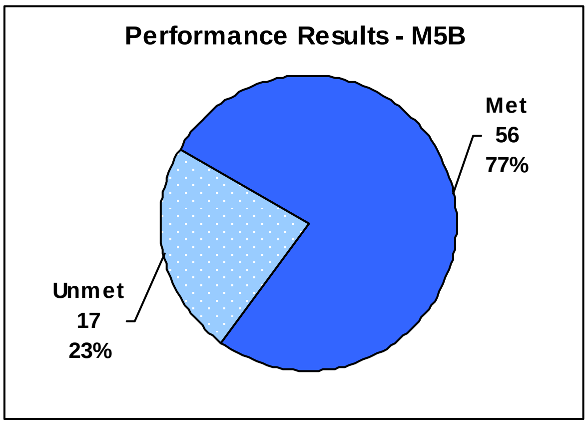
The charts shown reflect the resources Treasury devotes to the strategic objective of "Manage Treasury resources Effectively to Accomplish the Mission and Provide Quality Customer Service." These resources include people (Full-Time Equivalent [FTE] employees), and funding for three fiscal years.



[19] The complete list of measures supporting this objective can be found in PART IV



M5B Performance Target Summary
Total Measures for M5B



Successes

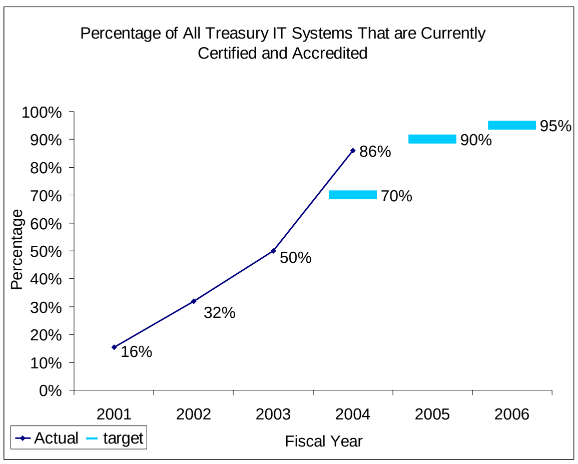
Managing People. Treasury is improving organizational effectiveness, starting with its workforce. Through the President's Management Agenda and its Human Capital Initiative (detailed in the following section), Treasury has mapped out a strategy for recruiting and retaining a world-class workforce. Efforts are underpinned by Treasury's first Human Capital Strategic Plan (HCSP), which the agency formulated and began implementing in FY 2004. The HCSP outlines a plan for continuous improvement of the workforce through engagement, enhancing competency, and aligning the workforce to business needs. Its goal is to attract the talent and commitment Treasury will need to meet its future business challenges and provide quality customer service. Much work laid out in the HCSP is already underway, and Treasury has also achieved a number of important Human Capital milestones which are presented in the following section.

Treasury's Inspector General for Tax Administration (TIGTA) was awarded the Commuter Connections Employer Recognition Award for its Telework program. 89% of TIGTA employees participate in the program. In the employee survey on the "Best Places to Work in the Federal Government," TIGTA ranked number two in the Work/Life Balance category and number nine in the Family Culture and Benefits category. The Office of the Comptroller of the Currency (OCC) was also named one of the best places to work in the federal government by the Partnership for Public Service and the Institute for the Study of Public Policy Implementation at American University based on results of the Office of Personnel Management (OPM) survey of federal government employees. The OCC scored among the top 25 government organizations in several categories, including teamwork, support for diversity, and pay and benefits.

Managing Financial Resources. To manage its resources, Treasury seeks to maintain the integrity of its financial systems, deliver data to decision-makers timely and accurately, comply with existing laws and regulations and allocate resources in an effective manner. Treasury successfully closes its books within three-days at the end of each month, making the information the Department publishes timely and useful to decision makers. For the past two years, the Department has met OMB's accelerated deadline of November 15th for submitting both its audited financial statements and its consolidated Performance and Accountability Report (PAR). Through extensive coordination with auditors, bureau representatives and other parties, the Department has reduced the year-end reporting process from five months to six weeks. Treasury's accelerated financial reporting initiatives ensure that management's decision-making is based on current financial and performance information.

In addition, Treasury and its bureaus continued to close the monthly financial books quickly and accurately to promote timely distribution of financial information and reports. Treasury bureaus, particularly the Internal Revenue Service, made progress in their efforts to improve their financial management systems and reduce the number of Treasury's material weaknesses. Treasury also made substantial progress in showing the full cost of its programs to the public through its budgets and integrating performance data into all aspects of budgetary decision-making. Many of these accomplishments are tied to the Financial Performance and Budget and Performance Integration initiatives of the PMA, which are shown in the subsequent section.

Implementing Technology. In FY 2004, Treasury hired a new Chief Information Officer and implemented a more comprehensive E-Government governance structure to improve its technology capacity, mitigate security issues within



Treasury and address duplication concerns in its infrastructure. Information technology security was also a major focus for Treasury in FY2004. Last year, Treasury obtained certification and accreditation (C&A) for 86% of IT systems. C&A is a federally mandated standard process to insure that information systems meet and maintain documented security requirements throughout their system life cycle. In FY 2004, the Office of the Inspector General (OIG) testified before the House Committee on Government Reform on the results of their FY 2003 independent evaluation of Treasury's information security programs. The testimony showed that Treasury improved its C&A levels from 32% in FY 2002 to 50% in FY 2003, and then to the 86% FY 2004 level.

Improving Organizational Efficiency. Maximizing taxpayer dollars by reducing duplicative administrative functions and promoting efficiencies in the delivery of administrative products and services is partly accomplished through the Treasury Franchise Fund (Franchise Fund). Using the Administrative Resource Center (ARC), a Franchise Fund business, Treasury has consolidated 10 entities, including accounting, procurement, human resources and travel, into one platform. Simply by avoiding the development and maintenance of multiple accounting systems the Treasury realizes more than **$50 million in savings**.

To date, ARC has consolidated platforms for more than 26 total entities across the government. It has reduced the number of federal administrative systems by providing an integrated system platform for administrative accounting, travel, procurement and personnel functions. In addition, ARC acts as a shared service center for many customers providing full-service transaction processing and reporting. In total, ARC now provides: 32 organizations with procurement services; 28 organizations with administrative accounting services; 28 organizations with travel services; and 17 organizations with personnel services.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective M5B, "Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service."

- No Management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein
- Percent change in total sales from prior year
- Percent change in customers serviced from prior year
- Number of open material weaknesses
- Increase the Percentage of allegations of discrimination for which Alternative Dispute Resolution processes are used
- Percent of total eligible FTE competitively sourced

- Percentage of non-IT capital investments meeting costs, on schedule, and performance targets
- Lost time due to injury and illness rate over FY 2003 baseline (Treasury-wide)
- Percent reduction in the injury and illness rate over FY 2003 baseline – Treasury-wide
- Percent reduction in the injury and illness rate over FY 2003 baseline – Departmental Offices
- Injury and illness rate – Treasury-wide
- Injury and illness rate – Departmental Offices

M5B Challenge Summary. The performance measures and their associated targets in the Management objective for effectively managing resources are varied. Internal financial controls and open material weaknesses are discussed in the financial report. The FTE measure that was not achieved is no longer tracked by OMB for competitive sourcing.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Workforce planning is seen as a key element in aligning the workforce with new and changing business needs, and is a focus of the new HCSP for FY 2005. Treasury will build a workforce profile by identifying Treasury products and services, job series and critical competencies needed to provide those products and services. Additionally, Treasury will determine current and future occupation demand and business requirements, conduct workforce gap analysis and close the gaps.

Certification and accreditation of our information technology security program will continue to be a major focus. In FY 2005, efforts are intended to exceed 90% certification and accreditation by year-end. In addition, Treasury plans to continue implementing and applying the principles of the Modernization Blueprint to our information technology investments. One primary challenge Treasury will work on in this area is the need to improve capital investment business cases for new information technology investments. Treasury's plan is to integrate capital planning, with emphasis on electronic preparation of OMB's 300 forms (an OMB planning tool), into the overall Treasury budget process.

Treasury also recognizes a need to improve its performance management system, and has identified these important actions for the Department to undertake. Looking ahead, Treasury will:

- Identify and implement measures more closely linked to key outcomes that provide value to the American public. Eliminate measures that are not mandated and do not add value.
- For each of the measures linked to key outcomes, establish clear baselines, performance targets, and where possible, a benchmark value for best-in-class performance.
- Implement a vigorous performance management system and a means of assessing value for key Treasury value chains. Value chains are composed of activities that cut across multiple bureaus and organizations to produce value for the American public.

President's Management Agenda (PMA)

TREASURY FY 2004 PMA SCORES

Initiative	Status		FY 2004 Progress			
	FY 2003	FY 2004	Q1	Q2	Q3	Q4
Human Capital	R	Y	G	G	G	G
Competitive Sourcing	R	Y	G	G	G	Y
Financial Performance	R	R	Y	R	Y	Y
E-Government	R	R	G	G	G	G
Budget-Performance Integration	R	Y	G	G	Y	G

G Green for Success Y Yellow for Mixed Results R Red for Unsatisfactory

The President's Management Agenda (PMA)

Treasury uses the five initiatives of the PMA, which are detailed in the following section, as an important vehicle to accomplish and measure the strategic objectives of M5B. The PMA is used as a framework to strengthen Treasury's workforce, lower the cost of doing business through competition, improve financial performance, increase the use of information technology and e-Government capabilities, and integrate budget decisions with performance data. OMB assesses each agency's status and progress for each of the five PMA initiatives. Initiative "status" describes overall success, and "progress" describes the efforts underway to meet its PMA goals.

The five objectives of the PMA are:

Strategic Management of Human Capital. Treasury strategically manages its workforce by aligning human capital strategies to agency mission, core values, goals, and objectives. Treasury uses strategic workforce planning and flexible tools to recruit, retain, and reward employees, thus developing a diverse, high-performing workforce.

Competitive Sourcing. Through this initiative, Treasury strives to deliver services effectively and at the lowest cost possible to American taxpayers. Competitive Sourcing allows Treasury to look internally and externally for the most efficient ways to achieve its mission.

Improved Financial Performance. Treasury is working to develop the financial systems capability in compliance with the Federal Financial Management Improvement Act (FFMIA) and accounting processes to produce accurate and timely information to support operating, budget, and policy decisions. Treasury is also continuing to reengineer processes to better measure and report on Treasury programs and activities. These actions will facilitate internal analysis, resolve known auditor-reported and Federal Managers' Financial Integrity Act material weaknesses, prevent new material weaknesses, and enhance external financial statement reporting.

Expanded E-government. Expanding electronic government products and services across Treasury makes the workforce more efficient and the agency more effective. In support of the PMA, the Treasury Chief Information Officer (CIO) is focused on: developing a Treasury Enterprise Architecture to guide future IT planning; preparing high quality business cases to justify major IT investments; managing IT projects to within 10% of cost/schedule/performance baselines; certifying and accrediting all Treasury IT systems to protect information from unauthorized access and theft; and fully participating in all Presidential E-Government Initiatives.

Budget and Performance Integration. Treasury works to assess the effectiveness and efficiency of its programs and allocate scarce resources accordingly. Budget and performance integration links strategic planning, budgeting and program evaluation functions and incorporates the PART evaluation process as a tool for decision-making.

Scoring Summary

In FY 2004, Treasury improved three of its five initiative scores for the PMA initiatives, which directly contribute to management successes for the goals identified in by Strategic Objective M5B. 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.

Human Capital

Accomplishments

In FY 2004, Treasury improved its status score on Human Capital from Red to Yellow on the strength of a number of achievements including its new Human Capital Strategic Plan (HCSP) aligning management and organizational performance. The HCSP is designed to guide Treasury's efforts in linking human capital policies, programs, and activities accomplishing the Department's mission and goals. The plan takes into account a detailed assessment of external and internal business environments, trends, challenges, and Government initiatives. The plan also advances the PMA by fostering an environment of accountability and performance. Treasury structured the HCSP to be proactive in recruiting and hiring a highly skilled and diverse workforce aligned with business goals. It aligns strategies and systems to achieve organizational effectiveness and enhances workforce capabilities to support the use of evolving technologies. Finally, it helps Treasury maintain an environment conducive to a high level of employee satisfaction to boost worker retention.

In addition, the Treasury Human Capital team has also:

- Developed workforce and succession planning guidance and implemented those strategies Department-wide. The online workforce and succession planning guidance will help Treasury's bureaus accurately forecast future workforce requirements and rapidly assess and appoint high quality candidates at all levels of the organization.

- Leveraged the Intranet/Internet for recruiting a diverse applicant pool by implementing Career Connector and deploying HR Connect which provides state-of-art technology that streamlines and automates labor-intensive core processes.

- Developed a comprehensive diversity strategy that will help Treasury aggressively address under-representation, and take positive steps to strengthen and extend our partnerships with key colleges and universities to assure Treasury is recruiting a diverse workforce.

- Finalized and implemented a new Department-wide SES performance management system that effectively differentiates between levels of performance. The system clearly links individual performance to organizational goals and desired results.

- Analyzed and confirmed that Treasury maintains a systematic performance management process for managers and employees. This process provides the framework for linking individual performance to organizational performance and ensures fair and consistent appraisals.

Challenges

Treasury is in the early stages of evaluating the results of its Human Capital Strategic Plan. The strategies and the plan are living processes that provide corporate-level guidance to Treasury's bureaus to enable them to develop more detailed human capital action plans/strategies.

Treasury has not yet linked individual performance to Treasury's goals beyond the SES level to line managers.

Moving Forward

These successes must be expanded in the future in order for Treasury to achieve a Green score for its Human Capital initiative. For FY 2005 and beyond, Treasury must:

- Continue to improve upon its Human Capital achievements and demonstrate that the efforts are positively impacting Treasury employment.
- Analyze the results of its comprehensive human capital plan to continue strategic decision-making.
- Ensure that the organization's structure reflects the excellence that it would like to attain.
- Focus on reducing its "mission-critical" skill gaps through recruitment and retention policies.
- Combine succession planning efforts and narrow management competency gaps.

Competitive Sourcing

Accomplishments

Treasury improved its score for Competitive Sourcing from Red to Yellow in FY 2004. Among its accomplishments:

- Treasury projects savings from Competitive Sourcing to exceed $20 Million in FY 2005. Over the next five years, Treasury estimates savings to exceed $185 million.
- Treasury and IRS worked to complete studies for more than 1,200 positions. Efforts are underway at IRS to study 4,500 additional positions.
- The Department completed its last four full A-76 studies in less than 12 months per the Revised Circular A-76.
- Treasury continued its efforts to link Competitive Sourcing actions with other PMA goals such as Human Capital and E-Government.

In FY 2004, Treasury continued to oversee competitions, issue appropriate guidance to bureaus on initiatives and coordinate reporting to the Office of Management and Budget and Congress on the FAIR Act and Congressional mandates. Treasury also worked with OMB to redesign its Competitive Sourcing program and redirect efforts towards a new Green Plan, which Treasury expects to finalize in early FY 2005. The Green Plan is a customized plan to address agency workforce and mission needs, create a dedicated infrastructure to promote accountable decision making, and ensure processes that promote efficient conduct of competition-complete studies in a twelve-month timeframe.

Challenges

- Treasury union agreements often have different timeframes than those called for in Circular A-76, making it difficult to complete studies in the twelve-month timeframe.

Moving Forward

In FY 2005, Treasury will work with OMB to finalize the Green Plan. Specific deliverables must also be completed, including a study to examine "lessons learned" from competitions.

Overall, Competitive Sourcing goals for FY 2005 include:

- Tracking savings/improved performance implementing competitive sourcing actions.
- Identifying the fixed costs at overseeing the program.
- Improving the level of participation in public-private competitions.
- Clarifying source selection strategy.
- Specifically aligning competitive sourcing and human capital.

Financial Performance

Accomplishments

Treasury's financial management strategy of improving financial processes, systems, and data through our 3-Day Close initiative has led to several key accomplishments. Throughout FY 2004, we continued to close our monthly books on the third business day of each month and publish useful financial information on the morning of the fourth business day. Rigorous data quality edits in Treasury's Financial Analysis and Reporting System (FARS) and a Data Quality Scorecard ensure the integrity and accuracy of Treasury's financial data. Treasury's focus on acceleration and data quality has enabled the Department to successfully meet accelerated financial reporting deadlines including issuing our FY 2002 and FY 2003 Performance and Accountability Reports (PAR) by OMB's November 15th deadline. FY 2003 was also the fourth consecutive year that Treasury received a clean audit opinion.

For the second year in a row, Treasury conducted a meeting with representatives from the bureaus and Office of the Inspector General (OIG) to capture lessons learned from the acceleration of the FY 2003 audit and PAR. This meeting was especially important in FY 2004 because Treasury's OIG contracted with an independent accounting firm to perform the audit of the Department's FY 2004 financial statements. Information collected at this meeting was used to develop a more detailed and comprehensive timeline for the FY 2004 PAR. Treasury also captured and reported key financial performance measures to OMB in a timely manner. Treasury built upon this requirement by defining metrics and developing a Financial Performance Scorecard to assess bureau financial performance and benchmark Treasury against other agencies.

Treasury's continued emphasis on reducing material weaknesses during the year resulted in a reduction from nine to eight material weaknesses at the end of FY 2004. FMS successfully closed its material weakness relating to systems security issues.

Treasury implemented its Improper Payments Information Act of 2002 (IPIA) plan in which a comprehensive inventory of programs and activities was compiled and conducted risk assessments on its programs and activities with funding greater than or equal to $10 million.

Based on a pre-defined set of criteria, if an estimated amount of improper payments exceeded $10 million, a corrective action plan would be developed and implemented to accomplish three objectives: 1) reduce the level of improper payments; 2) mitigate the high risk level; and 3) develop reduction targets. No high risk programs were identified through Treasury's risk assessment process. The only existing high risk program is the IRS's Earned Income Tax Credit (EITC), and it has reduction targets in place through 2006. IRS has developed plans for regular EITC program compliance studies to be conducted, as well as annual error rate estimates for the Qualifying Child residency component.

The Recovery Act of 2001 requires agencies to report in the FY 2004 PAR the dollar amounts of improper contract payments made and recovered in FY 2003. Treasury implemented the Act's requirements, but expanded its scope by requiring its bureaus to report on improper payments of all types for both FY 2003 and FY 2004. The results were that in FY 2003, Treasury made $2 million in improper payments and recovered 97%. In FY 2004, Treasury made $854,638 thousand in improper payments and recovered 78%. The outstanding improper payments are in the process of being collected, and none of them are considered unrecoverable.

Challenges

- Treasury had planned to close three of its existing nine material weaknesses in FY 2004. However, delays in addressing systems security weaknesses at Departmental Offices and the IRS precluded Treasury from closing those two weaknesses.

- Setbacks in the implementation of IRS's integrated financial system (IFS) postponed the "going live" date to mid-to-late November 2004.

Moving Forward

- Treasury will continue efforts to lead the Federal Government in accelerated financial reporting and the use of financial performance indicators to measure and improve financial performance.

- Treasury will continue to work with its bureaus and Departmental staff to implement corrective actions to resolve material weaknesses. Treasury has an established schedule of planned actions in place to address its material weaknesses.

- Treasury will continue to work with the IRS on the EITC improper payments issue. Treasury will also work with IRS to reach final operating capability (FOC) for IFS Release 1.

E-Government

Accomplishments

In FY 2004, Treasury's E-Government score remained Red. However, under a new Chief Information Officer (CIO), Treasury had a number of accomplishments that marked significant progress for the initiative.

- Established a New IT Governance Process and Executive Investment Review Board to oversee approximately $2.7 billion in annual investments. The new board is chaired by the Deputy Secretary and vice-chaired by the Assistant Secretary for Management and CFO, and the CIO, with membership comprised of all bureau heads.
- Strengthened the Treasury Capital Planning and Investment Control (CPIC) process and submitted FY 2006 Exhibits 300 and 53 to the Office of Management and Budget. Office of the Chief Information Officer is implementing a new CPIC Control Process to identify and manage all projects that do not meet established performance baselines.

- Certified and accredited 86% of systems (62% increase from FY 2003 for necessary security requirements). This represents a significant increase over the last fiscal year and is a result of concerted effort and adequate resources dedicated to certification and accreditation (C&A).
- Established memoranda of understanding with the managing partners of the President's E-Government Initiatives in which Treasury participates, and contributed requested staff and financial resources.
- Began implementation of a modernization blueprint which incorporates broader enterprise IT management practices and helps implement a Federated Enterprise Architecture framework for the target environment. The Blueprint includes:
    - Portfolio management, which is the means by which the Department selects, controls, and evaluates the most optimal and cost-effective mix of IT projects in support of mission critical

activities. It also establishes a mechanism for monitoring and improving project costs, schedules, and performance goals.

- Asset management, which ensures that the asset inventory is fully identified and measured against meaningful performance metrics.

- Enterprise Architecture, which works to ensure that the budget is allocated to the strategically important projects during the IT portfolio management process.

Bureau E-Government initiatives resulted in Treasury connecting with its customers more quickly and effectively in FY 2004. Treasury is increasing usage of the Electronic Federal Tax Payment System (EFTPS), a joint project of the IRS and FMS. In FY 2004, the IRS deployed Modernized E-file, which provides e-filing for the first time to large corporations and tax exempt organizations. IRS also deployed additional on-line e-Services functionality for tax practitioners and other third parties, such as banks and brokerage firms that file Form 1099. As part of the Business Systems Modernization program, IRS increased its e-Services initiatives in FY 2004 to reach additional tax practitioners and other tax advisors. The Bureau of the Public Debt is continuing to roll out new functions of its TreasuryDirect system, and when fully implemented, will enable investors to purchase and manage their Treasury securities online through a single portfolio account.

Challenges

- Treasury lacked a comprehensive systems inventory for all Treasury IT systems as of September 30, 2004.

- Treasury lacked a comprehensive modernization blueprint for its IT systems.

- Business executives were not properly engaged in the risk management of systems supporting their programs.

Moving Forward

- Review quarterly cost/schedule/ performance (against established baselines) by the Technical Investment Review Board. Corrective action will be implemented as necessary.

- Develop a comprehensive Enterprise Architecture to guide future investment planning.

- Establish a departmental C&A Program to identify and train business owners in their system responsibilities, and standardize system C&A efforts.

- Prepare guidance and a system to implement the Pre-Select, Select and Evaluate Phases for the FY 2007 budget development cycle.

- Direct engagement with project managers of each Presidential E-Government Initiative to ensure the Department is positioned to maximize the return on investment.

Budget and Performance Integration

Accomplishments

Treasury improved its Budget and Performance Integration score in FY 2004 from Red to Yellow on the strength of a number of achievements.

- Focused on meeting specific PMA goals for performance integration that laid the groundwork for achieving Green in later quarters.

- Continued to improve alignment of bureau resources with Treasury strategic goals in FY 2004 by working with bureaus to restructure their FY 2006 Departmental budget submissions. The new submission aligned requests with goals and objectives. Performance information was fully integrated into the budget allocation process.

- Worked with the OMB to realign the budget structure of the IRS to better align it with the performance budget structure.

- Starting with the FY 2006 budget cycle (which began in FY 2004), budgets integrate performance information and reveal full costs of activities by Treasury account, budget activity and strategic goal.

- Treasury finalized a new agency-wide Senior Executive Service performance management system that effectively differentiates between levels of performance. The system clearly links individual performance to organizational goals and desired results.

- Program efficiency was a major focus in FY 2004. The Office of Performance Budgeting worked with Treasury bureaus to develop efficiency measures for all programs subject to a Program Assessment Rating Tool evaluation, exceeding the PMA goal of 50% of programs. As a result, Treasury now has the ability to gauge operational efficiency and determine where changes must be made to ensure optimal performance.

Challenges

- Treasury was unable to qualify for a Green score due to the lack of marginal cost information and the fact that many of its performance integration activities are still in the implementation phase.

- Treasury must work with OMB to reduce the number of agency programs receiving a score of results not demonstrated on the PART evaluation; currently the number exceeds OMB mandates of less than 10% of programs receiving the score for two years in a row or more.

Moving Forward

Treasury's efforts to attain a Green score will be shaped by a new comprehensive performance framework to guide future budget and performance integration. This framework, planned in FY 2004, will guide Treasury's efforts to expand managers' access to performance information. Quarterly meetings on performance results are also planned in FY 2005 as the framework is rolled out. Additional efforts will be undertaken by Treasury to meet with budget and performance stakeholders like OMB and Congressional representatives and determine an optimal performance budgeting format for the future. Treasury must also work with OMB to develop appropriate marginal cost reporting and reduce the number of Treasury programs receiving a score of results not demonstrated on their PART evaluations.

Program Assessment Rating Tool (PART)

Program evaluation is a core management objective used by Treasury to allocate resources and promote efficiency and effectiveness and is a vital part of Treasury's efforts to meet Strategic Objective M5B.

How Treasury Uses Program Assessment Rating Tool (PART) Evaluations

In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with OMB to evaluate 20% of its programs each year through the PART process. Like the PMA, the PART process gives Treasury a framework for assessing performance. Through the use of in-depth performance questions, PART allows Treasury to evaluate how well a program is meeting its intended objectives, how effectively and efficiently it is managed, and the extent to which the program supports overarching strategic goals. Treasury's five PART program evaluations from FY 2004 are included to demonstrate actions that Treasury has taken to improve program performance.

PART Evaluation Criteria

All programs that undergo a PART evaluation receive weighted scores in four categories: program purpose and design, strategic planning, program management and program results and accountability.

Categories	Weight
Program Purpose and Design	20%
Strategic Planning	10%
Program Management	20%
Program Results/Accountability	50%

PART scores are summarized as a qualitative rating of effective, moderately effective, adequate, results not demonstrated, or ineffective by OMB.

Treasury Performance. Programs and bureaus evaluated in FY 2004 include: Administering the Public Debt (Bureau of Public Debt); New Currency Manufacturing (Bureau of Engraving and Printing); African Development Fund (Departmental Offices); Debt Collection (Financial Management Service); and Submissions Processing (Internal Revenue Service).

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

1. PART Program Name	**Administering the Public Debt**
Bureau	**Bureau of the Public Debt (BPD)**
Strategic Goal	**Manage the Government's Finances Effectively**
Rating	**Effective**

Major Findings/Recommendations

Continue to improve annual performance targets.

Actions Taken

Increased the following FY 2004 performance targets:

- Improved the standard for releasing auction results from 6 minutes to 2 minutes plus or minus 30 seconds.
- Improved the standard for completing Federal Investment Program transactions timely and accurately to 100%.

Major Findings/Recommendations

Develop long-term performance measures and goals for inclusion in the FY 2005 budget.

Actions Taken

Long-term performance measures and goals discussed in the FY 2005 budget and included in the FY 2006 budget:

- Conduct 80% of Government Agency customer initiated transactions online by the end of FY 2008.
- Hold 50% of Treasury's retail debt in our new TreasuryDirect System by FY 2011.
- Complete 90% of customer service transactions within 10 business days by FY 2010.
- Produce daily public debt financial statements by FY 2007.

Major Findings/Recommendations

Set interim targets for long-term performance goals.

Actions Taken

Interim targets identified in the FY 2006 budget:

- Conduct 65% of Government Agency customer initiated transactions online.
- Hold 10% of Treasury's retail debt in our new TreasuryDirect System.
- Complete 90% of customer service transactions within 13 business days.
- Produce monthly public debt financial statements.

2. PART Program Name	**New Currency Manufacturing**
Bureau	**Bureau of Engraving and Printing (BEP)**
Strategic Goal	**Manage the Government's Finances Effectively**
Rating	**Effective**
Major Findings/Recommendations	
BEP should monitor its design and overhead costs related to the manufacture of New Currency to ensure the most efficient production and distribution of future denominations.	
Actions Taken	
BEP has worked closely with the Advanced Counterfeit Deterrent (ACD) Steering Committee to evaluate future design proposals based on cost/benefit and best value considerations to control design and overhead costs.	
Major Findings/Recommendations	
BEP should continue working with Federal partners to assess the impact of New Currency on counterfeiting performance measures across government.	
Actions Taken	
BEP/Treasury/Federal Reserve/U.S. Secret Service work together within the ACD Steering Committee to assess impacts. The Bureau participates jointly with agencies to determine the effectiveness of the program and its benefits.	

3. PART Program Name	**African Development Fund**
Bureau	**Departmental Offices**
Strategic Goal	**Promote Stable U.S. and World Economies**
Rating	**Results Not Demonstrated**
Major Findings/Recommendations	
Closely monitor the Bank's progress in implementing results-measurement and results-based management systems, particularly the development of short-term performance measures, targets, and baselines, as well as long-term targets and timeframes by September 30, 2004.	
Major Findings/Recommendations	
Request $118 million in 2005 for the third of three annual installments under the AFDF-1X replenishment agreement. By signing onto the agreement, the U.S. committed to provide $118 million annually for three years (2003-2005).	
Major Findings/Recommendations	
Continue to press AFDF and other donors to increase the amount of grants that the AFDF provides.	
Actions Taken	
The U.S. is currently engaged in replenishment negotiations for IDA and the AFDF. In both negotiations, the U.S. is pursuing an increase in grant financing, as well as continued improvements in results measurement, transparency, and private sector development.	

4. PART Program Name	**Debt Collection**
Bureau	**Financial Management Service (FMS)**
Strategic Goal	**Manage the Government's Finances Effectively**
Rating	**Effective**
Major Findings/Recommendations	
Develop a more ambitious long-term performance measure.	
Actions Planned or Underway	
Continuously review the trend in debt collection and revise/update the long-term measure as necessary.	
Major Findings/Recommendations	
Set interim targets and describe interim actions necessary to achieve the long-term performance measure.	
Actions Planned or Underway	
FMS establishes annual performance measures for collections and referrals of debt by agencies. FMS has reduced its salary and expenses appropriated funding requirements for this program in recent years and is funding the program through fee revenue. These interim targets/measures and actions are part of the overall long term strategy to maximize collections for the Federal government and to improve the efficiency and effectiveness of the debt collection program. These targets/measures and actions help direct efforts to achieve our long-term measure.	
Major Findings/Recommendations	
Level fund the debt collection program for FY 2005.	
Actions Planned or Underway	
Operate within budgetary resources. Analyze projected collections and fees with the goal of maintaining or reducing the fees charged to customers for FMS debt collection services.	
Major Findings/Recommendations	
Propose legislation to increase and enhance debt collection opportunities.	
Actions Planned or Underway	
Legislation was proposed as part of the FY 2005 President's budget submission which will enhance the debt collection program and increase revenues.	

5. PART Program Name	**Submission Processing**
Bureau	**Internal Revenue Service (IRS)**
Strategic Goal	**Manage the Government's Finances Effectively**
Rating	**Results Not Demonstrated**

Major Findings/Recommendations

Develop appropriate short and long-term outcome goals for Submission Processing.

Actions Taken

Outcome measures were finalized for FY 2004. These indicators reflect the purpose of the program. Seven outcome measures were determined for this program, and published in the FY 2005 Congressional Justification. They are:

- Percent of Individual Returns Processed Electronically – FY 2004 Target: 45%
- Percent of Business Returns Processed Electronically – FY 2004 Target: 19.6%
- Individual Return Deposit Timeliness - paper – FY 2004 Target: $500 (losses for untimely deposits per $1 million of deposits)
- Business Return Deposit Timeliness – FY 2004 Target: $500 (losses for untimely deposits per $1 million of deposits)
- Individual Return Deposit Error Rate – FY 2004 Target: 4%
- Business Return Deposit Error Rate – FY 2004 Target: 1.7%
- Refund Timeliness – Individual (paper) – FY 2004 Target: 98.4%
- Refund Error Rate with Systemic Errors – Individual (paper) FY 2004 Target: 5.3%
- Business Master File Refund Interest - $1,500
- Deposit Timelines: Paper: $414 (losses for untimely deposits per $1 million of deposits)
- E-File Training for SPEC (Submissions Processing) employees completed

Actions Planned or Underway

Track outcome measures through fiscal year.

Major Findings/Recommendations

Complete a successful implementation of the Integrated Financial Systems project, which will provide Submissions Processing with the data necessary to calculate accurate, complete unit cost measures.

Actions Planned or Underway

Work with IFS Project Office to implement unit cost analysis capability at aggregate level. IFS Release 1 scheduled for November 2004.

Major Findings/Recommendations
Implement the Modernized E-File IT project to facilitate further e-file growth.
Actions Taken
The Modernized e-File project has many deliverables, covering multiple years, to bring different returns and forms onto the e-File platform. The final release, which includes all of the 1040 series returns, will be available in January 2010, and may need enhancements during the filing season to ensure that all 1040 series returns can be fully processed via e-File.
Actions Planned or Underway
• Outreach to Electronic Return Originators (EROs) - The W&I Stakeholder, Partnerships, Education and Communication (SPEC) preparer segment includes those that file 60% or more W&I returns, which equates to over 77,000 of the approximately 162,500 nationwide return preparers for FY 2004. SPEC will perform targeted outreach June 1 through September 30, 2004 to non-EROs (third party preparers, volunteer and community organizations, employers, financial institutions, etc.) to encourage them to apply to become authorized e-file providers and e-file their clients' returns. Work plan and staff hour projections have been established for each territory office for conducting outreach activities. A mechanism for monitoring and tracking resource expenditures will be established. • Training of SPEC Employees - An e-file training plan was developed for SPEC employees responsible for conducting and/or supporting e-file outreach activities. The training includes lessons on a variety of e-file programs, research tools, marketing techniques, and other courses and topics that will provide SPEC employees the technical knowledge and expertise to effectively market, and monitor e-file to both internal and external stakeholders. E-file training for SPEC employees will be completed by the end of FY 2004. • E-File Performance - Through July 18, 2004, of the 1,917,527 volunteer returns prepared 1,357,406 (70.8%) were e-filed. During this same period in 2003 of the 1,595,131 volunteer returns prepared, 957,274 (60%) were e-filed. Additional e-file statistics taken from Electronic Tax Administration's "Daily e-file at a Glance" report as of August 11, 2004 shows that ERO accepted returns (42,524,676) are up 16.1% over 2003 (36,615,144).

Part III – *Annual Financial Report*

Inspector General's Transmittal Letter

DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

November 15, 2004

MEMORANDUM FOR SECRETARY SNOW

FROM: Dennis S. Schindel
Acting Inspector General

SUBJECT: Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2004 and 2003

SUMMARY

I am pleased to transmit the attached report presenting the results of the audit of the Department of the Treasury's (Department) financial statements as of and for the fiscal year (FY) ending September 30, 2004. This audit is required by the Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA).

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm KPMG LLP for the audit of the FY 2004 financial statements. The audit was performed in accordance with generally accepted Government auditing standards; Office of Management and Budget Bulletin 01-02 *Audit Requirements for Federal Financial Statements*; and, the *GAO/PCIE Financial Audit Manual*. Highlights of the FY 2004 audit results follow:

- KPMG issued an unqualified opinion on the Department's FY 2004 financial statements;
- KPMG identified financial management and reporting at the Internal Revenue Service (IRS) as a material weakness in internal control; KPMG also identified electronic data processing controls over financial systems at the Financial Management Service (FMS) as a reportable condition; and
- KPMG 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).

We reviewed KPMG's report and related documentation and inquired of its personnel. Our review, as differentiated from an audit in accordance with generally accepted Government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the FY 2004 financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for its report dated November 12, 2004 and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards.

DISCUSSION

The Department's ability to maintain unqualified audit opinions while accelerating its performance and accountability reporting for three consecutive years has clearly established it as a leader in federal financial reporting. Another significant achievement during the FY 2004 financial audit cycle was the progress made by certain bureaus in addressing information security weaknesses identified in prior years' audits. As a result, the only bureau that continues to have a material weakness in information security reported in connection with its annual audit is the IRS.

The progress made by the Department over the past several years in improving financial management has been noteworthy; however, it has also served to highlight the most significant remaining obstacle to achieving true financial management excellence – specifically, the longstanding financial management deficiencies at the IRS. Despite its accelerated annual reporting, the Department's financial performance status continues to be rated as red, or unsatisfactory, in the Executive Branch Management Scorecard for the President's Management Agenda. This is primarily due to the material weaknesses at the IRS that, for the most part, have existed since financial statement audits were initiated in FY 1992. Moreover, planned corrective actions have generally fallen behind schedule.

As discussed in my October 26, 2004 letter to you, effective corporate management is one of the greatest challenges facing the Department. This is especially true with respect to the need for a more assertive Departmental role in resolving the continuing, pervasive financial management problems at the IRS. The IRS is the largest component entity, and the ability of the Department to meet its financial management goals and "get to green" on the President's Management Agenda is predicated upon major improvement by the IRS. The Department must exert stronger corporate leadership over the IRS to ensure that longstanding financial management deficiencies are finally addressed.

Your personal support is essential for the Department to meet the financial management and other challenges laid out in the President's Management Agenda. We are committed to working with you to build upon the Department's significant accomplishments, and to address the continuing challenges.

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) 927-5400.

Attachment

cc: Jesus Delgado-Jenkins
Acting Assistant Secretary for Management

Barry K. Hudson
Acting Chief Financial Officer

Independent Auditors' Report on Treasury's Financial Statements

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheet of the U. S. Department of the Treasury (the Department) as of September 30, 2004, and the related consolidated statements of net cost, changes in net position and financing, the combined statement of budgetary resources, and the statement of custodial activity (financial statements) for the year then ended. The objective of our audit was to express an opinion on the fair presentation of the financial statements as of and for the year ended September 30, 2004. These financial statements are incorporated in the accompanying *Department of the Treasury Performance and Accountability Report Fiscal Year 2004 (Performance and Accountability Report).*

We did not audit the amounts included in the financial statements related to the gold and silver reserves of the U.S. Government or the financial statements of the Internal Revenue Service (IRS), a component entity of the Department. The gold and silver reserves of the U.S. Government and the financial statements of the IRS were audited by other auditors whose reports have been provided to us. Our opinion, insofar as it relates to the amounts included for the gold and silver reserves of the U.S. Government and the IRS' financial statements, are based solely on the reports of the other auditors.

In connection with the audits referred to above, the Department's internal control over financial reporting was considered, and compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements was tested.

Summary

As stated in our opinion on the financial statements, based on our audit and the reports of the other auditors, we concluded that the Department's financial statements as of and for the year ended September 30, 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The accompanying fiscal year 2003 financial statements were audited by other auditors, whose report thereon dated November 7, 2003, expressed an unqualified opinion.

In our fiscal year 2004 audit, we and the other auditors noted the following matters involving internal control over financial reporting and its operation that we consider to be reportable conditions:

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

- Electronic Data Processing (EDP) Controls Over Financial Systems at the Financial Management Service (FMS) Should Be Strengthened (Repeat Condition).

The reportable condition related to financial management and reporting at the IRS noted above is considered to be a material weakness.

The results of our tests, and the tests performed by other auditors, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed instances of noncompliance with *Internal Revenue Code (IRC)* Sections 6159 and 6325 that are required to be reported under *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*. In addition, the Department's financial management systems did not substantially comply with the requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA).

The following sections discuss our opinion on the Department's financial statements; consideration of the Department's internal control over financial reporting; tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements; and management's and the auditors' responsibilities.

Opinion On The Financial Statements

We have audited the accompanying consolidated balance sheet of the Department as of September 30, 2004, and the related consolidated statements of net cost, changes in net position and financing, the combined statement of budgetary resources, and the statement of custodial activity for the year then ended. We did not audit the amounts included in the financial statements related to the gold and silver reserves of the U.S. Government, stated at $10.9 billion as of September 30, 2004. We also did not audit the financial statements of the IRS, a component entity of the Department, which statements reflect custodial revenues of $2.0 trillion, total assets of $25.6 billion, and net costs of operations of $10.4 billion as of and for the year ended September 30, 2004. The gold and silver reserves of the U.S. Government and the financial statements of the IRS as of and for the year ended September 30, 2004, were audited by other auditors whose reports have been provided to us and our opinion, insofar as it relates to the amounts included for the gold and silver reserves of the U.S. Government and the IRS' financial statements, is based solely on the reports of the other auditors. The accompanying fiscal year 2003 financial statements were audited by other auditors, whose report thereon dated November 7, 2003, expressed an unqualified opinion.

In our opinion, based on our audit and the reports of the other auditors, the fiscal year 2004 financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2004, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the *Performance and Accountability Report* listed in the accompanying table of contents as Part I – Management's Discussion and Analysis and as the Required Supplemental Information and Required Supplemental Stewardship Information sections of Part III – Annual Financial Report, is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, this information was not audited and, accordingly, we express no opinion on it.

KPMG

Our audit and the audits of the other auditors were conducted for the purpose of forming an opinion on the fiscal year 2004 financial statements taken as a whole. The information in the *Performance and Accountability Report* listed in the accompanying table of contents as Part II – Annual Performance Report; as the Other Accompanying Information and Management Challenges and High Risk Areas sections of Part III – Annual Financial Report; and as Part IV – Appendices, are integral parts of the *Performance and Accountability Report.* However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. This information has not been subjected to the same auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our, and the other auditors', consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention, or to the attention of the other auditors, relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our and the other auditors' judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2004 audit, we and the other auditors noted certain matters, summarized below, involving internal control over financial reporting and its operation that we consider to be reportable conditions.

Material Weakness

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

The 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, many of IRS' longstanding systems and internal control weaknesses continued to exist, necessitating continued reliance on costly compensating processes, statistical estimates, 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 personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until IRS successfully addresses the underlying systems and internal control weaknesses. Additionally, the current financial reporting process does not produce the reliable, useful, and timely financial and performance information IRS needs for decision making on an ongoing basis, nor can it fully address the underlying financial management and operational issues that adversely affect IRS' ability to effectively fulfill its responsibilities as the nation's tax collector.

The material weaknesses and other reportable conditions in internal control over financial reporting identified by the auditors of the IRS' financial statements, all of which are repeat conditions, and collectively are considered a material weakness for the Department as a whole, are summarized as follows:

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- Weaknesses in controls over the financial reporting process, resulting in IRS (1) not being able to prepare reliable financial statements without extensive compensating procedures and (2) not having current and reliable ongoing information to support management decision making and prepare cost-based performance measures;
- Weaknesses in controls over unpaid tax assessments, resulting in IRS' inability to properly manage unpaid assessments and leading to increased taxpayer burden;
- Weaknesses in controls over the identification and collection of tax revenues due the Federal government and over the issuance of tax refunds, resulting in lost revenue to the Federal government and potentially billions of dollars in improper payments; and
- Weaknesses in information security controls, resulting in increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.

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

Two other reportable conditions were identified related to deficiencies in controls over (1) hard-copy tax receipts and taxpayer data and (2) property and equipment.

Recommendations

Recommendations to address the material weaknesses and other reportable conditions discussed above have been provided to IRS management by the auditors of the IRS' financial statements. We recommend that the Assistant Secretary for Management and Chief Financial Officer provide effective oversight to ensure that corrective actions are taken by the IRS to fully address these material weaknesses and other reportable conditions.

Other Reportable Condition

EDP Controls Over Financial Systems at FMS Should Be Strengthened.

A reportable condition was identified related to the EDP general control environment for computer systems maintained by FMS. Deficiencies in general and application EDP controls at FMS were reported as a material weakness in the prior auditors' report dated November 7, 2003, but based upon improvements identified during the fiscal year 2004 audit, the application control weaknesses have been resolved and the remaining general control weaknesses have been reassessed as a reportable condition, as described below.

Our testing indicated that there are still existing general control weaknesses that do not effectively prevent (1) unauthorized access to and disclosure of sensitive information, or (2) unauthorized changes to systems and applications software. A summary of these weaknesses follows:

- **Access Controls** – Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. Such controls include logical and physical security controls. While most of the prior access control findings have been addressed or are in process of resolution, improvement is still needed in the administration of access controls in order to increase the reliability of computerized data and decrease the risk of destruction or inappropriate disclosure of data.

- **Change Controls** – Change controls are designed to prevent the introduction of unauthorized changes to application software programs. Although progress has been made in this area, improvement is still needed in the enforcement of configuration management procedures in order to reduce the risk that unauthorized, inadequately tested, or harmful changes to computer programs could be implemented.

Recommendations

Recommendations will be provided to FMS management in a separate letter to address these conditions. We recommend that the Department's Chief Information Officer provide effective oversight to ensure that corrective actions are implemented completely and timely by FMS.

Status of Other Prior Year Reportable Conditions

Reportable conditions related to (1) EDP controls at the Office of the Comptroller of the Currency and at the Alcohol and Tobacco Tax and Trade Bureau (TTB) and to (2) financial management infrastructure weaknesses at TTB and the Office of International Affairs were identified by the prior auditors in their report dated November 7, 2003. Based upon improvements made in fiscal year 2004, these matters are no longer considered reportable conditions.

* * * *

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of the Department in a separate letter.

Compliance and Other Matters

Our tests, and the tests performed by other auditors, of compliance with certain provisions of laws, regulations, contracts, and grant agreements as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

- **Compliance with IRC Section 6325 –** 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 IRC Section 6325, the IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied or has become legally unenforceable or the Secretary of the Treasury has accepted a bond for the assessed tax. The fiscal year 2004 audit identified instances in which the IRS did not release the applicable Federal tax lien within 30 days of the tax liability being either paid off or abated as required by the IRC. (Repeat Condition)
- **Compliance with IRC Section 6159** – Section 6159 of the IRC authorizes the IRS to enter into installment agreements with taxpayers to fully satisfy the taxpayer's tax liability. During the fiscal year 2004 audit, instances were identified in which the terms of installment agreements did not require full satisfaction of the tax liability. (Repeat Condition)

The results of our tests, and the tests performed by the other auditors, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements related to compliance with Federal financial management system requirements (FFMSR),

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applicable Federal accounting standards, and the Standard General Ledger (SGL) at the transaction level, as described below. (Repeat Condition) Instances of noncompliance with FFMSR are summarized below:

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

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

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

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

- IRS' general ledger system is not supported by adequate audit trails and is not integrated with its supporting records for material balances. Additionally, the general ledger system does not use the standard Federal accounting classification structure for custodial activities.

The Secretary of the Treasury also has determined in the Secretary's Letter of Assurance, in Part 1 of the accompanying *Performance and Accountability Report,* that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related timeframes are presented in Part IV.

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

IRS has established a remediation plan to address the conditions affecting its systems' ability to comply with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, but future corrective actions are on hold and are currently unfunded. Due to the long-term nature of IRS' systems modernization efforts, which IRS expects will resolve many of the most serious issues, many of the planned timeframes exceed the three-year resolution period specified in FFMIA. However, for these instances IRS has received a waiver from this requirement from OMB, as authorized by FFMIA.

Recommendations

Recommendations regarding the instances of noncompliance with the IRC have been provided to IRS management by the auditors of the IRS' financial statements. The substantial noncompliance with FFMIA relates to the material weaknesses in internal control at the IRS discussed above. We recommend that the Assistant Secretary for Management and Chief Financial Officer provide effective oversight to ensure that the IRS implements effective remediation plans.

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Management's Response to Internal Control and Compliance Findings

The Department's management has indicated in a separate letter immediately following this report that it concurs with the findings presented in this section of our report. Further, it has responded that it will take corrective action as necessary to ensure the matters presented are addressed by the respective bureau management within the Department.

Responsibilities

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA) requires each Chief Financial Officer (CFO) Act agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, the Department prepares annual financial statements.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting and preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; and
- Complying with laws and regulations, including FFMIA, and contracts and grant agreements.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2004 financial statements of the Department based on our audit and the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit 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;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit and the reports of the other auditors, related to the amounts included for the IRS' financial statements and the gold and silver reserves of the U.S. Government, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2004 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to the IRS or to the gold and silver reserves of the U.S. Government, by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and

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performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Internal control over financial reporting related to the IRS and to the gold and silver reserves of the U.S. Government was considered by other auditors whose reports thereon have been provided to us. We, and the other auditors, limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. Accordingly, all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* were not tested. The objective of our and the other auditors audits was not to provide assurance on internal control over financial reporting. Consequently, no opinion is provided thereon.

As required by OMB Bulletin No. 01-02, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, exclusive of those related to performance measures presented for the IRS. An understanding of the design of significant internal controls relating to the existence and completeness assertions related to the IRS' performance measures was obtained by other auditors whose report thereon was provided to us. Our, and the other auditors', procedures were not designed to provide assurance on internal control over performance measures and, accordingly, no opinion is provided thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2004 financial statements are free of material misstatement, we and the other auditors performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. Those tests of compliance were limited to the provisions described in the preceding sentence, and compliance with all laws, regulations, contracts, and grant agreements applicable to the Department were not tested. Providing an opinion on compliance with laws, regulations, contracts and grant agreements was not an objective of our or the other auditors' audits and, accordingly, no opinion is provided thereon.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we and the other auditors performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended for the information and use of the Department's management, Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2004

Management's Response

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 12, 2004

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Ladies and Gentlemen:

On behalf of Secretary Snow, I am responding to your draft audit report on the Department of the Treasury's FY 2004 financial statements included in Treasury's FY 2004 Performance and Accountability Report.

All of our bureaus and program offices are to be congratulated for the Department's success in issuing its Performance and Accountability Report by November 15th for the third year in a row. They are likewise to be congratulated for achieving another unqualified opinion on the Department's financial statements. Without their collective dedicated efforts our accelerated reporting would not be possible.

These timely, high quality results would also not be possible without the high level of professionalism, enthusiasm, technical expertise, and commitment demonstrated by KPMG in conducting the audit. This is particularly noteworthy given that FY 2004 was KPMG's initial audit of the Department-wide financial statements. I also appreciate your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. I am equally appreciative of the equivalent level of commitment demonstrated by the other organizations involved in the audit process – the Office of Inspector General, the Government Accountability Office, and the various firms that conducted the audits at several individual bureaus.

As you note in your report, the Department did make progress in FY 2004 in addressing several financial management and systems deficiencies. However, we agree that we must continue to increase our efforts to address longstanding weaknesses which hamper our ability to produce timely, reliable financial information. We still have to employ labor intensive procedures in certain critical areas to compensate for deficiencies in our financial systems in order to achieve an unqualified audit opinion. Until these deficiencies are corrected they will adversely affect our overall financial management capabilities and will be a burden on our employees who must deal with these deficiencies on a daily basis, particularly during the year-end reporting process. We will continue to increase our emphasis on addressing these deficiencies.

We concur with the Departmental level material weakness, the reportable condition, and the instances of noncompliance with laws and regulations described in your report. Corrective actions are underway to address each of these items. We will strive to continue to improve our efforts to address the problems discussed in your report.

We were pleased to experience a professional, cooperative relationship with KPMG throughout the course of the audit, and we greatly appreciated the continuing support and involvement of the Office of Inspector General.

Sincerely,

Jesus Delgado Jenkins

Jesus H. Delgado-Jenkins
Acting Assistant Secretary for Management

Consolidated Balance Sheets
As of September 30, 2004 and 2003
(In Millions)

	FY 2004	FY 2003
ASSETS		
Intra-governmental Assets		
Fund Balance (Note 2)	$59,946	$53,910
Loans and Interest Receivable (Note 3)	214,065	224,463
Advances to the Black Lung Trust Fund	8,741	8,243
Due From the General Fund, Net (Note 4)	7,144,056	6,511,415
Accounts Receivable and Related Interest (Note 10)	632	825
Other Intra-governmental Assets	12	27
Total Intra-governmental Assets	**7,427,452**	**6,798,883**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	53,161	73,020
Gold and Silver Reserves (Note 6)	10,933	10,933
Loans and Interest Receivable (Note 3)	977	1,190
Investments and Related Interest (Note 7)	10,870	9,254
Reserve Position in the International Monetary Fund (Note 8)	19,442	24,072
Investments in International Financial Institutions (Note 9)	5,403	5,332
Tax, Other, and Related Interest Receivables, Net (Note 10)	20,520	21,573
Inventory and Related Property, Net (Note 11)	459	439
Property, Plant, and Equipment, Net (Note 12)	2,745	2,603
Other Assets	24	45
Total Assets (Note 13)	**$7,551,986**	**$6,947,344**
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 & 14)	$3,097,949	$2,884,015
Other Intra-governmental Liabilities	935	527
Total Intra-governmental Liabilities	**3,098,884**	**2,884,542**
Federal Debt and Interest Payable (Notes 4 & 14)	4,305,302	3,919,055
Certificates Issued to Federal Reserve Banks	2,200	2,200
Allocation of Special Drawing Rights (Note 5)	7,197	7,005
Gold Certificates Issued to Federal Reserve Banks (Note 6)	10,924	10,924
Refunds (Notes 4 & 22)	1,808	1,193
D.C. Pensions Liability (Note 16)	8,367	8,305
Other Liabilities (Note 18)	4,146	4,762
Total Liabilities (Note 18)	**7,438,828**	**6,837,986**
Commitments & Contingencies (Notes 3, 5, 8, 12, 15 & 17)		
NET POSITION		
Unexpended Appropriations	56,850	50,433
Cumulative Results of Operations	56,308	58,925
Total Net Position (Note 19)	**113,158**	**109,358**
Total Liabilities and Net Position	**$7,551,986**	**$6,947,344**

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

Consolidated Statement of Net Cost
For the Year Ended September 30, 2004
(In Millions)

Cost of Treasury Operations:	Intra-governmental	With the Public	Total
Economic Program:			
Gross Cost	$94	$2,925	$3,019
Less Earned Revenue	(4)	(1,683)	(1,687)
Net Program Cost	**90**	**1,242**	**1,332**
Financial Program:			
Gross Cost	3,855	10,882	14,737
Less Earned Revenue	(2,419)	(2,292)	(4,711)
Net Program Cost	**1,436**	**8,590**	**10,026**
Management Program:			
Gross Cost	97	850	947
Less Earned Revenue	(520)	(5)	(525)
Net Program Cost	**(423)**	**845**	**422**
Total Program Costs, Net	4,046	14,657	18,703
Total Program Earned Revenues	(2,943)	(3,980)	(6,923)
TOTAL NET COST OF OPERATIONS (Note 20)	**1,103**	**10,677**	**11,780**
Federal Costs:			
Federal Debt Interest			322,142
Less Interest Revenue from Loans (Note 19)			(11,500)
Net Federal Debt Interest Costs (Note 20)			**310,642**
Other Federal Costs (Note 20)			12,915
NET FEDERAL COSTS			**323,557**
NET COST OF OPERATIONS, FEDERAL DEBT INTEREST, AND OTHER FEDERAL COSTS			**$335,337**

The accompanying notes are an integral part of these financial statements.
See Note 20 for Net Cost Schedule by sub-organizations.

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

Cost of Treasury Operations:	**Intra-governmental**	**With the Public**	**Total**
Economic Program:			
Gross Cost	$311	$2,704	$3,015
Less Earned Revenue	(4)	(4,250)	(4,254)
Net Program Cost	**307**	**(1,546)**	**(1,239)**
Financial Program:			
Gross Cost	4,797	9,099	13,896
Less Earned Revenue	(3,230)	(1,490)	(4,720)
Net Program Cost	**1,567**	**7,609**	**9,176**
Law Enforcement Program:			
Gross Cost	243	572	815
Less Earned Revenue	(2)	(1)	(3)
Net Program Cost	**241**	**571**	**812**
Total Program Gross Costs	5,351	12,375	17,726
Total Program Earned Revenues	(3,236)	(5,741)	(8,977)
Total Program Costs, Net	**2,115**	**6,634**	**8,749**
Costs Not Assigned to Programs	123	1,051	1,174
Less Earned Revenue Not Assigned to Programs	(423)	(1)	(424)
Net Cost of Continuing Operations	**1,815**	**7,684**	**9,499**
Net Cost of Transferred Operations	554	1,585	2,139
Total Net Cost of Operations (Note 20)	**2,369**	**9,269**	**11,638**
Federal Costs:			
Federal Debt Interest			314,168
Less Interest Revenue from Loans (Note 19)			(11,417)
Net Federal Debt Interest Costs (Note 20)			**302,751**
Other Federal Costs (Note 20)			12,859
Net Federal Costs			**315,610**
Net Cost of Treasury Operations, Federal Debt Interest, and Other Federal Costs			**$327,248**

The accompanying notes are an integral part of these financial statements.
See Note 20 for Net Cost Schedule by sub-organizations.

Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2004
(In Millions)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	**$58,925**	**$50,433**
Budgetary Financing Sources:		
Appropriations Received		347,808
Appropriations Transferred In/Out		214
Other Adjustments		(400)
Appropriations Used	341,205	(341,205)
Non-exchange Revenue	45	
Donations and Forfeitures of Cash and Cash Equivalents	119	
Transfers In/Out Without Reimbursement	(42)	
Other Budgetary Financing Sources	(4)	
Other Financing Sources:		
Donations and Forfeitures of Property	31	
Accrued Interest & Discount on the Debt	3,481	
Transfers In/Out Without Reimbursement	(38)	
Imputed Financing Sources	714	
Transfers to the General Fund and Other (Note 19)	(12,791)	
Total Financing Sources	**332,720**	**6,417**
Net Cost	(335,337)	
Ending Balances	**$56,308**	**$56,850**

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

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

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	**$53,647**	**$49,828**
Prior Period Adjustments	28	(35)
Beginning Balance, as Adjusted	**53,675**	**49,793**
Budgetary Financing Sources:		
Appropriations Received		357,817
Appropriations Transferred In/Out		(4,149)
Other Adjustments		(183)
Appropriations Used	352,845	(352,845)
Non-exchange Revenue	2,489	
Donations and Forfeitures of Cash and Cash Equivalents	160	
Transfers In/Out Without Reimbursement	(1,657)	
Other Budgetary Financing Sources	(5)	
Other Financing Sources:		
Donations and Forfeitures of Property	(12)	
Accrued Interest & Discount on the Debt	(7,177)	
Transfers In/Out Without Reimbursement	(1,650)	
Imputed Financing Sources	729	
Transfers to the General Fund and Other (Note 19)	(13,224)	
Total Financing Sources	**332,498**	**640**
Net Cost	(327,248)	
Ending Balances	**$58,925**	**$50,433**

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

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2004 and 2003
(In Millions)

	FY 2004	FY 2003
BUDGETARY RESOURCES		
Budgetary Authority:		
Appropriations Received	$352,212	$365,544
Borrowing Authority	30	3
Net Transfers	(809)	(2,344)
Unobligated Balance:		
Beginning of the Period	73,859	65,588
Net Transfers	(39)	(1,150)
Spending Authority from Offsetting Collections:		
Earned:		
Collected	7,328	10,652
Receivable from Federal Sources	(1)	28
Change in Unfilled Customer Orders:		
Advance Received	(9)	(2)
Without Advance from Federal Sources	290	100
Subtotal	**7,608**	**10,778**
Recoveries of Prior Year Obligations	338	594
Temporarily Not Available Pursuant to Public Law	(322)	(297)
Permanently Not Available	(2,180)	(10,154)
TOTAL BUDGETARY RESOURCES	**$430,697**	**$428,562**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$357,046	$351,474
Reimbursable	3,739	3,229
Subtotal	**360,785**	**354,703**
Unobligated Balance:		
Apportioned	14,365	15,280
Exempt from Apportionment	45,368	48,217
Unobligated Balance Not Available	10,179	10,362
TOTAL STATUS OF BUDGETARY RESOURCES	**$430,697**	**$428,562**

(Continued)

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2004 and 2003
(In Millions)

	FY 2004	FY 2003
Obligated Balance, Net, Beginning of the Period	$35,018	$36,845
Obligated Balance, Transferred, Net	0	(1,419)
Obligated Balance, Net, End of the Period:		
Accounts Receivable	(173)	(174)
Unfilled Customer Orders from Federal Sources	(513)	(223)
Undelivered Orders	40,430	33,593
Accounts Payable	1,702	1,822
Outlays:		
Disbursements	353,729	354,387
Collections	(7,319)	(10,648)
Subtotal	**346,410**	**343,739**
Less: Offsetting Receipts	(1,828)	(1,269)
NET OUTLAYS	**$344,582**	**$342,470**

The accompanying notes are an integral part of these financial statements.
This combined statement includes intra-agency balances that would be eliminated in a consolidated statement.

Consolidated Statements of Financing
For the Years Ended September 30, 2004 and 2003
(In Millions)

	FY 2004	FY 2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$360,785	$354,703
Less: Spending Authority from Offsetting Collections and Recoveries	(7,946)	(11,372)
Obligations Net of Offsetting Collections and Recoveries	352,839	343,331
Less: Offsetting Receipts	(1,828)	(1,269)
Net Obligations	**351,011**	**342,062**
Other Resources:		
Donations and Forfeitures of Property	31	(12)
Financing Sources for Accrued Interest & Discount on the Debt	3,481	(7,177)
Transfers In/Out Without Reimbursement	(38)	(1,650)
Imputed Financing from Costs Absorbed by Others	714	729
Other	(12,791)	(13,281)
Net Other Resources Used to Finance Activities	**(8,603)**	**(21,391)**
Total Resources Used to Finance Activities	**342,408**	**320,671**
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	6,713	555
Resources that Fund Expenses Recognized in Prior Periods	243	169
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	(128)	(358)
Other	(1,150)	(1,003)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	563	685
Adjustment to Accrued Interest & Discount on the Debt	2,590	(3,534)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(479)	(2,918)
Total Resources Used (Provided) to Finance Items Not Part of the Net Cost of Operations	**8,352**	**(6,404)**
Total Resources Used to Finance the Net Cost of Operations	**$334,056**	**$327,075**

(Continued)

Consolidated Statements of Financing
For the Years Ended September 30, 2004 and 2003
(In Millions)

	FY 2004	FY 2003
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods:		
Increase/Decrease in Annual Leave Liability	$24	($3)
Upward/Downward Reestimates of Credit Subsidy Expense	328	(208)
Increase in Exchange Revenue Receivable from the Public	0	(2)
Other	90	(109)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**442**	**(322)**
Components of Net Cost of Operations That Will Not Require or Generate Resources:		
Depreciation and Amortization	529	609
Revaluation of Assets or Liabilities	323	(150)
Other	(13)	36
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**839**	**495**
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period, Net	**1,281**	**173**
Net Cost of Operations	**$335,337**	**$327,248**

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

Statements of Custodial Activity
For the Years Ended September 30, 2004 and 2003
(In Millions)

	FY 2004	FY 2003
Sources of Custodial Revenue & Collections (Note 22)		
Revenue Received:		
Individual and FICA Taxes	$1,695,212	$1,670,274
Corporate Income Taxes	230,377	194,264
Estate and Gift Taxes	25,580	22,827
Excise Taxes	69,552	68,264
Railroad Retirement Taxes	4,421	4,359
Duties	0	8,334
Unemployment Taxes	6,718	6,635
Deposit of Earnings, Federal Reserve System	19,652	21,878
Fines, Penalties, Interest & Other Revenue	2,456	2,187
Total Revenue Received	**2,053,968**	**1,999,022**
Less Refunds	(278,436)	(301,086)
Net Revenue Received	**1,775,532**	**1,697,936**
Accrual Adjustment	(1,938)	697
Total Source of Custodial Revenue and Collections	**1,773,594**	**1,698,633**
Disposition of Custodial Revenue and Collections:		
Amounts Provided to Fund Non-Federal Entities	612	403
Amounts Provided to Fund the Federal Government	1,774,920	1,697,533
Accrual Adjustment	(1,938)	697
Total Disposition of Custodial Revenue & Collections	**1,773,594**	**1,698,633**
Net Custodial Revenue Activity	**$0**	**$0**

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the U.S. Department of the Treasury (Treasury), one of 25 Cabinet level agencies of the Executive Branch of the United States Government, and certain custodial activities of the General Fund of the U.S. Government. The following paragraphs describe the activities of the reporting entity.

The Treasury was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts have impacted the development of Treasury, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise Treasury. 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 U.S. Government.

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

The Treasury includes Departmental Offices (DO) and nine operating bureaus. For financial reporting purposes, DO is comprised of: International Assistance Programs (IAP), Office of Inspector General (OIG), Treasury Forfeiture Fund, Treasury Franchise Fund, Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), the Federal Financing Bank (FFB) and the Air Transportation Stabilization Board (ATSB).

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

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

This legislation also transferred authorities, functions, personnel and assets of the Bureau of Alcohol, Tobacco and Firearms (ATF), including the related functions of the Secretary of the Treasury, to the Department of Justice (DOJ) on January 24, 2003. ATF administrative and revenue collection functions related to alcohol and tobacco were retained within Treasury. The newly created Alcohol and Tobacco Tax & Trade Bureau, established by the Homeland Security Act, performs these revenue and administrative functions.

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

Treasury's Statement of Custodial Activity for FY 2003 includes collections made by ATF from October 1, 2002 to January 23, 2003; collections made by TTB from January 24, 2003 to September 30, 2003; and collections made by the U.S. Customs Service from October 1, 2002 to February 28, 2003.

The accompanying financial statements reflect the continuing activities of Treasury, subsequent to the transfers noted above. Treasury'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 U.S. 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 U.S. Government as well as for others.

Transactions and balances among Treasury's entities have been eliminated from the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, and the Consolidated Statement of Financing.

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). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the U.S. Government.

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. They consist of the consolidated Balance Sheet, the consolidated Statement of Net Cost, the consolidated Statement of Changes in Net Position, the combined Statement of Budgetary Resources, the consolidated Statement of Financing, and the Statement of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both FY 2004 and FY 2003 information.

While these financial statements have been prepared from the books and records of Treasury 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.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenues, and costs have been classified according to the type of entity with whom the transactions are with. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities.

C. Tax and Other Non-Entity Receivables

Tax receivables are not accrued until related tax returns are filed or assessments are made. Prepayments of taxes are netted against liabilities. Accruals are made to reflect penalties and interest on tax receivables through the balance sheet date. Tax receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which Treasury 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 Treasury. Tax receivables are shown on the balance sheet net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible.

D. Inventories and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. Treasury values inventories at standard cost, except for finished goods inventories, which are valued at weighted average unit cost. All operating materials and supplies are recorded as an expense when consumed in operations.

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 U.S. 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. 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. 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.

E. 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 Treasury. 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 Treasury to Federal agencies on behalf of the U.S. Government. Treasury 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 Treasury's intermediary role in issuing these loans, Treasury 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 issued the loans.

F. 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.

G. Property, Plant, and Equipment

Treasury'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. Treasury owns the Treasury building - a multi-use heritage asset. Multi-use heritage assets are assets of historical significance whose predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury building are capitalized as general PP&E and depreciated over their service life.

Treasury's bureaus are diverse both in size and in operating environment. Accordingly, Treasury's capitalization policy threshold ranges from $25,000 to $50,000. Treasury also uses a capitalization threshold range for bulk purchases: $250,000 to $500,000 for non-manufacturing bureaus and $25,000 to $50,000 for manufacturing bureaus. Bureaus determine the individual items that comprised bulk purchases. In addition, Treasury'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. Discounts and premiums are amortized over the term of the security using the effective interest rate method.

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

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

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

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

Similar to Federal retirement plans, OPM, rather than Treasury, 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. Treasury reports the full cost of providing other retirement benefits (ORB). Treasury also recognizes 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, Treasury'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 defined life insurance benefit plan for current and retired employees. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. Special Drawing Rights (SDR) 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 Banks 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 Treasury at such times and in such amounts as the Secretary of the Treasury may determine. Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

K. 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.

L. Revenue & Financing Sources

Treasury'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 recognized 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. Treasury 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.

Treasury recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

M. Custodial Revenues and Collections

Non-entity revenue reported on Treasury's Statement of Custodial Activity includes cash collected and received by Treasury. 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 U.S. Government or are earmarked for certain trust funds.

N. Tax Assessments and Abatements

Under Internal Revenue Code Section 6201, Treasury 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. Treasury 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. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

O. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, 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 for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custodial activity of Treasury, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

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

Additionally, Treasury receives other permanent and indefinite appropriations to make certain payments on behalf of the U.S. 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 U.S. Government, including payments made to various individuals as the result of certain claims and judgments rendered against the United States.

P. Imputed Costs/Financing Sources

U.S. Government entities often receive goods and services from other U.S. Government entities without reimbursing the providing entity for all the related costs. In addition, U.S. 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. Treasury recognized imputed costs and financing sources in fiscal years 2004 and 2003 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which includes unemployment and workers compensation under the Federal Employee's Compensation Act; and losses in litigation proceedings.

Q. Confiscated Iraqi Assets

On March 20, 2003, the President of the United States signed an Executive Order, "Confiscating and Vesting Certain Iraqi Property." The President vested in the Treasury all right, title, and interest in blocked funds held in the United States in certain accounts in the name of the Government of Iraq, Rafidain Bank, Rasheed Bank, or the State Organization for Marketing Oil. The Treasury's Office of Foreign Assets Control acted to implement the Executive Order. The Treasury at the direction of the Office of Management and Budget, transferred the vested funds to other agencies, such as the Department of Defense, for use in the reconstruction of Iraq. During FY 2003, Treasury transferred $1.660 billion of vested funds and disbursed another $192 million in funds received during the year. In FY 2004, an additional $18 million was received and disbursed, and the $64 million of vested funds remaining from FY 2003 was transferred. As of September 30, 2004, no Iraqi assets remained with Treasury.

R. Reclassifications

Certain 2003 balances have been reclassified to conform to the 2004 presentation.

S. Income Taxes

As an agency of the Federal government, Treasury is generally exempt from all income taxes imposed by any governing body, whether it is a Federal, State, commonwealth, local, or foreign government.

T. Use of Estimates

Treasury has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates.

U. Credit risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counterparty to perform in accordance with underlying contractual obligations. The Treasury takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries. Given the history of the Treasury with respect to such exposure and the financial policies in place in the U. S. Government and other institutions in which the United States participates, Treasury has no expectation that credit losses will be incurred in the foreseeable future. Treasury also takes on credit risk related to loan guarantees, committed-but-undisbursed direct loans and its Terrorism Risk Insurance Program. The extent of the risk assumed by the Department is described in more detail in the notes to the financial statements.

2. Fund Balance

Fund Balance with Treasury is the aggregate amount of Treasury's accounts with the U.S. Government's central accounts from which Treasury is authorized to make expenditures and pay liabilities. It is an asset because it represents Treasury's claim to the U.S. Government's resources.

Fund Balances

As of September 30, 2004 and September 30, 2003, fund balances consisted of the following (in millions):

	FY 2004	**FY 2003**
Appropriated Funds	$57,614	$51,176
Revolving Funds	1,641	1,981
Trust Funds	5	7
Clearing Funds	3	(32)
Deposit Funds	415	421
Special Funds	268	365
Suspense Funds	0	(8)
Total Fund Balances	**$59,946**	**$53,910**

Status of Fund Balances

As of September 30, 2004 and September 30, 2003, the status of fund balances consisted of the following (in millions):

	FY 2004	FY 2003
Unobligated Balance - Available	$35,743	$41,006
Unobligated Balance - Unavailable	10,179	10,362
Obligated Balance not yet Disbursed	41,431	35,009
Subtotal	**87,353**	**86,377**
Adjustments for Clearing, Deposit, and Suspense Funds	418	381
Adjustments for Other Non-budgetary Funds	17	20
Adjustments for Borrowing Authority	(5,672)	(5,721)
Adjustments for Investments	(2,584)	(2,937)
Adjustments for Imprest Funds	(3)	(4)
Adjustments for Cash and Certain Interest Receivable	(19,583)	(24,206)
Total Status of Fund Balances	**$59,946**	**$53,910**

The Fund Balances include $450 million in restricted unobligated balances. These amounts are included with unavailable unobligated balances appropriated in prior fiscal years that are not available to fund new obligations, but may be used to adjust obligations and disbursements that were recorded before the budgetary authority expires or to meet a bona fide need that arose in the fiscal year for which the appropriation was made. Fund Balances also include deposit funds and suspense accounts that are not apportioned.

3. Loans and Interest Receivable

Intra-governmental

As of September 30, 2004 and September 30, 2003, intra-governmental loans and interest receivable consisted of the following (in millions):

Entity:	FY 2004 Loans & Interest Receivable	FY 2003 Loans & Interest Receivable
Agency Loans Purchased	$5,150	$6,905
Direct Loans Purchased	1,800	7,274
Guaranteed Loans	22,376	21,451
Interest Receivable	250	392
Less: Discounts and Allowances	(614)	(583)
Subtotal -- Entity	**$28,962**	**$35,439**

Non-Entity:	**Loans Receivable**	**Interest Receivable**	**FY 2004 Total**	**Loans Receivable**	**Interest Receivable**	**FY 2003 Total**
Department of Agriculture	$46,821	$68	$46,889	$53,343	$94	$53,437
Department of Interior	410	888	1,298	407	948	1,355
Federal Communications Commission	3,941	0	3,941	5,066	0	5,066
Department of Veterans Affairs	2,618	0	2,618	2,854	0	2,854
Railroad Retirement Board	2,962	64	3,026	2,954	71	3,025
Small Business Administration	8,546	0	8,546	6,627	0	6,627
Department of Housing & Urban Development	8,838	82	8,920	11,434	106	11,540
Department of Energy	2,900	13	2,913	2,698	26	2,724
Department of Education	96,530	2	96,532	91,938	0	91,938
Export Import Bank of the U. S.	7,237	0	7,237	7,280	0	7,280
Other Agencies	3,170	13	3,183	3,177	1	3,178
Subtotal -- Non-Entity	**183,973**	**1,130**	**185,103**	**187,778**	**1,246**	**189,024**
Total Intra-government Loans & Interest Receivable-- Entity & Non-entity			**$214,065**			**$224,463**

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 the U.S. Government.

Non-Federal

As of September 30, 2004 and September 30, 2003, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	**Non-Entity**	**FY 2004 Total**	**Entity**	**Non-Entity**	**FY 2003 Total**
Direct Loans	$57	$729	$786	$54	$871	$925
Interest Receivable	0	212	212	0	287	287
Less: Allowances and Subsidy Costs	(21)	0	(21)	(22)	0	(22)
Total Non-Federal Loans & Related Interest Receivable	**$36**	**$941**	**$977**	**$32**	**$1,158**	**$1,190**

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.

4. Due from the General Fund, Net

Treasury is responsible for managing various assets and liabilities on behalf of the U.S. Government as a whole. Due from the General Fund, Net, represents assets and liabilities managed by Treasury on behalf of the U.S. Government. Assets managed by Treasury include cash, silver reserves, loans, advances, and tax receivables. Liabilities managed by Treasury are comprised primarily of the Federal debt.

As of September 30, 2004 and September 30, 2003, Due from the General Fund, Net included the following (in millions):

	FY 2004	FY 2003
Liabilities Requiring Funding from the General Fund:		
Federal Debt and Interest Payable	$4,305,302	$3,919,055
Federal Debt and Interest Payable - Intra-governmental	3,097,949	2,884,015
Refunds Payable	1,808	1,193
Other Liabilities	0	5
Adjustment for Eliminated Liabilities	15,433	15,656
Total Due From the General Fund	**$7,420,492**	**$6,819,924**
Less Amounts to be Distributed to the General Fund:		
Fund Balance	$129	$248
Advances to the Black Lung Trust Fund	8,741	8,243
Cash, Foreign Currency and Other Monetary Assets	31,089	50,779
Silver Reserves	9	9
Loans and Interest Receivable - Intra-governmental Non-Entity	185,103	189,024
Loans and Interest Receivable	941	1,158
Accounts Receivable - Intragovernmental	543	750
Tax and Other Non-Entity Receivables	20,428	21,482
Other Assets	3	16
Adjustment for Eliminated Assets	29,450	36,800
Total Due To the General Fund	**$276,436**	**$308,509**
Due From the General Fund, Net	**$7,144,056**	**$6,511,415**

The Adjustment for Eliminated Intra-Treasury liabilities mainly represents investments in U.S. Government securities held by Treasury reporting entities that were eliminated against Federal Debt. The Adjustment for Eliminated Intra-Treasury assets mainly represents loans and interest payable owed by Treasury reporting entities that were eliminated against Loans and Interest Receivable held by the Bureau of the Public Debt.

On the Balance Sheet, Treasury reported $20,520 million in Tax, Other, and Related Interest Receivables as of September 30, 2004 ($21,573 million as of September 30, 2003). However, only $20,428 million is reported as due to the General Fund ($21,482 million as of September 30, 2003). The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. Government, and miscellaneous entity receivables (see Note 10).

5. Cash, Foreign Currency, and Other Monetary Assets

Cash, foreign currency, and other monetary assets held as of September 30, 2004 and September 30, 2003 were as follows (in millions):

	FY 2004	FY 2003
Entity:		
Cash	$4	$4
Foreign Currency:		
Japanese Yen	1,435	1,418
European Euro	7,450	8,182
Other	19	22
Other Monetary Assets:		
Special Drawing Rights (non-marketable, fair value)	12,824	12,093
Other	135	134
Subtotal - Entity	**$21,867**	**$21,853**
Non-Entity:		
Operating Cash of the Federal Government	$31,029	$50,829
Undistributed Cash/Offers in Compromise	0	3
Foreign Currency	128	32
Other	137	303
Subtotal - Non-Entity	**$31,294**	**$51,167**
Total Cash, Foreign Currency, and Other Monetary Assets	**$53,161**	**$73,020**

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, 2004 and September 30, 2003, using current exchange rates. "Other" includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York.

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 $5.3 billion as of September 30, 2004 ($6.1 billion as of September 30, 2003). Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As of September 30, 2004, FCDAs with maturities greater than three months were valued at $3.6 billion ($3.5 billion as of September 30, 2003).

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 British pound sterling. Treasury's SDR holdings and allocations are revalued monthly based on the SDR valuation rate calculated by the IMF.

During FY 2004, Treasury purchased, at the prevailing rates, $300 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 ($348.1 million equivalent of SDRs during FY 2003), and paid the General Fund $.4 million ($.6 million in FY 2003), in interest on dollars due the General Fund in payment of SDRs received as remuneration. As of September 30, 2004, Treasury had no remaining outstanding payable equivalent of SDRs and no interest payable 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 .

Except for the payment of interest and charges on SDR allocations to the United States, the payment of Treasury's commitment 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, 2004, the amount of SDR holdings of the United States was the equivalent of $12.8 billion and the amount of SDR allocations to the United States was the equivalent of $7.2 billion. (As of September 30, 2003, the amount of SDR holdings of the United States was the equivalent of $12.1 billion and the amount of SDR allocations to the United States was the equivalent of $7.0 billion.)

Non-Entity

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

The Operating Cash of the U.S. Government represents balances from tax collections, 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 U.S. Government also includes other cash representing the balances of petty cash and funds held in other Federal agencies' books. With the passage of the Consolidated Appropriation Act of 2004, Treasury received a permanent and indefinite appropriation to compensate banks for services rendered. Therefore, compensating balances and depository compensation securities accounts were closed. Operating Cash of the U.S. Government is either insured (for balances up to $100,000) by the Federal Deposit Insurance Corporation or collaterized by securities pledged by the depository institutions and held by the Federal Reserve Banks.

Operating Cash as of September 30, 2004 and September 30, 2003 consisted of the following (in millions):

	FY 2004	FY 2003
U.S. Operating Cash Accounts	$30,362	$27,735
Operating Cash - Federal Reserve Account	6,087	7,265
Subtotal	**36,449**	**35,000**
Time Deposits	0	22,191
Outstanding Checks and Other Miscellaneous Issues	(5,420)	(6,427)
Treasury Officer Unclassified Items	0	65
Total	**$31,029**	**$50,829**

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

Treasury is responsible for safeguarding most of the U.S. 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 Treasury 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. Treasury's liability incurred by issuing the Gold Certificates is limited to the gold being held by Treasury 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 U.S. Government. All of Treasury's certificates issued are payable to the Federal Reserve.

Absent any historical cost records to determine the acquisition cost of the gold and silver over several decades, the statutory rates of $42.2222 per fine troy ounce (FTO) for gold and $1.2929292 per FTO for silver are used to value the entire custodial reserves, which are in the custody of the U.S. Mint and the Federal Reserve Bank of New York. As of September 30, 2004 and September 30, 2003, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/2004 Statutory Value	Market Rate	9/30/2004 Market Value
Gold	245,262,897	$42.2222	$10,356	$415.65	$101,944
Gold Held by FRB and in Transit	13,450,413	$42.2222	568	$415.65	5,591
Subtotal - Gold	**258,713,310**		**$10,924**		**$107,535**
Silver	**7,075,171**	$1.2929292	9	$6.67	47
Total Gold and Silver Reserves			**$10,933**		**$107,582**

	FTOs	Statutory Rate	9/30/2003 Statutory Value	Market Rate	9/30/2003 Market Value
Gold	245,262,897	$42.2222	$10,356	$388.00	$95,162
Gold Held by FRB and in Transit	13,450,413	$42.2222	568	$388.00	5,219
Subtotal - Gold	**258,713,310**		**$10,924**		**$100,381**
Silver	**7,075,171**	$1.2929292	9	$5.12	36
Total Gold and Silver Reserves			**$10,933**		**$100,417**

7. Investments and Related Interest

Investments in U.S. Government Securities held by Treasury entities have been eliminated against the Federal debt liability for financial reporting purposes (See Note 4). The Exchange Stabilization Fund holds most of Treasury's other investments. Securities that Treasury 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, 2004 and September 30, 2003, entity investments consisted of the following (in millions):

Type of Investment	Cost	Unamortized (Premium)/ Discounts	Net Investment	Interest Receivable	9/30/2004 Investment Balance	9/30/2004 Market Value
Euro Bonds	$3,395	$106	$3,501	$108	$3,609	$3,670
Japanese Financing Bills	3,462	0	3,462	0	3,462	3,462
Japanese T Bills	3,675	0	3,675	0	3,675	3,675
Other	127	(3)	124	0	124	125
Total Non-Federal	**$10,659**	**$103**	**$10,762**	**$108**	**$10,870**	**$10,932**

Type of Investment	Cost	Unamortized (Premium)/ Discounts	Net Investment	Interest Receivable	9/30/2003 Investment Balance	9/30/2003 Market Value
Euro Bonds	$1,860	$34	$1,894	$50	$1,944	$2,008
Japanese Financing Bills	3,424	(1)	3,423	0	3,423	3,424
Japanese T Bills	3,634	0	3,634	0	3,634	3,634
Other	253	0	253	0	253	83
Total Non-Federal	**$9,171**	**$33**	**$9,204**	**$50**	**$9,254**	**$9,149**

8. 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. This letter of credit, issued by Treasury and maintained by the Federal Reserve Bank of New York (FRBNY), 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 for balance of payments needs. When the IMF draws dollars from the letter of credit to finance its operations and expenses, the drawing does not represent a net budget outlay on the part of the United States because there is a commensurate increase in the U.S. reserve position. When the IMF repays dollars to the United States, no net budget receipt results because the U.S. reserve position declines concurrently in an equal amount.
The U.S. reserve position is denominated in SDRs, as is the U.S. quota. Consequently, fluctuations in the value of the dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. reserve position in the IMF. For example, when the dollar appreciates against the SDR, a valuation loss is experienced and recorded as an increase to the Appropriations Used line item on the Statement of Changes in Net Position. 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 FY 2003 and the end of FY 2004, the U.S. experienced a valuation gain on the reserve position of approximately $647 million (Between the end of FY 2002 and the end of FY 2003, a valuation gain of $1,722 million was recognized). 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, 2004, the U.S. quota in the IMF was 37.1 billion SDRs, valued at approximately $54.6 billion. (The quota as of September 30, 2003 was 37.1 billion SDRs, valued at approximately $53.1 billion.) The quota consisted of the following (in millions):

	FY 2004	FY 2003
Letter of Credit /1.	$34,995	$28,916
U.S. Dollars Held in Cash by the IMF /1.	135	128
Reserve Position /2.	19,442	24,072
U.S Quota in the IMF	**$54,572**	**$53,116**

/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 the 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, 2004, the depreciation of the dollar against the SDR since April 30, 2003, called for an upward adjustment of the letter of credit by $1.375 billion (At April 30, 2003, the depreciation of the dollar against the SDR since April 30, 2002, called for an upward adjustment of the letter of credit by $2,580 million.) 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 the 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 received during FY 2004 and FY 2003 as a result of burden-sharing was zero and $18.6 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 2004 and FY 2003. 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, 2004, and September 30, 2003, this amounted to $9.9 billion and $9.6 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 concurrent adjustments to the U.S. reserve position in the IMF.

9. Investments in International Financial Institutions

Treasury 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, and five regional development banks (the African, Asian, European, Inter-American and North American institutions), as enumerated in the table below. These investments are non-marketable equity investments valued at cost.

As of September 30, 2004 and September 30, 2003, investments in international financial institutions consisted of the following (in millions):

	FY 2004	**FY 2003**
African Development Bank	$160	$155
Asian Development Bank	450	442
European Bank for Reconstruction & Development	558	522
Inter-American Development Bank	1,462	1,442
International Bank for Reconstruction & Development	1,985	1,985
International Finance Corporation	569	569
Multilateral Investment Guarantee Agency	44	43
North American Development Bank	175	174
Total	**$5,403**	**$5,332**

10. Accounts Receivable and Related Interest

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

Tax, other, and related interest receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued, reduced by an estimate for uncollectible amounts. Also included are interest income due on monies deposited in Federal Reserve Banks. As of September 30, 2004 and September 30, 2003, tax, other, and related interest receivables, net, consisted of the following (in millions):

	FY 2004	FY 2003
Non-Entity:		
IRS Federal Tax Receivable, Gross	$89,137	$89,027
Less: Allowance on Taxes Receivable	(69,117)	(69,008)
Receivable, Deposit of Earnings, Federal Reserve	412	1,468
Other Receivables & Interest	50	10
Less: Allowance on Other & Related Interest Receivable	(40)	(7)
Total Tax, and Other Non-Entity Receivables, Net	**20,442**	**21,490**
Entity: Miscellaneous Entity Receivables & Related Interest	78	83
Total Tax, Other, and Related Interest Receivables, Net	**$20,520**	**$21,573**

IRS Federal taxes receivable constitute the largest portion of the receivables. IRS Federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. An allowance for doubtful accounts is established for the difference between the gross receivables and the portion deemed collectible. The portion of tax receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectibility from a statistical sample of taxes receivable.

Treasury does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

B. Intra-governmental Accounts and Related Interest Receivable

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by Treasury under the Contract Disputes Act and the No Fear Act ($543 million of the $632 million and $750 million of the $825 million displayed for 2004 and 2003, respectively). Unlike Judgment Fund payments, other Federal agencies are required to reimburse Treasury for payments made to contractors or Federal employees, 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.

11. Inventory and Related Property, Net

Inventory and related property includes inventory, operating materials and supplies, and forfeited property held by Treasury.

Inventory

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

Treasury's manufacturing entities, the BEP and the 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.

As of September 30, 2004 and September 30, 2003, inventory and related property consisted of the following (in millions):

	FY 2004	FY 2003
Operating materials and supplies held for use	$14	$15
Operating materials and supplies held in reserve for future use	21	22
Forfeited property	46	35
Other related property	387	381
Less: allowance for inventories and related property	(9)	(14)
Total Inventories and Related Property	**$459**	**$439**

12. Property, Plant, and Equipment, Net

As of September 30, 2004 and 2003, property, plant and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	FY 2004 Total
Buildings, structures and facilities	S/L	3 - 50 years	$567	($219)	$348
Furniture, fixtures and equipment	S/L	2 - 20 years	2,480	(1,601)	879
Construction in progress	N/A*	N/A*	158	0	158
Land and land improvements	N/A*	N/A*	10	0	10
ADP software	S/L	2 - 10 years	354	(142)	212
Assets under capital lease	S/L	2 - 25 years	129	(51)	78
Leasehold improvements	S/L	2 - 25 years	417	(184)	233
Other PP&E (ADP equipments, etc.)	S/L	2 - 30 years	1,165	(338)	827
Total			**$5,280**	**($2,535)**	**$2,745**

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	FY 2003 Total
Buildings, structures and facilities	S/L	3 - 50 years	$535	($199)	$336
Furniture, fixtures and equipment	S/L	2 - 20 years	2,203	(1,260)	943
Construction in progress	N/A*	N/A*	128	0	128
Land and land improvements	N/A*	N/A*	10	0	10
ADP software	S/L	2 - 10 years	326	(91)	235
Assets under capital lease	S/L	2 - 25 years	216	(105)	111
Leasehold improvements	S/L	2 - 25 years	11	(3)	8
Other PP&E (ADP equipments, etc.)	S/L	2 - 30 years	1,253	(421)	832
Total			**$4,682**	**($2,079)**	**$2,603**

* N/A -- Not Applicable

S/L -- Straight Line

Treasury 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 service life ranges are large due to Treasury's diversity of held property, plant and equipment.

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.

Generally, Treasury leases office space, vehicles and equipment under annual operating leases. These leases are cancelable or renewable on an annual basis at the option of Treasury. They do not impose binding commitments on Treasury for future rental payments on leases with terms longer than one year with the exception of the following operating leases (in millions):

Operating Leases-Future Payments Due Fiscal Years Ending September 30,	**Land & Building**
2005	$55
2006	48
2007	38
2008	36
2009	36
Thereafter	214
Total Future Payments	**$427**

13. Non-Entity Assets

As of September 30, 2004 and September 30, 2003, non-entity assets consisted of the following (in millions):

	FY 2004	**FY 2003**
Intra-governmental Assets:		
Fund Balance	$834	$1,065
Loans and Interest Receivable	185,103	189,024
Accounts Receivable and Related Interest	543	750
Advances to the Black Lung Trust Fund	8,741	8,243
Due from the General Fund	7,420,492	6,819,924
Total Non-Entity Intra-governmental Assets	**$7,615,713**	**$7,019,006**
Cash, Foreign Currency, and Other Monetary Assets	$31,294	$51,167
Gold & Silver Reserves	10,933	10,933
Loans and Interest Receivable	941	1,158
Tax, Other, and Related Interest Receivables, Net	20,442	21,490
Other Assets	3	16
Total Non-Entity Assets	**$7,679,326**	**$7,103,770**

Non-entity assets are those that are held by Treasury but are not available for use by Treasury. Non-entity fund balance with Treasury 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 and fees. Non-entity loans and interest receivable represents loans managed by Treasury on behalf of the U.S. Government. These loans are provided to Federal agencies, and Treasury 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 U.S. Government, managed by Treasury. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments.

14. Federal Debt & Interest Payable

Treasury is responsible for administering the Federal Debt on behalf of the U.S. Government. The Federal Debt includes borrowings from the public as well as borrowings from Federal agencies. The Federal Debt managed by Treasury 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, 2004 and September 30, 2003 was as follows (in millions):

Intra-governmental	**FY 2004**	**FY 2003**
Beginning Balance	$2,843,770	$2,645,522
New Borrowings/Repayments, Net	212,714	198,248
Subtotal -- at Par Value	**3,056,484**	**2,843,770**
Premium/Discount, Net	(739)	(448)
Interest Payable Covered by Budgetary Resources	42,204	40,693
Total	**$3,097,949**	**$2,884,015**

Owed to the Public	**FY 2004**	**FY 2003**
Beginning Balance	$3,924,090	$3,553,180
New Borrowings/Repayments, Net	383,255	370,910
Subtotal -- at Par Value	**4,307,345**	**3,924,090**
Premium/Discount, Net	(34,778)	(36,846)
Interest Payable Covered by Budgetary Resources	32,735	31,811
Total	**$4,305,302**	**$3,919,055**

Debt held by the public approximates the U.S. Government's competition with other sectors in the credit markets. 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) that have been used to finance general government operations.

Federal Debt Held by Other Federal Agencies

Certain Federal agencies are allowed to invest excess funds in debt securities issued by Treasury on behalf of the U.S. Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. Government. The vast majority is non-marketable securities issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for debt held by the Federal entities in FY 2004 was 5.4 percent (5.5 percent in FY 2003).

The Federal Debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt, at par value (not including interest receivable), owed to Federal agencies as of September 30, 2004 and September 30, 2003 was as follows (in millions):

	FY 2004	FY 2003
Social Security Administration *	$1,635,398	$1,484,220
Office of Personnel Management *	670,741	637,523
Department of Defense Agencies	217,541	194,998
Department of Health and Human Services	283,851	278,255
All Other Federal Entities - Consolidated	248,953	248,774
Total Federal Debt Held by Federal Entities	**$3,056,484**	**$2,843,770**

The above balances do not include premium/discount and interest payable.

* These amounts include marketable Treasury securities as well as non-marketable debt securities as follows (in millions):

	Non-Marketable Debt Securities	Marketable Securities	FY 2004 Total
Civil Service Retirement and Disability Fund, Par Value	$631,749	$111	$631,860
Federal Disability Insurance Trust Fund, Par Value	$182,769	$30	$182,799

	Non-Marketable Debt Securities	Marketable Securities	FY 2003 Total
Civil Service Retirement and Disability Fund, Par Value	$601,429	$280	$601,709
Federal Disability Insurance Trust Fund, Par Value	$170,763	$30	$170,793

Federal Debt Held by the Public

As of September 30, 2004 and September 30, 2003, Federal Debt held by the Public consisted of the following:

(at par value, in millions)	Term	Average Interest Rates	FY 2004
Marketable:			
Treasury Bills	1 Year or Less	1.6%	$961,449
Treasury Notes	Over 1 Year - 10 Years	3.5%	2,109,494
Treasury Bonds	Over 10 Years	8.0%	551,904
Treasury Inflation Protected Securities (TIPS)	More than 5 Years	2.8%	223,008
Total Marketable			**$3,845,855**
Non-Marketable	On Demand to Over 10 Years	5.1%	461,490
Total Federal Debt (Public)			**$4,307,345**

(at par value, in millions)

			FY 2003
Marketable:			
Treasury Bills	1 Year or Less	1.0%	$918,196
Treasury Notes	Over 1 Year - 10 Years	3.8%	1,799,424
Treasury Bonds	Over 10 Years	7.8%	576,590
Treasury Inflation Protected Securities (TIPS)		3.2%	166,120
Total Marketable			**$3,460,330**
Non-Marketable	On Demand to Over 10 Years	5.3%	463,760
Total Federal Debt (Public)			**$3,924,090**

The above balances do not include premium/discount and interest payable.

Treasury issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding as of September 30, 2004 and 2003, respectively. Treasury bills are issued with a term of one year or less.

Treasury issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding as of September 30, 2004 and 2003. Treasury notes are issued with a term of 2 - 10 years and Treasury bonds are issued with a term of more than 10 years. Treasury also issues TIPS that have interest and redemption payments, which are tied to the Consumer Price Index, the leading measurement of inflation. TIPS are issued with a term of more than five years. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. Inflation-indexed securities, TIPS, were previously included with Treasury notes and bonds. The FY 2003 amounts and average interest rates have been reclassified to conform with the presentation adopted in FY 2004.

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 and 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.

15. 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 reviewed and made decisions on applications for Federal credit instruments, and was authorized to issue up to $10 billion in loan guarantees through September 30, 2004. The program is governed and accounted for in accordance with the provisions of the Federal Credit Reform Act of 1990, as amended. 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 subsidy rates vary from 1.43 percent to 3.35 percent. Each air carrier has material cash flows that are not considered appropriate to average with those of other air carriers, with the result that each air carrier guarantee has its own subsidy rate. The fluctuations in subsidy rates for the respective air carriers depend upon several risk factors, including current credit ratings and default rates. Other factors that may affect the estimated subsidy rates include changes in loan terms (modifications, prepayments, etc.), appraised collateral/liquidation values, interest payments, outstanding balances, and other economic, legal and financial conditions specific to each individual air carrier.

During FY 2004, one air carrier repaid its loan in full and ATSB guaranteed the loan of one additional air carrier. There were five guaranteed loans outstanding at September 30, 2004 and 2003. The loan guarantee liability balances, and the changes therein as of and for the years ended September 30, 2004 and 2003, are presented in the following table and include the effects of new loan guarantees for, repayments made from, and new bankruptcies filed by various air carriers during the respective fiscal years.

(In Millions)

	FY 2004	FY 2003
Face value of loans outstanding	$1,255	$1,646
Amount guaranteed by the government	$1,122	$1,473
Loans disbursed	$30	$1,218

Schedule for Reconciling Loan Guarantee Liability Balances:

	FY 2004	FY 2003
Beginning balance of the loan guarantee liability	$353	$319
Other subsidy costs	(2)	180
Total of the above subsidy expense components	**351**	**499**
Loan guarantee modifications	(39)	(5)
Fees received	68	61
Interest accumulation on the liability balance	14	15
Ending balance of the loan guarantee liability before reestimates	**394**	**570**
Interest rate reestimate	0	2
Technical/default reestimate	330	(219)
Total of the above reestimate components	**330**	**(217)**
Ending balance of loan guarantee liability	**$724**	**$353**

16. D.C. Pensions Liability

Pursuant to Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, Treasury 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 U.S. 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 $270 million during FY 2004 (and $269.2 million during FY 2003). The amount paid into the Judicial Retirement Fund from the General Fund was $7.5 million during FY 2004 (and $6.7 million during FY 2003).

As of September 30, 2004, 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, 2003, the assets of the three funds were approximately $4 billion, and liabilities were $8.3 billion, resulting in an unfunded liability of $4.3 billion.) The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long term assumptions selected by the Treasury. In FY 2004 and FY 2003, the assumptions for the annual rate of investment return and the annual rate of inflation and cost-of-living adjustments were 6 percent and 3 percent, respectively. In FY 2004, the assumption for the annual rate of salary increases was 6.5 percent for police officers and firefighters, 5.5 percent for teachers, and 3.5 percent for judges. In FY 2003, the assumption for the annual rate of salary increases was 4 percent for all plan members. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

17. Commitments and Contingencies

Treasury is subject to contingent liabilities which include litigation cases. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements, except for litigation described below.

Treasury is a party in various administrative proceedings, legal actions, and claims brought by or against it. At September 30, 2004 and 2003, no claims were reported in which a loss is probable, and no contingencies existed relative to proceedings and claims for which it is reasonably possible that a loss may be incurred.

PENDING LEGAL ACTIONS

Based on the information provided by legal counsel and in the opinion of management, the ultimate resolution of the following legal actions, for which a range of potential loss could not be determined, may materially affect Treasury's financial position or results. These specific cases are summarized as follows:

Cobell v. Norton (formerly Cobell v. Babbitt): Native Americans allege that the Departments of Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. The plaintiffs have not made claims for specific dollar amounts in the Federal district court proceedings, but in public statements have asserted that the class is owed tens of billions of dollars.

Tribal Trust Fund Cases: Thirteen cases have been filed 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 Treasury as a defendant. It is probable that tribes will file additional suits. It is not possible at this time to determine the number of suits that may be filed or the amount of damages that may be claimed.

Cruz v. United States, de la Torre v. United States, Barba v. United States and Chavez v. United States: These are claims that Mexican workers who were employed in the United States beginning in 1942 did not receive funds which were withheld from the workers, nor did they receive an accounting for such funds.

Ferreiro v. United States: Plaintiffs claim allegedly past due civil service retirement benefits relating to individuals' employment by the U.S. Government in Cuba prior to 1963. The Department also had employment cases (e.g., discrimination, Equal Employment Opportunity Commission, Merit System Protection Board, etc.) in which a loss is reasonably possible, but for which a range of potential loss could not be determined.

OTHER CONTINGENCIES

***Multilateral Development Banks (MDBs)*:** Treasury has subscribed to additional capital for certain MDBs, portions of which 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 Treasury's subscriptions. As of September 30, 2004 and September 30, 2003 U.S. callable capital in MDBs was as follows (in millions):

	FY 2004	FY 2003
African Development Bank	$1,348	$1,268
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,555	1,433
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	22,642	22,641
Multilaterial Investment Guarantee Agency	285	280
North American Development Bank	1,275	1,275
Total	**$61,703**	**$61,495**

***Terrorism Risk Insurance Program**:* The Terrorism Risk Insurance Act of 2002 provided Treasury an appropriation to compensate insurance companies for commercial property and casualty insurance losses resulting from certified acts of terrorism. Under the program, the U.S. Government is responsible for paying 90 percent 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.

Commitment to the Republic of Turkey

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

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

As of November 12, 2004, the Turkish Government had not yet ratified the FA.

18. Liabilities

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2004 and September 30, 2003, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	FY 2004	FY 2003
Intra-governmental Liabilities Not Covered by Budgetary & Other Resources:		
Federal Debt Principal, Premium/Discount (Note 14)	$3,055,745	$2,843,322
Other Intra-governmental Liabilities	313	95
Total Intra-gov't Liabilities Not Covered by Budgetary & Other Resources	**3,056,058**	**2,843,417**
Federal Debt Principal, Premium/Discount (Note 14)	4,272,567	3,887,244
DC Pensions Liability (Note 16)	4,420	4,335
Other Liabilities	963	1,039
Total Liabilities Not Covered by Budgetary & Other Resources	**$7,334,008**	**$6,736,035**

Other Liabilities with the Public

Total "Other Liabilities" displayed on the Balance Sheet consists of both liabilities that are covered and not covered by budgetary resources. The amounts displayed of $4,146 and $4,762 million, respectively, at September 30, 2004 and September 30, 2003 consisted of the following (in millions):

	FY 2004	FY 2003
Actuarial Liability for the Federal Workers Compensation Program (FECA)	$680	$661
Liability for Deposit Funds (Funds Held by the Federal Government for Others) & Suspense Accounts	365	757
ATSB Loan Guarantee Liabilities (Note 15)	724	353
Accrued Funded Payroll and Benefits	297	233
Capital Lease Liabilities	54	106
Accounts Payable & Other Accrued Liabilities (including employee leave)	2,026	2,652
Total	**$4,146**	**$4,762**

19. Net Position

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has 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, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and (c) expenses for contingent liabilities.

The amount reported as "Other" on the Consolidated Statement of Changes in Net Position under "Other Financing Sources" mainly represents the distribution of interest revenue to the General Fund of the Treasury of $12,655 and $13,118 million, for the years ended September 30, 2004 and September 30, 2003, respectively. The interest revenue is accrued on inter-agency loans held by BPD on behalf of the General Fund. A corresponding balance is reported on the Consolidated Statement of Net Cost under "Federal Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statement of Net Cost is reduced by eliminations with Treasury bureaus.

Treasury also includes seigniorage in "Other." Seigniorage is the face value of newly minted circulating coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the Treasury. The distribution is also included in "Other." In any given year, the amount recognized as seigniorage may differ with the amount distributed by an insignificant amount.

Seigniorage in the amounts of $586 and $537 million was recognized, respectively, for the years ended September 30, 2004 and September 30, 2003.

20. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations

Treasury's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of Treasury's organizational structure and operations requires that supporting schedules for Net Cost be included in the notes to the financial statements. These supporting schedules provide consolidating information, which fully displays the costs of each sub-organization (Departmental Offices and each operating bureau).

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 Treasury-wide programs is the result of using the following cost assignment methods: (1) direct costs; (2) cause and effect; and (3) cost allocation.

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.

Treasury's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred as a result of assets and liabilities managed on behalf of the U.S. Government. These costs are not reflected as program costs related to Treasury's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury suborganizations.

Other Federal costs for the years ended September 30, 2004 and 2003 consisted of the following (in millions):

	FY 2004	FY 2003
Temporary State Fiscal Relief/Assistance Fund	$5,000	$5,000
Credit Reform Interest on Uninvested Funds (Intra-governmental)	3,698	3,689
Resolution Funding Corporation	2,187	1,717
Judgments Claims and Contract Disputes	746	1,007
Corporation for Public Broadcasting	437	411
Legal Services Corporation	301	337
Refunds of Moneys Erroneously Received	5	10
Presidential Election Campaign	178	0
All Other Payments	363	688
Total	**$12,915**	**$12,859**

The Temporary State Fiscal Relief /Assistance Fund was established in FY 2003 under Public Law 108-27. Upon submission of certification to the Financial Management Service, payments are made to the governments of States, the District of Columbia and U.S. Territories. Payments are made based upon population.

Pricing Policies – Exchange Revenues – Reimbursable Services

A portion of the earned revenue displayed on Treasury's Statement of Net Cost is generated by the provision of goods or services to the public or to other Federal entities.

Exchange revenues resulting from work performed for other Treasury sub-organizations or Federal entities represent reimbursements for the full costs incurred by the performing entity. Reimbursable work between Federal entities 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. Treasury does not incur losses on the provision of goods or services on a reimbursable basis.

FY 2004 Presentation Changes

The Government Performance Results Act (GPRA) requires that Federal agencies formulate Strategic Plans, identify major strategic goals, and report performance and costs related to these goals. Under GPRA, Strategic Plans are to be revised and updated every three years. Accordingly, Treasury updated the Department-wide Strategic Plan in FY 2004 and replaced the mission goals applicable in FY 2003 with revised mission goals applicable in FY 2004 and thereafter. The FY 2004 mission goals and categories within each goal are summarized as follows:

1. Economic Program
   a. Promote Prosperous U.S. and World Economies
   b. Promote Stable U.S. and World Economies

2. Financial Program
   a. Preserve the Integrity of Financial Systems
   b. Manage the U.S. Government's Finances Effectively

3. Management Program
   a. Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

OMB Bulletin No. 01-09 "*Form and Content of Agency Financial Statements*" requires that the presentation of the Statement of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Treasury has presented the earned revenues and gross costs in FY 2004 by the applicable mission goals and categories in Treasury's FY 2004 Strategic Plan and the earned revenues and gross costs for FY 2003 by the applicable mission goals and categories in Treasury's FY 2003 Strategic Plan. As a result, the FY 2004 Consolidated Statement of Net Cost is not comparable to the FY 2003 Consolidated Statement of Net Cost. The more significant changes from FY 2003 to FY 2004 include the following:

1. Removing the FY 2003 Law Enforcement mission goal.
2. Presenting the FY 2003 Costs Not Assigned to Programs as part of the FY 2004 mission goals.

The tables on the following pages present Treasury's earned revenues, gross costs, and net cost of operations by program and by responsibility segment (in millions):

20. Supporting Net Cost Schedule by Strategic Plan Goal (In Millions)

	Economic Program		Financial Program		Management Program	
Treasury Sub-organization	**Promote Prosperous U.S. and World Economies**	**Promote Stable and World Economies**	**Preserve the Integrity of Financial Systems**	**Manage the U.S. Government's Finances Effectively**	**Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury**	**FY 2004 Total**
Bureau of Engraving and Printing	$0	$0	$44	$0	$0	$44
Bureau of the Public Debt	0	0	0	315	0	315
Departmental Offices	135	1,021	177	(457)	212	1,088
Financial Crimes Enforcement Network	0	0	56	0	0	56
Financial Management Service	0	0	0	710	0	710
Internal Revenue Service	0	0	186	10,213	0	10,399
U.S. Mint	0	0	(53)	0	0	(53)
Office of the Comptroller of the Currency	(6)	0	(19)	0	0	(25)
Office of Thrift Supervision	0	0	1	0	0	1
Alcohol, Tobacco Tax & Trade Bureau	0	53	0	24	0	77
Combined Net Cost	129	1,074	392	10,805	212	12,612
Eliminations & Adjustments		129		(1,171)	210	(832)
Consolidated Net Program Cost		**$1,332**		**$10,026**	**$422**	**$11,780**

20. Consolidating Statement of Net Cost by Sub-organizations (In Millions) (Continued)

For FYE September 30, 2004	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
Program Costs:							
Economic Program:							
Intragovernmental Gross Costs	$0	$0	$68	$0	$0	$0	$0
Less: Earned Revenue	0	0	(139)	0	0	0	0
Intragovernmental Net Costs	0	0	(71)	0	0	0	0
Gross Costs with the public	0	0	2,808	0	0	0	0
Less: Earned Revenue	0	0	(1,581)	0	0	0	0
Net Costs with the public	0	0	1,227	0	0	0	0
Net Cost: Economic Program	**0**	**0**	**1,156**	**0**	**0**	**0**	**0**
Financial Program:							
Intragovernmental Gross Costs	86	77	1,433	22	167	3,374	55
Less: Earned Revenue	(23)	(6)	(2,390)	(1)	(128)	(123)	(6)
Intragovernmental Net Costs	63	71	(957)	21	39	3,251	49
Gross Costs with the public	483	247	685	36	671	7,311	956
Less: Earned Revenue	(502)	(3)	(8)	(1)	0	(163)	(1,058)
Net Costs with the public	(19)	244	677	35	671	7,148	(102)
Net Cost: Financial Program	**44**	**315**	**(280)**	**56**	**710**	**10,399**	**(53)**
Management Program:							
Intragovernmental Gross Costs	0	0	113	0	0	0	0
Less: Earned Revenue	0	0	(746)	0	0	0	0
Intragovernmental Net Costs	0	0	(633)	0	0	0	0
Gross Costs with the public	0	0	850	0	0	0	0
Less: Earned Revenue	0	0	(5)	0	0	0	0
Net Costs with the public	0	0	845	0	0	0	0
Net Cost:Management Program	**0**	**0**	**212**	**0**	**0**	**0**	**0**
Net Cost of Operations	**$44**	**$315**	**$1,088**	**$56**	**$710**	**$10,399**	**($53)**

20. Consolidating Statement of Net Cost by Sub-organizations (In Millions)

For FYE September 30, 2004	Office of the Comptroller of the Currency	Office of the Thrift Supervsion	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2004 Consolidated
Program Costs:						
Economic Program:						
Intragovernmental Gross Costs	$11	$2	$22	$103	($9)	$94
Less: Earned Revenue	(2)	(1)	0	(142)	138	(4)
Intragovernmental Net Costs	9	1	22	(39)	129	90
Gross Costs with the public	69	16	32	2,925	0	2,925
Less: Earned Revenue	(84)	(17)	(1)	(1,683)	0	(1,683)
Net Costs with the public	(15)	(1)	31	1,242	0	1,242
Net Cost: Economic Program	**(6)**	**0**	**53**	**1,203**	**129**	**1,332**
Financial Program:						
Intragovernmental Gross Costs	56	21	10	5,301	(1,446)	3,855
Less: Earned Revenue	(10)	(7)	0	(2,694)	275	(2,419)
Intragovernmental Net Costs	46	14	10	2,607	(1,171)	1,436
Gross Costs with the public	337	142	14	10,882	0	10,882
Less: Earned Revenue	(402)	(155)	0	(2,292)	0	(2,292)
Net Costs with the public	(65)	(13)	14	8,590	0	8,590
Net Cost: Financial Program	**(19)**	**1**	**24**	**11,197**	**(1,171)**	**10,026**
Management Program:						
Intragovernmental Gross Costs	0	0	0	113	(16)	97
Less: Earned Revenue	0	0	0	(746)	226	(520)
Intragovernmental Net Costs	0	0	0	(633)	210	(423)
Gross Costs with the public	0	0	0	850	0	850
Less: Earned Revenue	0	0	0	(5)	0	(5)
Net Costs with the public	0	0	0	845	0	845
Net Cost:Management Program	**0**	**0**	**0**	**212**	**210**	**422**
Net Cost of Operations	**($25)**	**$1**	**$77**	**$12,612**	**($832)**	**$11,780**

20. Consolidating Schedule of Net Costs of Treasury by Sub-Organizations (In Millions) (Continued)

For FYE September 30, 2003	Bureau of Engraving and Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Netwrok	Financial Management Service	Internal Revenue Service
Program Costs:						
Economic Program:						
Intra-governmental Gross Costs	$0	$2	$229	$0	$0	$0
Less: Earned Revenue	0	0	(124)	0	0	0
Intra-governmental Net Costs	0	2	105	0	0	0
Gross Costs with the Public	0	11	2,172	0	0	0
Less: Earned Revenue	0	0	(3,633)	0	0	0
Net Costs with the Public	0	11	(1,461)	0	0	0
Net Cost: Economic Program	**0**	**13**	**(1,356)**	**0**	**0**	**0**
Financial Program:						
Intra-governmental Gross Costs	75	75	3,932	0	169	2,976
Less: Earned Revenue	(38)	(6)	(3,816)	0	(146)	(26)
Intra-governmental Net Costs	37	69	116	0	23	2,950
Gross Costs with the Public	469	238	462	0	364	6,727
Less: Earned Revenue	(480)	(3)	(1)	0	0	(139)
Net Costs with the Public	(11)	235	461	0	364	6,588
Net Cost: Financial Program	**26**	**304**	**577**	**0**	**387**	**9,538**
Law Enforcement Program:						
Intra-governmental Gross Costs	0	0	191	24	0	178
Less: Earned Revenue	0	0	(2)	(2)	0	(82)
Intra-governmental Net Costs	0	0	189	22	0	96
Gross Costs with the Public	0	0	53	30	0	488
Less: Earned Revenue	0	0	0	0	0	(1)
Net Costs with the Public	0	0	53	30	0	487
Net Cost: Law Enforcement Program	**0**	**0**	**242**	**52**	**0**	**583**
Total Program Costs, Net	**26**	**317**	**(537)**	**52**	**387**	**10,121**
Costs Not Assigned to Programs:						
Intra-governmental	0	0	140	0	0	0
With the Public	0	0	1,051	0	0	0
Less: Earned Revenue Not Attributed to Program:						
Intra-governmental	0	0	(689)	0	0	0
With the Public	0	0	(1)	0	0	0
Net Cost of Continuing Operations	**$26**	**$317**	**($36)**	**$52**	**$387**	**$10,121**

20. Consolidating Schedule of Net Costs of Treasury by Sub-Organizations (In Millions)

For FYE September 30, 2003

	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol, Tobacco Tax & Trade Bureau	Combined Total	Eliminations & Adjustments	9/30/2003 Consolidated
Program Costs:							
Economic Program:							
Intra-governmental Gross Costs	$0	$67	$22	$0	$320	($9)	$311
Less: Earned Revenue	0	(10)	(8)	0	(142)	138	(4)
Intra-governmental Net Costs	0	57	14	0	178	129	307
Gross Costs with the Public	0	384	136	0	2,703	1	2,704
Less: Earned Revenue	0	(456)	(161)	0	(4,250)	0	(4,250)
Net Costs with the Public	0	(72)	(25)	0	(1,547)	1	(1,546)
Net Cost: Economic Program	**0**	**(15)**	**(11)**	**0**	**(1,369)**	**130**	**(1,239)**
Financial Program:							
Intra-governmental Gross Costs	61	0	0	25	7,313	(2,516)	4,797
Less: Earned Revenue	(4)	0	0	0	(4,036)	806	(3,230)
Intra-governmental Net Costs	57	0	0	25	3,277	(1,710)	1,567
Gross Costs with the Public	817	0	0	23	9,100	(1)	9,099
Less: Earned Revenue	(867)	0	0	(1)	(1,491)	1	(1,490)
Net Costs with the Public	(50)	0	0	22	7,609	0	7,609
Net Cost: Financial Program	**7**	**0**	**0**	**47**	**10,886**	**(1,710)**	**9,176**
Law Enforcement Program:							
Intra-governmental Gross Costs	0	0	0	0	393	(150)	243
Less: Earned Revenue	0	0	0	0	(86)	84	(2)
Intra-governmental Net Costs	0	0	0	0	307	(66)	241
Gross Costs with the Public	0	0	0	0	571	1	572
Less: Earned Revenue	0	0	0	0	(1)	0	(1)
Net Costs with the Public	0	0	0	0	570	1	571
Net Cost: Law Enforcement Program	**0**	**0**	**0**	**0**	**877**	**(65)**	**812**
Total Program Costs, Net	**7**	**(15)**	**(11)**	**47**	**10,394**	**(1,645)**	**8,749**
Costs Not Assigned to Programs:							
Intra-governmental	0	0	0	0	140	(17)	123
With the Public	0	0	0	0	1,051	0	1,051
Less: Earned Revenue Not Attributed to Programs:							
Intra-governmental	0	0	0	0	(689)	266	(423)
With the Public	0	0	0	0	(1)	0	(1)
Net Cost of Continuing Operations	**$7**	**($15)**	**($11)**	**$47**	**$10,895**	**($1,396)**	**$9,499**

20. Total Cost and Earned Revenue by Federal Budget Functional Classification (In Millions)

For Fiscal Year Ended September 30, 2004

Budget Functions	Gross Cost - Public	Gross Cost - Federal	Intra-Departmental Eliminations	FY 2004 Total Gross Cost
Education and Training	$444	$0	$0	$444
Income Security	539	4	(4)	539
Veterans Benefits	336	0	0	336
Commerce and Housing	2,752	90	(6)	2,836
Community and Regional Development	43	9	(4)	48
Net Interest	158,321	164,138	(317)	322,142
International Affairs	2,439	33	(2)	2,470
Administration of Justice	105	83	(30)	158
General Government	17,216	9,009	(1,438)	24,787
Total Gross Cost	**$182,195**	**$173,366**	**($1,801)**	**$353,760**

Budget Functions:	Gross Earned Revenue - Public	Gross Earned Revenue - Federal	Intra-Departmental Eliminations	FY 2004 Total Gross Earned Revenue
Income Security	$1	$180	($180)	$1
Commerce and Housing	659	20	(16)	663
Community and Regional Development	2	0	0	2
Net Interest	0	12,654	(1,154)	11,500
International Affairs	1,590	119	(116)	1,593
Administration of Justice	0	1	(1)	0
General Government	1,729	3,261	(326)	4,664
Total Gross Cost	**$3,981**	**$16,235**	**($1,793)**	**$18,423**

Budget Functions:	Total Gross Cost	Total Gross Earned Revenue	FY 2004 Total Net Cost
Education and Training	$444	$0	$444
Income Security	539	1	538
Veterans Benefits	336	0	336
Commerce and Housing	2,836	663	2,173
Community and Regional Development	48	2	46
Net Interest	322,142	11,500	310,642
International Affairs	2,470	1,593	877
Administration of Justice	158	0	158
General Government	24,787	4,664	20,123
Total Gross Cost	**$353,760**	**$18,423**	**$335,337**

20. Total Cost and Earned Revenue by Federal Budget Functional Classification (In Millions)

For Fiscal Year Ended September 30, 2003

Budget Functions:	Gross Cost - Public	Gross Cost - Federal	Intra-Departmental Eliminations	FY 2003 Total Gross Cost
Education and Training	$417	$0	$0	$417
Veterans Benefits	337	0	0	337
Commerce and Housing	2,238	89	(5)	2,322
Community and Regional Development	78	7	(4)	81
Net Interest	156,797	157,710	(339)	314,168
International Affairs	2,106	219	(2)	2,323
Administration of Justice	1,704	836	(163)	2,377
General Government	17,261	11,419	(2,563)	26,117
Total Gross Cost	**$180,938**	**$170,280**	**($3,076)**	**$348,142**

Budget Functions:	Gross Earned Revenue - Public	Gross Earned Revenue - Federal	Intra-Departmental Eliminations	FY 2003 Total Gross Earned Revenue
Commerce and Housing	$617	$18	($15)	$620
Community and Regional Development	2	0	0	2
Net Interest	0	13,131	(1,714)	11,417
International Affairs	3,631	133	(124)	3,640
Administration of Justice	26	89	(57)	58
General Government	1,512	4,802	(1,157)	5,157
Total Gross Earned Revenue	**$5,788**	**$18,173**	**($3,067)**	**$20,894**

Budget Functions:	Total Gross Cost	Total Gross Earned Revenue	FY 2003 Total Net Cost
Education and Training	$417	$0	$417
Veterans Benefits	337	0	337
Commerce and Housing	2,322	620	1,702
Community and Regional Development	81	2	79
Net Interest	314,168	11,417	302,751
International Affairs	2,323	3,640	(1,317)
Administration of Justice	2,377	58	2,319
General Government	26,117	5,157	20,960
Total Gross Cost, Revenue, and Net Cost	**$348,142**	**$20,894**	**$327,248**

21. Additional Information Related to the Statement of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statement of Budgetary Resources (per OMB Bulletin 01-09, Form and Content of Agency Financial Statements.) The information for the fiscal years ended September 30, 2004 and September 30, 2003 were as follows (in millions):

	FY 2004	FY 2003
Net Amount of Budgetary Resources Obligated for Undelivered Orders	$37,557	$30,931
Available Borrowing and Contract Authority at the end of the period	$5,720	$5,718
Adjustments During the Reporting Period to Budgetary Resources, Available at the Beginning of the Year	$59	$42

The *Budget of the United States* (also known as the President's Budget), with actual numbers for FY 2004, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in January 2005. It will be available from the United States Government Printing Office.

The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2003 Performance and Accountability Report and the actual FY 2003 balances included in the FY 2005 President's Budget (PB).

Reconciliation of FY 2003 Budgetary Resources
Reconciliation to the Presidents Budget (in Millions)

	Budgetary Resources	Outlays	Offsetting Receipts
Statement of Budgetary Resources	**$428,562**	**$343,739**	**$1,269**
Included in the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):			
Divested entities included in PB for all of FY 2003 (1)	(2,568)	(2,420)	
Treasury resources shown in non-Treasury chapters of the PB (2)	(50,738)	(2,147)	
IRS non-entity tax credit payments (3)	41,719	41,719	
IRS collections for Puerto Rico	357	357	
Non-Treasury offsetting receipts included in Treasury chapter of PB (4)			12,028
Treasury offsetting receipts considered to be "General Fund" transactions for reporting purposes (5)			4,927
Subtotal	**(11,230)**	**37,509**	**16,955**
Included in the SBR but not in the PB:			
Offsetting collections net of collections shown in other chapters of PB (e.g., divested bureaus)	(6,767)		
Treasury offsetting receipts shown in other chapters of PB			(196)
Unobligated Balance Carried Forward, recoveries of prior years funds, and expired accounts	(2,118)		
Exchange Stabilization Fund resources not shown in PB	(22,134)	3,168	
Other	(191)	864	89
Subtotal	**(31,210)**	**4,032**	**(107)**
President's Budget Amounts*	**$386,122**	**$385,280**	**$18,117**

1. The President's Budget reflects bureaus divested as a result of the Homeland Security Act as though they were part of the new department from October 1, 2002 rather than the actual date of divestiture.

2. The largest of these is Treasury's International Assistance Programs ($46,724).

3. These are primarily Earned Income Tax Credit and Child Tax Credit payments that are reported with refunds as custodial activities in Treasury's financial statements and thus are not reported as budgetary resources.

4. These are other agencies' receipt accounts that are managed by those other agencies and that Treasury believes should be reported in those agencies' financial statements.

5. These are receipt accounts that Treasury manages on behalf of other agencies and considers to be "General Fund" receipts rather than receipts of the Treasury reporting entity.

*Per President's Budget for FY 2005 - Budgetary Resources and Outlays are from the Analytical Perspective, and Offsetting Recceipts are from the Appendix.

NOTE: The reporting for the items described in notes 4 and 5 above is under review by OMB and may be subject to change in future years.

Legal Arrangements Affecting Use of Unobligated Balances

Included in FY 2004 cumulative results of operations is $83.2 million that represents the Internal Revenue Service's authority to assess and collect user fees relating to services provided for processing installment agreements. In FY 2003, IRS reported $60.9 million in the cumulative results of operations.

22. Collection and Disposition of Custodial Revenue

The Department collects the majority of Federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, were as follows for the fiscal years ended September 30, 2004 and September 30, 2003 (in millions):

	Tax Year				
	2004	2003	2002	Pre-2002	2004 Collections
Individual Income and FICA Taxes	$1,128,068	$540,956	$13,156	$13,032	$1,695,212
Corporate Income Taxes	150,572	67,310	1,082	11,413	230,377
Estate and Gift Taxes	85	16,891	1,088	7,516	25,580
Excise Taxes	50,465	18,551	96	440	69,552
Railroad Retirement Taxes	3,356	1,063	0	2	4,421
Unemployment Taxes	4,943	1,641	35	99	6,718
Federal Reserve Earnings	13,088	6,564	0	0	19,652
Fines, Penalties, Interest & Other Revenue	2,388	68	0	0	2,456
Subtotal	**$1,352,965**	**$653,044**	**$15,457**	**$32,502**	**$2,053,968**
Less Amounts Collected for Non-Federal Entities					(612)
Total					**$2,053,356**

	Tax Year				
	2003	2002	2001	Pre-2001	2003 Collections
Individual Income and FICA Taxes	$1,097,960	$547,938	$13,128	$11,248	$1,670,274
Corporate Income Taxes	124,349	59,471	853	9,591	194,264
Estate and Gift Taxes	135	18,654	1,316	2,722	22,827
Excise Taxes	49,602	18,198	106	358	68,264
Railroad Retirement Taxes	3,297	1,060	0	2	4,359
Duties	8,334	0	0	0	8,334
Unemployment Taxes	4,861	1,655	33	86	6,635
Federal Reserve Earnings	15,998	5,880	0	0	21,878
Fines, Penalties, Interest & Other Revenue	1,484	700	1	2	2,187
Subtotal	**$1,306,020**	**$653,556**	**$15,437**	**$24,009**	**$1,999,022**
Less Amounts Collected for Non-Federal Entities					(403)
Total					**$1,998,619**

FY 2003 collections include duties collected by the U.S. Customs Service prior to being transferred to the Department of Homeland Security on March 1, 2003, and amounts collected by the Bureau of Alcohol, Tobacco and Firearms prior to being transferred to the Department of Justice on January 24, 2003.

Amounts reported for Corporate Income Taxes collected in FY 2004 include corporate taxes of $7 billion for tax year 2005. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2003 include corporate taxes of $5 billion for tax year 2003.) Individual Income and FICA Taxes, includes $63 billion in payroll taxes collected from other federal agencies. Of this amount, $11 billion represents the portion paid by the employers. (The comparable amounts for FY 2003 are $62 billion in payroll taxes collected from other federal agencies and $10 billion paid by the employers.)

Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2004 and September 30, 2003, collections of custodial revenue transferred to other entities were as follows (in millions):

	FY 2004	FY 2003
Department of Agriculture	$0	$32
Department of Interior	216	5
General Fund	1,774,704	1,697,496
Total	**$1,774,920**	**$1,697,533**

Amounts Transferred to Government Trust Funds

Revenue collected by the Department for Government Trust Funds (GTF) is deposited into the General Fund, then transferred to the GTF 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. Of the amounts transferred to the General Fund, distributions to the GTFs from the General Fund were as follows for the fiscal years ended September 30, 2004 and 2003 (in millions):

Trust Fund:	FY 2004	FY 2003
Airport and Airway Trust Fund	$9,174	$8,684
Federal Disability Insurance Trust Fund	80,211	78,350
Federal Hospital Insurance Trust Fund	162,025	158,157
Federal Old Age & Survivors Trust Fund	479,450	468,354
Highway and Mass Transit Trust Fund	34,694	33,708
Unemployment Trust Fund	39,477	33,209
Other	2,315	2,003
Total Transfers to Trust Funds	**$807,346**	**$782,465**

Federal Tax Refunds Paid

Refund activity, broken out by revenue type and by tax year, was as follows for the fiscal years ended September 30, 2004 and September 30, 2003 (in millions):

	Tax Year				
	2004	2003	2002	Pre-2002	2004 Refunds
Individual Income and FICA Taxes	$583	$209,916	$12,569	$6,966	$230,034
Corporate Income Taxes	1,448	8,931	6,646	29,540	46,565
Estate and Gift Taxes	0	228	310	245	783
Excise Taxes	265	359	62	184	870
Railroad Retirement Taxes	0	1	1	4	6
Unemployment Taxes	0	71	15	43	129
Federal Reserve Earnings	0	0	0	0	0
Fines, Penalties, Interest & Other Revenue	49	0	0	0	49
Total	**$2,345**	**$219,506**	**$19,603**	**$36,982**	**$278,436**

	Tax Year				
	2003	2002	2001	Pre-2001	2003 Refunds
Individual Income and FICA Taxes	$584	$211,613	$13,074	$7,089	$232,360
Corporate Income Taxes	1,987	11,080	10,767	42,211	66,045
Estate and Gift Taxes	0	248	392	304	944
Excise Taxes	223	350	109	254	936
Railroad Retirement Taxes	0	2	1	8	11
Duties	668	0	0	0	668
Unemployment Taxes	0	70	19	33	122
Miscellaneous	0	0	0	0	0
Total	**$3,462**	**$223,363**	**$24,362**	**$49,899**	**$301,086**

Federal Tax Refunds Payable

As of September 30, 2004 and September 30, 2003, refunds payable to taxpayers consisted of the following (in millions):

	FY 2004	FY 2003
Alcohol, Tobacco Tax and Trade Bureau	$7	$0
Internal Revenue Service	1,801	1,193
Total	$1,808	$1,193

Required Supplemental Information (Unaudited)

Introduction

This section provides the Required Supplemental Information as prescribed by Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements.

Segment Information

The OMB Bulletin 01-09 requires the reporting of each franchise fund and other intragovernmental support revolving fund that is not separately reported on the agency's principal statements. The following tables represent the Treasury's Franchise Fund activities and the Working Capital Fund activities.

Franchise Fund

The Treasury Department Appropriation Act of 1997 (P.L. 104-208), as amended, provides the current authority for the Treasury Franchise Fund. The Department's Franchise Fund is a fee-for-service organization that is fully reimbursable and competitive. The fund currently consists of three business activities: Financial Management and Administrative Support; Financial Systems, Consulting and Training; and Consolidated/Integrated Administrative Management.

The following table presents the financial position of the Franchise Fund as of September 30, 2004 and September 30, 2003 (in millions):

	FY 2004	FY 2003
Fund Balance with Treasury	$65	$72
Accounts Receivable	84	66
Property, Plant and Equipment	3	3
Total Assets	**152**	**141**
Accounts Payable	16	18
Other Liabilities	91	88
Total Liabilities	**107**	**106**
Cumulative Results of Operations	**45**	**35**
Total Liabilities and Net Position	**$152**	**$141**

The following tables present the excess of revenues and financing sources over costs by business activity (in millions):

	Consolidated/Integrated Admin. Management	Financial Systems, Consulting and Training	Financial Management Admin. Support Services	FY 2004 Total
Costs	$471	$11	$69	$551
Less: Earned Revenue	(480)	(13)	(65)	(558)
Net Cost	(9)	(2)	4	(7)
Other Financing Sources	0	0	(2)	(2)
Excess of Revenues and Financing Sources over Costs	**($9)**	**($2)**	**$2**	**($9)**

	Consolidated/Integrated Admin. Management	Financial Systems, Consulting and Training	Financial Management Admin. Support Services	FY 2003 Total
Costs	$346	$10	$54	$410
Less: Earned Revenue	(352)	(12)	(50)	(414)
Net Cost	(6)	(2)	4	(4)
Other Financing Sources	0	(1)	(2)	(3)
Excess of Revenues and Financing Sources over Costs	**($6)**	**($3)**	**$2**	**($7)**

Working Capital Fund

The Department's Working Capital Fund (within Departmental Offices) is a fee-for-service organization that is fully reimbursable.

Program services are provided to various Treasury bureaus and include telecommunications, payroll/personnel systems, printing, and other.

The following table presents the financial position and the excess of revenues and financing sources over costs of the Working Capital Fund for the years ended September 30, 2004 and September 30, 2003 (in millions):

	FY 2004	FY 2003
Fund Balance with Treasury	$181	$171
Accounts Receivable	1	1
Property, Plant and Equipment	12	17
Other Assets	1	1
Total Assets	**195**	**190**
Accounts Payable	7	8
Other Liabilities	188	182
Total Liabilities	**195**	**190**
Cumulative Results of Operations	**0**	**0**
Total Liabilities and Net Position	**$195**	**$190**
Total Costs	**$210**	**$286**
Exchange Revenue	210	286
Other Financing Sources	0	0
Excess of Revenues and Financing Sources over Costs	**$0**	**$0**

Other Claims for Refunds

The Department has estimated that $8.4 billion may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is $1.7 billion and by Appeals is $6.7 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.

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, 2004 were as follows (in billions):

Gross Unpaid Assessments	$237
Less: Compliance Assessments and Write-offs	(148)
Net Amount	**$89**

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $13 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Internal Revenue Service (IRS)

Of the $237 billion of unpaid assessments, $115 billion represents write-offs. The unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under Federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered Federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered Federal taxes receivable. Assessments with little or no future collection potential are called write-offs.

Of the $237 billion balance of unpaid assessments, $148 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, $33 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.

Statement of Budgetary Resources Disaggregated by Sub-organizations Accounts (In Millions)

	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network
Budgetary Resources				
Budget Authority:				
Appropriations Received	$0	$322,047	$4,678	$58
Borrowing Authority	0	0	30	0
Net Transfers (+ or -)	0	0	(809)	0
Unobligated Balance:				
Beginning of Period	111	23	72,439	10
Net Transfers (+ or -)	0	0	(39)	0
Spending Authority from Offsetting Collections:				
Earned:				
Collected	525	9	4,743	2
Receivable from Federal Sources	(1)	0	4	0
Change in Unfilled Customer Orders:	0	0	0	0
Advance Received	(1)	0	(11)	0
Without Advance From Federal Sources	0	0	276	2
Subtotal	**523**	**9**	**5,012**	**4**
Recoveries of Prior Year Obligations	0	8	144	1
Temporarily Not Available Pursuant to Public Law	0	0	(322)	0
Permanently Not Available	0	(177)	(330)	0
TOTAL BUDGETARY RESOURCES	**$634**	**$321,910**	**$80,803**	**$73**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred:				
Direct	$0	$321,890	$11,111	$58
Reimbursable	539	9	1,234	3
Subtotal	539	321,899	12,345	61
Unobligated Balance:				
Apportioned	95	8	13,930	11
Exempt from Apportionment	0	0	44,768	0
Unobligated Balance Not Available	0	3	9,760	1
TOTAL STATUS OF BUDGETARY RESOURCES	**$634**	**$321,910**	**$80,803**	**$73**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS				
Obligated Balance, Net, Beginning of Period	$64	$86	$32,751	$9
Accounts Receivable	(45)	0	(90)	0
Unfilled Customer Orders from Federal Sources	0	0	(480)	(2)
Undelivered Orders	0	21	39,541	12
Accounts Payable	118	78	298	1
Outlays:				
Disbursements	531	321,878	5,404	55
Collections	(524)	(9)	(4,732)	(2)
Subtotal	**7**	**321,869**	**672**	**53**
Less: Offsetting Receipts	0	(5)	(988)	0
NET OUTLAYS	**$7**	**$321,864**	**($316)**	**$53**

(Continued)

Statement of Budgetary Resources Disaggregated by Sub-organizations (In Millions)

	Financial Management Service	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency
Budgetary Resources				
Budget Authority:				
Appropriations Received	$15,021	$10,328	$0	$0
Borrowing Authority	0	0	0	0
Net Transfers (+ or -)	0	0	0	0
Unobligated Balance:				
Beginning of Period	265	473	38	340
Net Transfers (+ or -)	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned:				
Collected	198	173	988	507
Receivable from Federal Sources	(6)	0	1	1
Change in Unfilled Customer Orders:	0	0	0	0
Advance Received	0	0	0	0
Without Advance From Federal Sources	12	0	0	0
Subtotal	**204**	**173**	**989**	**508**
Recoveries of Prior Year Obligations	27	154	0	0
Temporarily Not Available Pursuant to Public Law	0	0	0	0
Permanently Not Available	(1,532)	(137)	(4)	0
TOTAL BUDGETARY RESOURCES	**$13,985**	**$10,991**	**$1,023**	**$848**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred:				
Direct	$13,655	$10,250	$0	$0
Reimbursable	187	171	968	450
Subtotal	13,842	10,421	968	450
Unobligated Balance:				
Apportioned	87	179	55	0
Exempt from Apportionment	33	0	0	398
Unobligated Balance Not Available	23	391	0	0
TOTAL STATUS OF BUDGETARY RESOURCES	**$13,985**	**$10,991**	**$1,023**	**$848**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS				
Obligated Balance, Net, Beginning of Period	$469	$1,265	$255	$83
Accounts Receivable	(1)	(19)	(11)	(6)
Unfilled Customer Orders from Federal Sources	(30)	(1)	0	0
Undelivered Orders	101	719	0	16
Accounts Payable	365	462	279	69
Outlays:				
Disbursements	13,843	10,371	955	451
Collections	(198)	(173)	(988)	(507)
Subtotal	**13,645**	**10,198**	**(33)**	**(56)**
Less: Offsetting Receipts	(747)	(88)	0	0
NET OUTLAYS	**$12,898**	**$10,110**	**($33)**	**($56)**

(Continued)

	Office of Thrift Supervsion	Alcohol, Tobacco Tax and Trade Bureau	9/30/2004 Combined Total
Budgetary Resources			
Budget Authority:			
Appropriations Received	$0	$80	$352,212
Borrowing Authority	0	0	30
Net Transfers (+ or -)	0	0	(809)
Unobligated Balance:			
Beginning of Period	159	1	73,859
Net Transfers (+ or -)	0	0	(39)
Spending Authority from Offsetting Collections:			
Earned:			
Collected	182	1	7,328
Receivable from Federal Sources	(1)	1	(1)
Change in Unfilled Customer Orders:			
Advance Received	3	0	(9)
Without Advance From Federal Sources	0	0	290
Subtotal	184	2	7,608
Recoveries of Prior Year Obligations	2	2	338
Temporarily Not Available Pursuant to Public Law	0	0	(322)
Permanently Not Available	0	0	(2,180)
TOTAL BUDGETARY RESOURCES	**$345**	**$85**	**$430,697**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	$0	$82	$357,046
Reimbursable	176	2	3,739
Subtotal	176	84	360,785
Unobligated Balance:			
Apportioned	0	0	14,365
Exempt from Apportionment	169	0	45,368
Unobligated Balance Not Available	0	1	10,179
TOTAL STATUS OF BUDGETARY RESOURCES	**$345**	**$85**	**$430,697**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligated Balance, Net, Beginning of Period	$23	$13	$35,018
Accounts Receivable	0	(1)	(173)
Unfilled Customer Orders from Federal Sources	0	0	(513)
Undelivered Orders	4	16	40,430
Accounts Payable	24	8	1,702
Outlays:			
Disbursements	171	70	353,729
Collections	(185)	(1)	(7,319)
Subtotal	**(14)**	**69**	**346,410**
Less: Offsetting Receipts	0	0	(1,828)
NET OUTLAYS	**($14)**	**$69**	**$344,582**

Deferred Maintenance

In FY 2004, the Department has no deferred maintenance to report on vehicles, buildings, and structures owned by the Department.

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 review, logistic personnel use a condition assessment survey to determine the status of referenced assets. 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.

Intra-governmental Assets, Liabilities, Revenues & Costs, and Transfers In/Out

Intra-governmental Assets
(In Millions)

Partner Agency	Due from the General Fund	Loans and Interest Receivable	Advances to the Black Lung Trust Fund	Accounts Receivable and Related Interest	Other
Department of Agriculture 12		$68,436		$8	
Department of Commerce 13		274			
Department of Interior 14		1,305		105	$1
Department of Justice 15		20		5	5
Department of Labor 1601			$8,741	1	
U.S. Postal Service 18		1,800		2	2
Fed. Communications Commission 27		3,941			
Smithsonian Institution 33		20			
General Services Administration 47		2,249		132	1
Securities and Exchange Commission 50				1	
Railroad Retirement Board 60		3,027			
Environmental Protection Agency 68		24		20	
Department of Transportation 69		1,114		2	
Department of Homeland Security 70		8		6	
Agency for International Development 72		121		3	
Small Business Administration 73		8,604			
Department of Health and Human Services 75				23	
Export/Import Bank of the US 83		7,237			
Department of Housing & Urban Develop. 86		10,103			
Department of Energy 89		2,914		94	
Department of Education 91		96,652			
Department of Defense (DE00)		1,556		187	1
All Other 9500		4,660		43	2
General Fund 99	$7,420,492				
Totals	**$7,420,492**	**$214,065**	**$8,741**	**$632**	**$12**

On the Department's Balance Sheet, "Due to the General Fund" is netted against "Due from the General Fund." See intra-governmental liabilities on the next page and Financial Statements Note 4.

See the Department's Balance Sheet for "Fund Balance with Treasury."

Intra-governmental Liabilities
(In Millions)

Partner Agency	Due to the General Fund	Federal Debt & Interest Payable	Other
Unknown 00		$32	$3
Department of Agriculture 12		58	1
Department of Commerce 13			(2)
Department of Interior 14		6,165	
Department of Justice 15		932	(2)
Department of Labor 1601		46,025	132
Pension Benefit Guarantee Corp 1602		15,708	
U.S. Postal Service 18		1,283	
Department of State 19			22
Office of Personnel Management 24		679,904	41
National Credit Union Administration		6,272	
Fed. Communications Commission 27		30	
Social Security Administration 28		1,657,712	
Department of Veterans Affairs 36			14
General Services Administration 47			9
Federal Deposit Insurance Corporation 51		48,935	
Railroad Retirement Board 60		1,304	
Environmental Protection Agency 68		4,535	
Department of Transportation 69		20,567	
Department of Homeland Security 70		1,629	36
Agency for International Development 72			8
Department of Health and Human Services 75		287,887	12
Farm Credit Administration 7801		18	
Farm Credit Insurance Corporation 7802		2,096	
National Aeronautics Space Administration 80		17	
Department of Housing & Urban Development 86		31,029	2
Department of Energy 89		21,678	
Department of Education 91			5
Department of Defense (DE00)		228,307	5
All Other 9500		35,826	15
General Fund 99	$276,436		634
Totals	**$276,436**	**$3,097,949**	**$935**

On the Department's Balance Sheet, "Due to the General Fund" is netted against "Due from the General Fund." See Intra-governmental assets on previous page and Financial Statements Note 4.

Intra-governmental Earned Revenues from Trade Transactions (In Millions)

Partner Agency	**Exchange Revenue from "Trade Transactions"**
Department of Agriculture 12	$12
Department of Commerce 13	5
Department of Interior 14	10
Department of Justice 15	104
Department of Labor 1601	3
U.S. Postal Service 18	20
Office of Personnel Management 24	1
Social Security Admininistration 28	83
Department of Veterans Affairs 36	24
General Services Administration 47	6
Securities and Exchange Commission 50	1
Federal Deposit Insurance Corporation 51	2
Railroad Retirement Board 60	1
Environmental Protection Agency 68	1
Department of Transportation 69	7
Department of Homeland Security 70	43
Agency for International Development 72	20
Department of Health and Human Services 75	41
National Aeronautics Space Administration 80	1
Department of Housing & Urban Development 86	8
Department of Energy 89	2
Department of Education 91	1
Department of Defense (DE00)	337
All Other 9500	21
Totals	**$754**

Note: Total intra-governmental revenue from trade transactions is a component of intra-governmental earned revenue displayed on the Consolidated Statement of Net Cost. Accordingly, intra-governmental earned revenue displayed in this table will not equal total earned revenue displayed on the Consolidated Statement of Net Cost.

Intra-governmental Non-Exchange Revenues -- Transfers In/Out
(In Millions)

Partner Agency	Transfers In	Transfers Out
Department of Justice 15	$23	$2
Department of Labor 1601	17	17
Department of Transportation 69	4	
Department of Homeland Security 70		22
General Fund 99		83
Totals	**$44**	**$124**

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).

Cost to Generate Intra-Governmental Earned Revenues from Trade Transactions by Budget Functional Classification
(In Millions)

Budget Functional Classification	Gross Cost to Generate Earned Trade Revenue
Commerce and Housing	$4
International Affairs	2
General Government	748
Total Gross Cost to Generate Trade Revenue	**$754**

Required Supplemental Stewardship Information (Unaudited)

This section provides Required Supplemental Stewardship Information as prescribed by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements.

Stewardship Property Plant and Equipment – Heritage Assets

These heritage assets include the Treasury Department building and the Treasury Annex building.

	Heritage Assets	Land
Beginning Balance	1	1
Additions	0	0
Deletions	0	0
Ending Balance	**1**	**1**

No deferred maintenance was reported on these assets.

Other Accompanying Information (Unaudited)

This section provides Other Accompanying Information as prescribed by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements.

Tax Gap

The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The Service currently projects, based on compliance data from the 1980's, that the annual Federal gross tax gap is somewhere between $300 billion and $350 billion. The tax gap arises from three types of noncompliance: not filing timely tax returns (the nonfiling gap), underreporting the correct amount of tax on timely-filed returns (the underreporting gap), and not paying on time the full amount reported on timely-filed returns (the underpayment gap).

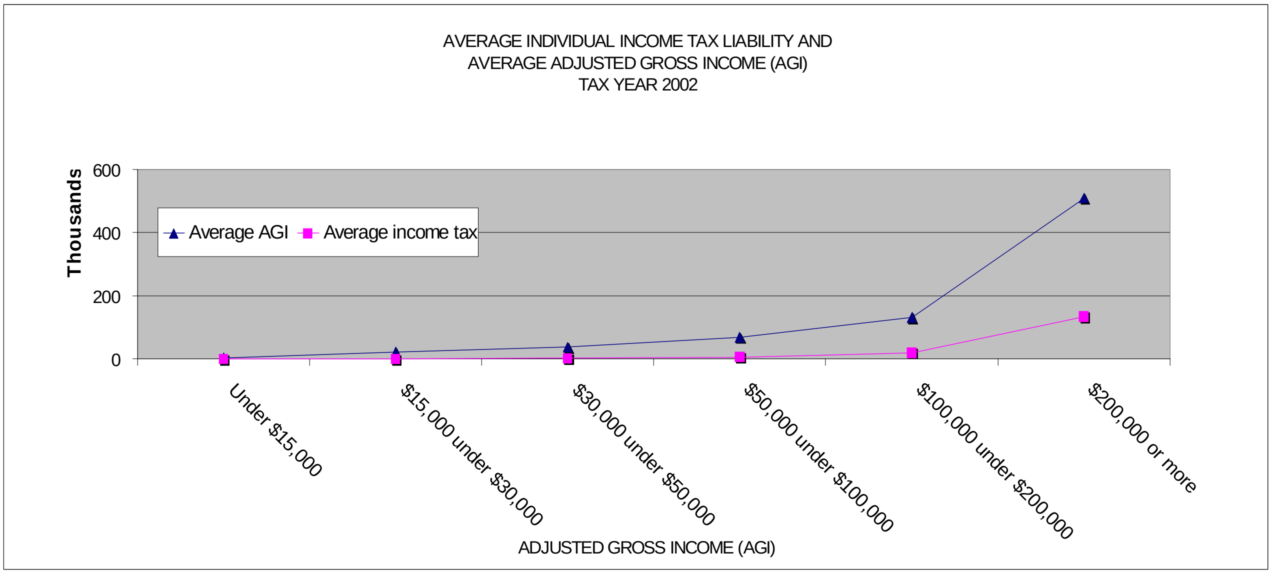
The collection gap is the cumulative amount of assessed tax, penalties, and interest that the Service expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the Service's balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

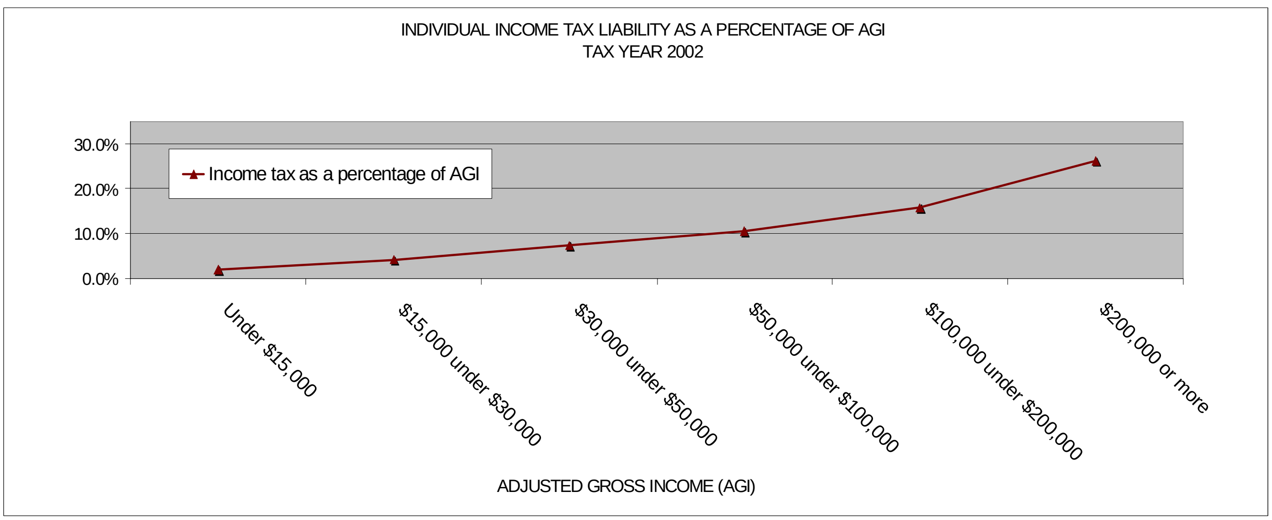
Tax Burden

(All figures are estimates and based on samples provided by the Statistics of Income (SOI) Office)

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The graphs below present the latest available information on income tax and adjusted gross income (AGI) for individuals by AGI level and for corporations by size of assets. For individuals, the information illustrates, in percentage terms, the tax burden borne by varying AGI levels. For corporations, the information illustrates, in percentage terms, the tax burden borne by these entities by various sizes of their total assets. The graphs are only representative of more detailed data and analysis available from the Statistics of Income (SOI) office.

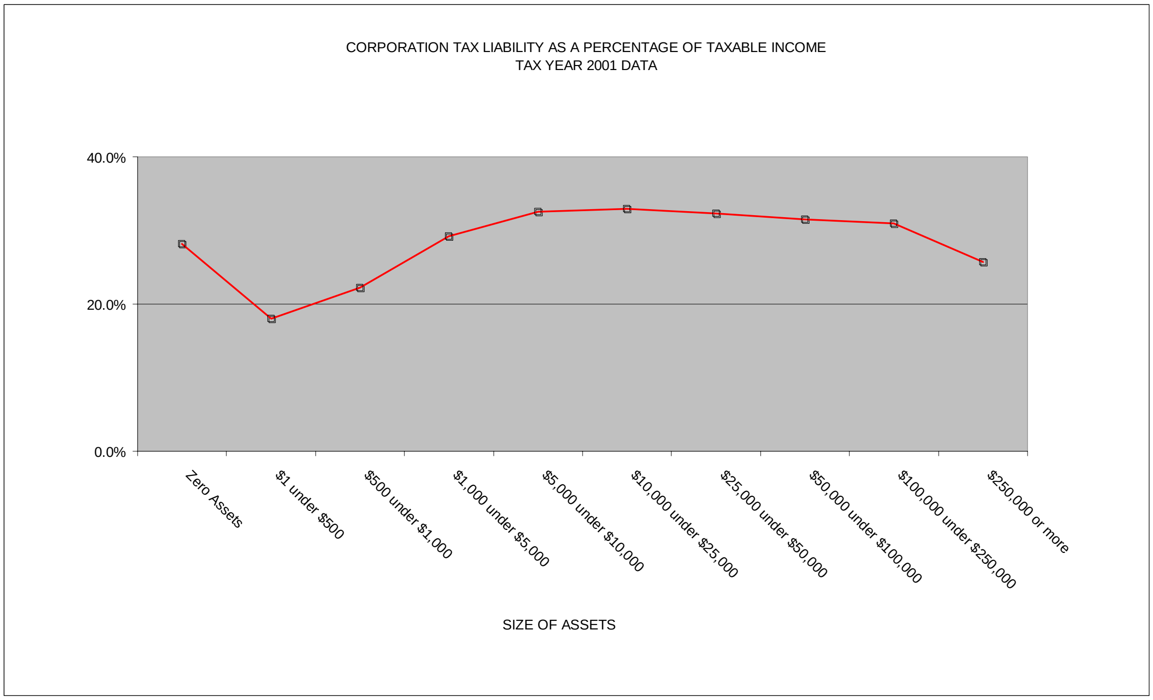
Individual Income Tax Returns (Tax Year 2002 Data)





Adjusted gross income (AGI)	Number of taxable returns (1) (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole dollars)	Income tax as a percentage of AGI
Under $15,000............................	38,133	211,417	3,942	5,544	103	1.9%
$15,000 under $30,000................	29,964	657,946	27,621	21,958	922	4.2%
$30,000 under $50,000................	24,556	959,677	70,761	39,081	2,882	7.4%
$50,000 under $100,000.............	26,687	1,864,379	196,005	69,862	7,345	10.5%
$100,000 under $200,000...........	8,442	1,112,924	175,904	131,834	20,837	15.8%
$200,000 or more........................	2,419	1,233,062	323,558	509,695	133,745	26.2%
Total..	130,201	6,039,405	797,791	-	-	-

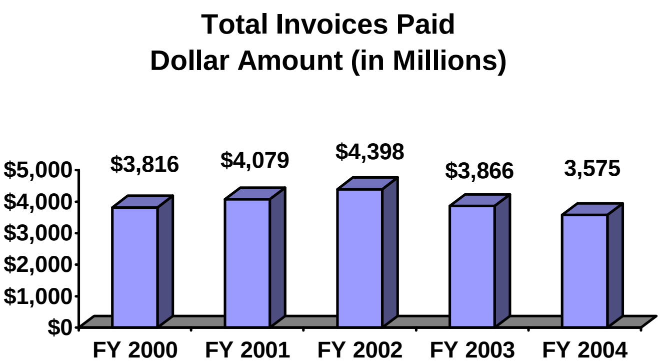
Corporation Income Tax Returns (Tax Year 2001 Data)

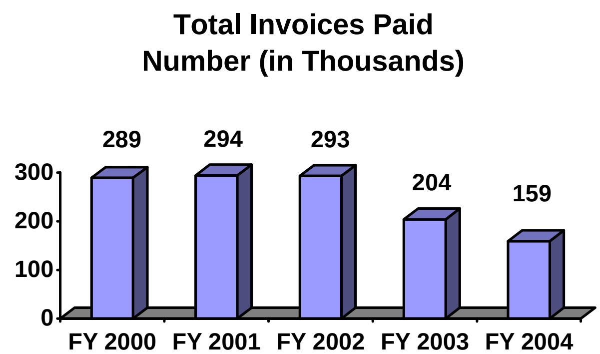


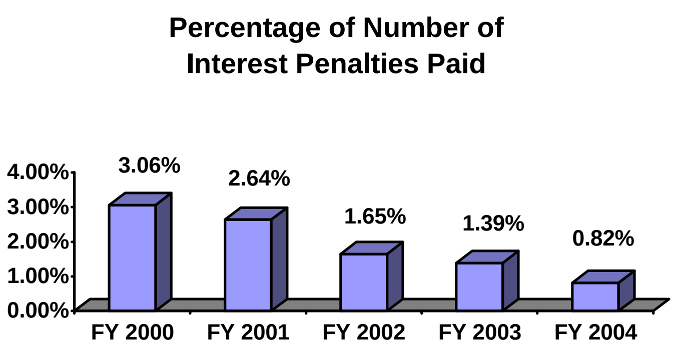
Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets...........................	12,101	3,410	28.2%
$1 under $500........................	9,232	1,662	18.0%
$500 under $1,000................	4,624	1,027	22.2%
$1,000 under $5,000.............	13,786	4,031	29.2%
$5,000 under $10,000...........	7,091	2,310	32.6%
$10,000 under $25,000.........	10,330	3,399	32.9%
$25,000 under $50,000.........	8,945	2,892	32.3%
$50,000 under $100,000........	10,711	3,379	31.5%
$100,000 under $250,000......	20,613	6,378	30.9%
$250,000 or more..................	537,824	138,224	25.7%
Total......................................	635,257	166,712	26.2%

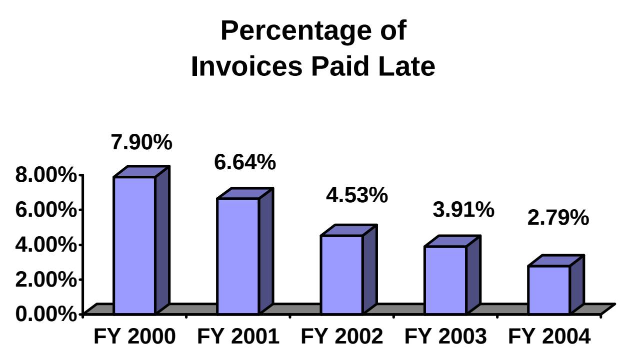
Prompt Payment

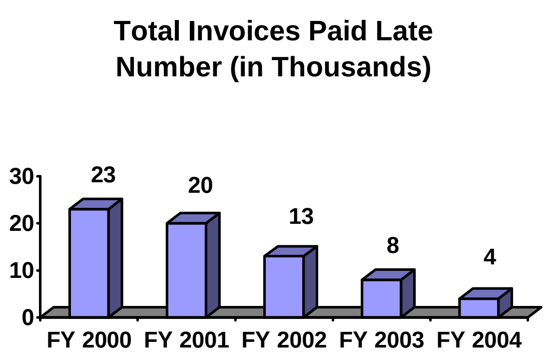
The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a monthly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems. The percentage of the dollar amount of interest penalties paid has remained below 0.01 percent since FY 2002.











Biennial Review Of Treasury "User Fees/Charges"

The Chief Financial Officer (CFO) Act of 1990 and the Office of Management and Budget (OMB) Circular A-25 require agencies to biennially review their user fees/charges to include: (1) assurance that existing charges are adjusted to reflect unanticipated changes in cost or market values; and (2) a review of all agency programs to determine whether fees should be assessed for Governmental goods or services.

During FY 2004, Treasury performed reviews of user fees/charges (approximately 43 separate fees/charges) and of the reviews scheduled and conducted in FY 2004, no significant changes in costs were identified which affect fees or agency activities for which new or increased fees would need to be assessed.

Biennial reviews are intended to identify whether fees assessed by the bureau cover the program and administrative cost associated with the assessed fee/charge. Bureaus are responsible for conducting their reviews, and where the reviews indicate adjustments in the charges are needed, they are to make those changes in the amounts charged in order to cover the costs. In instances where legislative /statutory changes are needed in order to revise the user fee/charge, the bureau is to take action to submit legislative changes proposing increases or decreases in the statutory fee/charge. Each bureau performs reviews that identify the following:

- Type and purpose of user fee/charge;
- Authority of the charge (i.e., Economy Act for reimbursable charges, statutory legislation for user fees, etc.);
- Amount of fee/charge;
- Account where fee is collected; and
- Date of last review.

Management Challenges and High Risk Areas

DEPARTMENT OF THE TREASURY
WASHINGTON

October 26, 2004

INSPECTOR GENERAL

MEMORANDUM FOR SECRETARY SNOW

FROM: Dennis S. Schindel
Acting 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.

Last year we identified six challenges that we believe seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. We have dropped one challenge from last year, *Vacant Senior Leadership Positions.* While certain key positions remained or became vacant during the past year and are still a concern, many critical positions were filled. For example, a Deputy Secretary, an Under Secretary for Enforcement, and an Assistant Secretary for Terrorist Financing have been appointed. Additionally, under the leadership of the Deputy Secretary, progress has been made in addressing longstanding problems with the Department's daily business operations, most notably with improvements in information security by its non-Internal Revenue Service (IRS) bureaus. We have recast two of last year's challenges – *Prompt Correction of Material Weaknesses* and *Duplicated, Wasteful Practices. Prompt Correction of Material Weaknesses* has been broadened to more appropriately reflect the need for more robust *Corporate Management*, while *Duplicated, Wasteful Practices* has been broadened into *Management of Capital Investments* to better reflect the Department's challenge in managing large, multiyear capital projects. We have also identified a new challenge, *Management of Classified and Other Sensitive Information,* as a result of work our office completed this year. Accordingly, the six current challenges are summarized as follows:

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Challenge 1 - Corporate Management

With nine bureaus and many program offices, Treasury is a highly decentralized organization. Treasury needs to provide effective corporate leadership in resolving serious deficiencies at the bureau level that adversely impact the performance of Treasury as a whole. In particular, Treasury needs to assert strong leadership and supervision over the IRS to resolve longstanding material weaknesses and system deficiencies that continue to inhibit the timely and reliable information necessary to effectively manage IRS operations. Since the IRS is such a large component, the ability of Treasury to meet its management goals and objectives is heavily dependent on major progress at the IRS. Treasury also needs to ensure consistency, cohesiveness, and economy among all bureaus in achieving Treasury's goals and objectives. Specific challenges in this area include establishing clear lines of accountability between corporate and bureau level management, providing enterprise solutions for core business activities, ensuring consistent application of accounting principles, and providing effective oversight of information technology investments and security. The increasing emphasis on consolidated agency-wide reporting and accountability, as embodied in the management reform legislation of the past decade and the President's Management Agenda, has underscored the need for effective corporate management at Treasury. The mandated consolidated reports on financial statements, internal control, program performance, information systems, and other areas are prime sources used to evaluate Treasury's overall performance in managing its operations.

Challenge 2 - Management of Capital Investments

Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. The Department has incurred significant cost escalations in its HR Connect system and Treasury and Annex Repair and Restoration (TBARR) projects. A recent audit of TBARR found that the project was not adequately planned at its inception and numerous changes in scope and inefficiencies during renovation have delayed and increased the cost of this project. Another major capital investment that we plan to focus on in the coming years is the Department's transition from the Treasury Communication System to the Treasury Communications Enterprise.

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Challenge 3 - Information Security

The Department continues to face serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. As reported in our fiscal year 2004 Federal Information Security Act (FISMA) independent evaluation, Treasury's system inventory was not accurate, complete, or consistently reported. There have been major variances in the number of systems reported year-to-year, without adequate reconciliation. The number of systems reported by Treasury decreased from 708 in fiscal year 2003 to 237 in fiscal year 2004. This was primarily due to changes in the methodology for reporting systems at certain bureaus, notably the IRS. Although Treasury reported significant increases in the percentage of systems certified and accredited, from 24 percent to 85 percent, the major swings in inventory and inconsistent methodologies used by bureaus raise doubts as to the extent of real improvement. Effective management of Treasury's information security program also requires clear lines of authority and reporting requirements between the Treasury bureaus and offices and Treasury's Chief Information Officer (CIO). Treasury has taken a positive step in strengthening the role of the CIO by having him report directly to the Deputy Secretary.

Challenge 4 - Linking Resources to Results

The Department has not developed and incorporated managerial cost accounting into its business activities. Thus, financial resources cannot be linked to operating results. This undermines the accuracy, reliability, and usefulness of program performance reporting. Financial management systems need to be integrated with performance measurement and budgetary reporting systems to enable meaningful cost benefit analyses of the Department's programs and operations. Very little progress has been made in this area since the Government Performance and Results Act was passed in 1993.

Challenge 5 - Management of Classified and Other Sensitive Information

Work by our office during the past year disclosed several weaknesses in Treasury's handling and safeguarding of national security and other sensitive information. Taken together, these

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weaknesses constitute a serious deficiency in the operations of the Department that have resulted in unauthorized disclosure of classified information. The Department has developed a plan to address these weaknesses. Among other things, it has completed a risk-based review of certain questioned documents; revised a Treasury Order requiring that designated officials undergo annual mandatory training on processing, marking, and safeguarding classified information; and is in the process of updating another Treasury Order dealing with requests by former and departing employees for documents. Continued attention is needed to address the fragmented authority and accountability for management of such information, including updating security policies, training employees, and re-instituting security compliance programs.

Challenge 6 - Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA), but largely relies on other Treasury and non-Treasury regulatory agencies to enforce the requirements of the BSA, including the enhanced terrorist financing provisions in the USA PATRIOT Act. Past audits and a series of Congressional hearings have surfaced regulatory gaps in either the detection of BSA violations or its timely enforcement. Recognizing this, the Department has recently taken several measures to strengthen BSA administration, as well as confront terrorist financing. For example, the Department created the Office of Terrorism and Financial Intelligence (TFI). Additionally, FinCEN, which now reports to TFI, created an Office of Compliance to improve BSA oversight and coordination with financial institution regulators. FinCEN also entered into a memorandum of understanding with the five federal banking regulators to enhance communication and coordination. Given that these measures are just being implemented, it is too soon to assess their effectiveness. Accordingly, this will be a major focus of our audit program during fiscal years 2005 and 2006, which will include follow-up audits of previously identified BSA

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supervisory weaknesses at the Office of the Comptroller of the Currency and the Office of Thrift Supervision, and FinCEN's administration of various BSA reporting requirements.

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

Attachment

cc: Jesus Delgado-Jenkins
Acting Assistant Secretary for Management

Barry K. Hudson
Acting Chief Financial Officer

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

October 14, 2004

MEMORANDUM FOR SECRETARY SNOW

FROM: Pamela J. Gardiner
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2005

The Reports Consolidation Act of 2000[1] requires that we summarize, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2004,* our perspective on the most serious management and performance challenges currently facing the Internal Revenue Service (IRS).

Our assessment of the major IRS management challenge areas for Fiscal Year (FY) 2005 has not changed substantially from the prior year. While the IRS has acted to address each challenge area, we were unable to remove any challenge area from our list at this time. We have, however, removed the subtitles previously included for two areas – Security of the Internal Revenue Service and Integrating Performance and Financial Management. The narrative for each primary category describes the issue as a whole; therefore the subtitles are no longer needed. The ten current challenges are:

Systems Modernization of the Internal Revenue Service

The latest effort to modernize IRS' computer systems, mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98)[2] and started in FY 1999, is expected to take 10 to 15 years at a cost of $7 to $10 billion. The IRS has developed an enterprise architecture to guide the Business Systems Modernization (BSM) program. In addition, the IRS and the PRIME[3] contractor have deployed projects that provide value to taxpayers and have built the infrastructure needed to support these projects. Even so, the IRS and its contractors have drawn increased criticism due to continuing schedule delays and cost increases. To address the results of recent studies, the IRS and the PRIME contractor have developed and are implementing a 48-point action plan that should help improve the BSM program.

[1] Pub. L. No. 106-531.
[2] 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.).
[3] The Prime Systems Integration Services Contractor (PRIME) is the Computer Sciences Corporation, which 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.

Tax Compliance Initiatives

The IRS continues to face challenges in administering programs that deal with tax gap issues, especially those resulting from corporate and high-income individual taxpayer corrosive activities as well as domestic and off-shore tax and financial criminal activity. The IRS is revising its compliance program by reengineering the collection and examination practices, and we have noted some improvements. However, without the proposed FY 2005 budget relief for additional Collection function staffing and legislation to allow some cases to be worked by contract staff, a significant number of cases will remain unworked. The Examination function staffing decreased during FY 2003; however, the percent of tax returns examined increased. Still, the number of corporate tax return examinations continued the decline that started in FY 1997, decreasing a total of 67 percent since that time. We also noted that the Tax Exempt and Government Entities (TE/GE) Division must develop better research tools, improve training to trace funds through complex transactions, and enhance and leverage available electronic data to address heightened concerns that charities are being used to fund terrorists and other illegal activities. The President's FY 2005 budget includes funding to address some of these issues.

Security of the Internal Revenue Service

For the last 3 years, TIGTA assessments have concluded that the security infrastructure and the applications that guard sensitive data are weak because of inadequate accountability and security awareness as well as insufficient training for key security employees. The end result is that the IRS still does not have an organizational culture that places strong emphasis on the security and privacy of taxpayer data. For example, additional work remains in certifying its many computer systems; sensitive technology information was posted on the Internet; some equipment, when synchronized to a network computer, provided a backdoor into the network and could bypass existing security detection controls; and centralizing security issues under the Mission Assurance organization could encourage complacency in other IRS offices. In addition, some disaster recovery plans require additional development, testing, or personnel training to assure that the IRS can quickly recover in the event of a disaster.

Integrating Performance and Financial Management

The IRS recently issued its 5-year strategic plan for FYs 2005-2009, building on its first plan issued in January 2001. In addition, during the FY 2005 budget formulation process, the IRS took the important step of aligning performance and resources requested, and modified its budget and performance plans to include more customer-focused and "end results" measures. Still, the IRS has had mixed success in establishing its long-term goals. We believe the IRS must continue to integrate performance into its decision-making and resource allocation processes to completely achieve an integrated performance budget. The IRS' financial statements and related activities also continue to be of concern to IRS stakeholders. In its audit of the financial statements, the Government Accountability Office identified some continuing serious deficiencies in the IRS financial systems, including control weaknesses and system deficiencies affecting financial reporting, unpaid tax assessments, tax revenue and refunds, and computer security.

Complexity of the Tax Law

Tax administration comprises approximately 80 percent of the overall paperwork burden imposed by the Federal Government. Simplifying the tax process could include a range of actions from developing legislative recommendations to clarifying tax instructions or forms. Computer modernization, too, has a role in simplifying the tax process. For example, the current *e-file* system can be modernized to provide a single standard for filing electronic tax returns with the IRS, allowing transmittal of multiple return types in the same transmission. Complexity has also given rise to the latest generation of abusive tax avoidance transactions, with taxpayers attempting to take advantage of the tax code's length and complexity by combining a myriad of technical rules to claim tax benefits not intended by the Congress.

Providing Quality Customer Service Operations

Every year, the IRS helps millions of taxpayers understand their tax obligations by answering questions over toll-free telephone lines or in person at local offices, making information available on its Web site, and responding to correspondence. The IRS' success rate in implementing these efforts has been mixed. For example, during the 2004 Filing Season, the IRS provided taxpayers with effective and improved access to its toll-free telephone system, providing over 872,000 more toll-free telephone services to taxpayers than in the prior year. While Customer Service Representatives exceeded goals in professionalism and timeliness, they provided taxpayers with accurate answers in only 62 percent of the calls monitored. In addition, the success of IRS' Kiosk Program, an effort initiated in 1998 to broaden taxpayer use of a convenient electronic channel for obtaining information, cannot be measured since there are no guidelines or processes in place to efficiently and effectively monitor the Program. If some of the traditional prefiling work of assisting taxpayers at the Taxpayer Assistance Centers (TAC) could largely be accomplished through an effective Kiosk Program, IRS could refocus TAC resources to providing face-to-face assistance to taxpayers with compliance issues.

Erroneous and Improper Payments

For the IRS, improper and erroneous payments are generally associated with refund and filing fraud issues as well as vendor or contractor overpayments. The availability of certain tax credits, such as the Earned Income Tax Credit (EITC), the Disabled Access Credit, and the Education Credit, increases the possibility for abuse. Improper use of the EITC, a refundable credit available to taxpayers with certain limited earned income and a qualifying child, has resulted in a significant loss of tax revenue. An IRS compliance study of TY 1999 returns estimated between $8.5 and $9.9 billion (27 to 32 percent) of the $31 billion in EITC claimed for TY 1999 should not have been paid. Recent audits revealed that not all data available to the IRS is used to validate EITC claims. We identified instances in which IRS processed returns with taxpayers claiming as dependent children persons who were older than the primary taxpayer and returns improperly using a deceased individual's social security number. In addition to tax refund issues, recent TIGTA audits revealed instances where contract expenditures, representing a significant outlay of IRS funds, were unreasonable or unallowable. In our opinion, the IRS needs to strengthen its invoice review process by routinely requesting and reviewing a sample of supporting documents.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

Overall, the 2004 Filing Season was successful and most of the 123.1 million individual income tax returns received through May 2004 (including over 60 million received electronically, an increase of nearly 16 percent over 2003) were timely and accurately processed. However, we are continuing to identify tax law changes from prior years that have not been correctly implemented and could result in loss of taxpayer entitlements and erroneous tax reductions.

Taxpayer Protection and Rights

The IRS has dedicated significant attention and resources toward implementing the 12 provisions of the RRA 98 that increase or further protect taxpayers' rights. The IRS was in full compliance with the following taxpayer rights provisions:

- *Restrictions on the Use of Enforcement Statistics to Evaluate Employees.*
- *Fair Debt Collection Practices Act Violations.*

The IRS did not remove all *Illegal Tax Protestor Designations* from its records, did not always address all *Collection Due Process* issues, and sometimes improperly *Denied Taxpayer Requests for Information.* In addition, the IRS did not always properly notify taxpayers in situations involving:

- *Notice of Levy.*
- *Notice of Lien.*
- *Notice of Seizure.*
- *Assessment Statute of Limitations.*

Neither the TIGTA nor the IRS could evaluate the IRS' compliance with three RRA 98 provisions since IRS management information systems do not track the specific cases:

- *Restrictions on directly contacting taxpayers instead of authorized representatives.*
- *Taxpayer complaints.*
- *Separated or divorced joint filer requests.*

Human Capital

The IRS' ability to meet program requirements and the expectations of both external and internal customers is in jeopardy because of substantial loss of experience in some occupations. For example, the Small Business/Self-Employed and the Large and Mid-Size Business Divisions reported in the FY 2006 strategic assessments that the human capital crisis continues to intensify as employees in key occupational series increasingly become retirement eligible, are lost through attrition, or migrate to other areas. Stagnant funding allocations have impacted the ability to attract new hires and retain existing employees. The TE/GE Division is already understaffed for its current volume of customer calls, and without additional staffing or system enhancements, the level of service will deteriorate. In contrast, the Wage and Investment Division and the Criminal Investigation function have reported significant progress in the human capital area.

The Office of Audit's FY 2005 Annual Audit Plan categorizes the planned audits by these issues. If you have questions or wish to discuss our views on these management and performance challenges in greater detail, please contact me at (202) 622-6510.

cc: Assistant Secretary for Management (Acting)

Treasury FY 2004 Activities to Address Management Challenges and High Risk Areas

This section identifies the major management challenges and high-risk areas facing the Department of Treasury and its bureaus as identified by various audit organizations and their respective reports listed below:

- General Accounting Office (GAO), "Major Management Challenges and Program Risks – Department of the Treasury," dated January 2003.
- Office of the Inspector General (OIG), "Management and Performance Challenges Facing the Department of the Treasury," dated November 12, 2003.
- Treasury Inspector General for Tax Administration (TIGTA), "Management and Performance Challenges Facing the Internal Revenue Service," dated October 15, 2003.

Included in the tables below are actions taken by the corresponding bureaus during FY 2004 to address the particular challenges. Also included in each section are the actions the bureaus expect to accomplish in the next fiscal year along with a completion date (when appropriate).

1. Management Challenge/High-Risk Area:	**A. Strengthen Information Security (GAO, OIG)** **B. Security of the IRS: Information Systems (TIGTA)**
Issue:	**Strengthening information systems security**
Bureau:	**Departmental Offices (CIO), FMS, IRS**

Actions Taken

During FY 2004, Treasury demonstrated considerable progress in the remediation of Information Technology (IT) security weaknesses and conducted a Security Program review of all Treasury bureaus. In compliance with Treasury's new IT Security Policy, all bureaus submitted action plans for implementing the new policy over the next year. Treasury timely submitted its Federal Information Security Management Act (FISMA) report to OMB on October 6th. The report indicates that Treasury's cyber security program improved significantly in FY 2004 by increasing the percentage of information systems certified and accredited from 24% to 86%. This accomplishment exceeded the Treasury PMA goal of certifying and accrediting 70% of its systems by the end of FY 2004. Furthermore, the systems security material weakness at Financial Management Service (FMS) was downgraded at the end of the fiscal year. The material weakness associated with the office of the Chief Information Officer (OCIO) is also expected to be evaluated for a possible downgrade before the calendar year closes. A related Internal Revenue Service (IRS) carryover material weakness is still in the process of being corrected.

FMS has implemented an effective Entity-wide Information Technology (IT) Security Program by taking the following actions:

- Reviewed and updated all system security plans to ensure compliance with NIST guidance.
- Developed and implemented a strategy for Memorandums of Understanding and Interconnection Security Agreements in accordance with NIST standards. All major connections have completed agreements.
- Developed and implemented improved recertification guidelines to include documentation of the application process and identification of least privileges users, high-risk profiles, and multiple IDs and quarterly recertification of powerful users. Annual and quarterly recertifications are completed.
- Approved stricter standards for account removal.
- Developed baseline configurations for all platforms. Implementation is monitored at senior management level.
- Completed the certification and accreditation activities for all major applications and general support systems.
- Conducted on-going disaster recovery tests, including our Enterprise infrastructure and major applications running on the infrastructure.
- Implemented a process to push out patches more efficiently.

As a result of these actions, FMS management has downgraded its computer security material weakness.

The IRS has made steady progress in improving systems security on all fronts during the year. In particular, IRS has expanded its entity-wide security program to encompass greater participation by user offices, thus improving the overall

security environment. IRS has taken the following actions: • Realigned IRS security organizations into a single entity, Mission Assurance, to leverage resources and integrate security activities for more effective delivery of security functions. • Defined four critical security program areas: Physical, InfoSec, Personnel and Emergency Preparedness/Critical Infrastructure Protection to more effectively focus IRS security activities. • Aligned IRS systems and networks to OMB A-130, Appendix III and NIST Major Application and General Support System definitions. • Formed executive-level Emergency Preparedness Working Group, led by Chief, Mission Assurance, to ensure effective engagement of business, IT and security organizations in business resumption, disaster recovery, and safety issues. • Expanded training, testing and exercise activities for business continuity, including participation in Forward Challenge. • Continued progress in certification of sensitive systems. • Improved business engagement in Federal Information Security Management Act of 2002 (FISMA) review process.
Actions Planned or Underway
The Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) evaluated Treasury's FISMA compliance and determined that its FISMA system inventory lacks configuration management discipline and contains excessive discrepancies. To that end, Treasury is in the process of establishing a department-wide program which will govern the integrity of the FISMA system inventory and all certification and accreditation policies and procedures. In addition, the OCIO has stepped-up its efforts in evaluating and implementing an automated FISMA solution. This solution will greatly improve department-wide security reporting in FY 2005 and beyond. Although Treasury achieved significant improvements in its cyber security programs, two other weaknesses related to training were cited for needed improvement. Key managers and employees are not held accountable for carrying out security responsibilities (i.e. Certifying Officials and Designated Accrediting Authorities); and, employees with key security responsibilities have not been adequately trained. Treasury, working closely with the OIG and the TIGTA, will build upon its success with the cyber security symposium and make it an annual event. Project Matrix, as part of Treasury's Critical Infrastructure Protection (CIP) program, is being conducted in accordance with OMB/DHS guidance and reporting instructions. Project Matrix Step One refresh and Step Two interdependency analyses will be the major focus for our CIP program area in FY 2005.

<table>
<tr><td>2. Management Challenge/High-Risk Area:</td><td>A. Establish Measures Comparable Over Time and Collect Sufficient Performance Data (GAO)
B. Linking Resources to Results/Develop Reliable Cost-Based Performance Information (OIG) (TIGTA)</td></tr>
<tr><td>Issue:</td><td>Improvements are needed in linking resources to performance results</td></tr>
<tr><td>Bureau:</td><td>Departmental Offices (DCFO DAS/MB), IRS</td></tr>
<tr><td colspan="2">Actions Taken</td></tr>
<tr><td colspan="2">Treasury made significant progress in FY 2004 in better linking and integrating budget, financial, and performance data. As a result of these efforts, Treasury was recognized with a Yellow PMA status score. The improvement was a culmination of a year's worth of activities where Treasury built on its new strategic plan. In FY 2004, Treasury worked with bureaus to introduce a new budget submission process, including a new format for its Departmental and OMB budget submissions that provided stronger links between budget and performance information. The new budget submission format also met OMB's requirement for Treasury to show the full cost of its programs; specifically, Treasury focused on a realignment of the Internal Revenue Service budget in order to report full cost information. Treasury also worked with bureaus to dramatically increase the numbers of efficiency measures in its programs to improve operational performance.

Stronger links between employee and bureau performance were also forged with the launch of the Senior Executive Service (SES) performance evaluation system. Plans have also been made to cascade the SES system to senior Treasury managers and beyond. Finally, in late FY 2004, Treasury began implementing a new performance framework which provides performance and financial information along eight specific, cross-cutting "value chains" that encompass all bureaus and programs. Looking ahead, this new framework allows Treasury to leverage existing data to create a broader snapshot of the value that the Department provides the American public as whole rather than consider bureau activities in a vacuum. Treasury will continue implementation of the framework in FY 2005 and beyond.

Progress also continued at the IRS where the following actions were undertaken:
• IRS published its strategic plan for FY 2005 – FY 2009. The plan links the strategic goals and objectives to the performance goals in the Annual Performance Plan and to the budget. Performance data is collected, collated and reported through the Data Mart and Business Performance Management System (BPMS) for most of the IRS's critical measures.
• IRS is continuing to expand use of OMB's PART. A five year-PART plan has been developed with new programs being added each year to reach the goal of 100 % of IRS programs being reviewed in five years.</td></tr>
<tr><td colspan="2">Actions Planned or Underway</td></tr>
<tr><td colspan="2">Treasury's new comprehensive performance framework launched in FY 2004 will guide Treasury's efforts to better link budget, financial, and performance data. This includes expanding Treasury managers' access to performance information to shape decisions in all areas of the agency's operations and implement regular, quarterly performance meetings as the framework is rolled out to shape agency and bureau activities. Additional efforts will be undertaken by Treasury to meet with budget and performance stakeholders such as OMB and Congressional representatives and determine an optimal performance budgeting format for the future. Treasury will also work with the OMB to develop appropriate marginal cost reporting and reduce the number of Treasury programs receiving a score of Results Not Demonstrated on their Program Assessment Rating Tool evaluations.</td></tr>
</table>

3. Management Challenge/High-Risk Area:	A. Duplicated, Wasteful Practices (OIG)
Issue:	Adapt enterprise solutions to core business activities
Bureau:	Departmental Offices (HR, CIO, DCFO)

Actions Taken

During FY 2004 Treasury made significant progress in implementing and expanding enterprise solutions to core business activities including:

- **HR Connect**. HR Connect, Treasury's state-of-the-art HR system has been deployed in every Treasury bureau except for OTS. A memorandum was issued from the Assistant Secretary for Management/CFO in February 2004 requiring all bureaus to create a plan for self-service functionality to be fully deployed by the end of FY 2004. In early FY 2004, the CareerConnector component of HR Connect was prototyped by IRS. Since then, other bureaus have begun adopting the new recruitment system that centralizes the rating, ranking, and certificate process. As of September 1, 2004, three Treasury bureaus are using the system to conduct automated receipt of applications and on-line rating and ranking. By the Spring of 2005, over 60% of the bureaus are expected to be using Career Connector.
- **Financial Systems**. Enhancements were made to several existing enterprise systems, including three major components of the Financial Analysis and Reporting System (FARS): (1) the Treasury Inventory Executive Repository (TIER), which supports centralized financial reporting and the preparation of consolidated financial statements; (2) the Joint Audit Management Enterprise System (JAMES), which supports the entity-wide tracking of audit issues and material weaknesses; and (3) the Performance Reporting System (PRS), which supports all Treasury reporting tied to GPRA. As part of Treasury's ongoing streamlining effort, 10 Treasury bureaus and reporting entities are being cross-serviced by the Treasury Franchise Fund. Cross-servicing enables smaller bureaus and reporting entities to have access to core financial systems without having to maintain the necessary technical and systems architectures.
- **E-Travel.** Treasury has been in the forefront of General Services Administration's eTravel initiative by awarding the first eTravel service contract in June 2004. Treasury selected GovTrip which was successfully implemented as a pilot at TTB and FinCEN on schedule in September 2004.
- **Treasury Communications Enterprise (TCE) Contract –** Treasury made significant progress in awarding the TCE contract that will be the preferred source of supply for meeting bureau communications requirements. Bureaus will be required to use a waiver process if they do not use the TCE contract.
- **Other Enterprise Solutions –** Treasury has enterprise solutions in place for E-authentication through a Department-wide contract for public key infrastructure (PKI) services and for capital planning and investment control activities by having a Department-wide licensing agreement for ProSight.

Actions Planned or Underway

- **HR Connect.** With the planned deployment of HR Connect at OTS in FY 2005, all Treasury bureaus will have deployed HR connect for personnel processing. HR Connect also migrates onto a single system, several separate HR applications currently managed by Treasury bureaus. These systems will be replaced and retired thus realizing a savings to the Department of about $11.9 million. Treasury plans more aggressive monitoring of bureau legacy systems and sharing the information. Treasury is partnering with OPM in the HR Line of Business initiative with the intent of providing *HR Connect* as a common solution, available for cross-servicing.
- **Financial Systems.** The Treasury Franchise Fund will begin cross-servicing an additional two entities in FY 2005. This will support the Department's plan to reduce the number of core financial systems from 14 to 10.
- **E-Travel.** Treasury will continue with its migration schedule by implementing GovTrip at an additional five Bureaus plus Departmental Offices during the first three quarters of fiscal year 2005, with complete rollout of GovTrip to all Treasury Bureaus by the end of fiscal year 2006.
- **Treasury Communications Enterprise (TCE) Contract –** Treasury will soon award the TCE contract and will work to ensure that bureaus utilize the contract for their communications requirements.
- **Other Enterprise Solutions –** Treasury will work to identify new areas for enterprise solutions and work to ensure that existing enterprise solutions are adopted by the bureaus.

4. Management Challenge/High-Risk Area:	A. Vacant Senior Leadership Positions (OIG)
Issue:	Key, senior leadership positions vacant and leadership turnover
Bureau:	Departmental Offices
Actions Taken	
Treasury filled several key senior leadership positions in FY 2004, including the Deputy Secretary, General Counsel, and Under Secretary for Enforcement. Individuals were nominated for the Assistant Secretary for Management and the Treasury Inspector General for Tax Administration. This challenge has been removed from the OIG's 2004 management challenges letter.	

5. Management Challenge/High-Risk Area:	A. Prompt Correction of Material Weaknesses (OIG)
Issue:	Take actions to address longstanding material weaknesses and other serious deficiencies in programs and operations
Bureau:	Departmental Offices
Actions Taken	
During FY 2004, the Department has been proactive in addressing the material weaknesses situations both at the IRS and the FMS. In addition to maintaining very close liaison with IRS's CFO and CIO personnel, the Director of Accounting and Internal Control regularly participated in the Financial and Management Controls Executive Steering Committee meetings, where each of the outstanding material weaknesses were reviewed by senior officials, all key milestone dates are closely examined, and any impediments were addressed and its solutions were sought, overall successes assessed for their currency. The complexity of the IRS programs and operations causes the effort of designing and implementing comprehensive information systems to be both costly and time-consuming. Despite many successes, implementation of systems that work as a cohesive functioning process has been slow, but we believe the goal is in sight. During FY 2004, the FMS has closed one of two of its material weaknesses. This is a net reduction of one out of the nine weaknesses for the Department.	

6. Management Challenge/High-Risk Area:	A. Bring Treasury's Financial Management Systems Into Compliance with Federal Financial Management Improvement Act (FFMIA) (GAO) B. Strengthen FMS' Computer Controls (GAO)
Issue:	**Bring Treasury's Financial Management Systems into Compliance with FFMIA**
Bureau:	**FMS, IRS**

Actions Taken

Treasury continued to make progress in correcting non-compliance with the FFMIA. The material weakness in general computer controls prevented FMS from being in substantial compliance with FFMIA in FY 2003. During FY 2004, FMS implemented its FFMIA remediation plan and management has determined that FMS is now in substantial compliance with the Act. Further details are provided in Management Challenge #1.

IRS continued to make progress with key financial systems efforts:

- Continued implementation of the Custodial Accounting Project (CAP). The development and testing work has been completed for Releases 1.0 and 1.1.
- Systems Acceptance Testing (SAT) is continuing on Release 1.2.
- Certification and accreditation of Integrated Financial System (IFS) and CAP completed.

Actions Planned or Underway

Key actions for IRS in FY 2005 and beyond include:

- CAP will be updated for mid-year tax law changes and begin to load fiscal year 2005 data.
- CAP will be used beginning in June 2005 to perform a parallel audit for the FY 2005 statements.
- The second release of CAP is currently on hold pending successful completion of the Release 1 activities. CAP Release 2 will expand the warehouse to include Business Master File (BMF) data and Non-Master File (NMF) data.
- IFS is on schedule to begin initial operating capability - November 2004.
- IFS is on schedule to begin full operating capability - February 2005.

7. Management Challenge/High-Risk Area:	A. Anti-Money Laundering/Bank Secrecy Act Enforcement (OIG)
Issue:	**The OIG believes the Bank Secrecy Act enforcement efforts need to ensure that banks, thrifts, and other financial institutions improve the accuracy and timeliness of their reports. The OIG also believes that the supervisory agencies need to devote additional examination attention to this critical law enforcement effort.**
Bureau:	**Financial Crimes Enforcement Network, OCC, OTS**

Actions Taken

To respond to audit findings, FinCEN developed an action plan to improve the data quality of Suspicious Activity Reports (SARs).

The Treasury OIG conducted an audit that was issued in September 2003 with the focus on reviewing OTS's use of enforcement actions against thrift institutions with "substantive" violations of the Bank Secrecy Act (BSA). The OIG made several recommendations in this area, and OTS implemented and addressed all recommendations and closed all actions in early 2004.

There are no open audit recommendations regarding the OCC's supervision of national banks as it relates to compliance with the Bank Secrecy Act.

Actions Planned or Underway

FinCEN will identify financial institutions with apparent systemic suspicious activity report quality problems through the quarterly review of electronic reports identifying blank fields and possible duplicate reports. In addition, FinCEN will enhance its outreach and education to financial institutions to improve the accuracy of the reported information. FinCEN will also expand outreach to industry focused on decreasing the number of paper and magnetic media filings (which are most vulnerable to filing error) and substantially increasing electronic filings via the Patriot Act Communication System.

To combat fraud, money laundering, and protect the integrity of financial systems, OTS will continue to examine thrifts for compliance with the requirements of the Bank Secrecy Act, the USA PATRIOT Act, and other anti-money laundering laws. Through examinations, guidance, and training, OTS will also continue to assess the financial condition and risk profile of thrift institutions and identify violations of law and regulation and potential financial and economic problems.

OTS and the federal banking agencies work closely on Patriot Act-related working groups and regulatory projects. OTS will work closely with FinCEN and the other federal banking agencies to implement the Memorandum of Understanding executed in 2004. Cooperation between the federal banking agencies on Bank Secrecy Act (BSA) /Anti-money Laundering matters is consistent and long-standing; the addition of the Memorandum of Understanding will further enhance timely sharing of information and coordinated supervisory action when violations are detected. OTS will also issue new examination procedures developed in coordination with the other banking agencies as well as other guidance to ensure consistent application of the provisions of the Bank Secrecy Act and the USA PATRIOT Act.

The OCC will carry out the regulatory and supervisory recommendations from its FY 2004 review of Bank Secrecy Act/Anti-Money Laundering (BSA/AML) supervision. The OCC also will issue a revised "Bank Secrecy Act" booklet to the Comptroller's Handbook and develop two information systems projects to enhance its BSA/AML work. The Quantity of Money Laundering Risk Identification project allows the OCC to gather money laundering risk information for each mid-size and community bank. This information will be used to develop unique supervisory strategies, allocate examiner resources, and quantify money laundering risks across these national banks. The Suspicious Activity Reporting Data Base will increase the OCC's ability to detect existing and emerging operational risks associated with suspicious activity reported by the banking industry and develop appropriate supervisory responses to those risks. The OCC will continue to coordinate with other federal financial regulators and criminal law enforcement agencies to combat money laundering and terrorist financing activities.

<table>
<tr><th align="right">8. Management Challenge/High-Risk Area:</th><th align="left">A. Prepare Reliable Financial Statements for the Government (GAO)</th></tr>
<tr><td align="right">Issue:</td><td>Federal agencies have been cited as having problems related to fundamental record keeping, incomplete documentation, and weak internal controls which prevent the Government from accurately reporting a large portion of assets, liabilities, and cost. GAO reaffirmed these deficiencies in their audit of the consolidated FY 2002 Financial Report of the United States Government.</td></tr>
<tr><td align="right">Bureau:</td><td>Financial Management Service</td></tr>
<tr><td colspan="2" align="center">Actions Taken</td></tr>
<tr><td colspan="2">During FY 2004, FMS implemented a new process and system to prepare the Financial Report of the U.S. Government. The new process will be used in preparing the FY 2004 financial statements, scheduled for publication in December 2004. This process will compile, with a few exceptions, the Financial Report directly from agencies' financial statements. When implemented, the new process and business rules will mitigate the material weakness in the current process.</td></tr>
<tr><td colspan="2" align="center">Actions Planned or Underway</td></tr>
<tr><td colspan="2">FMS continues its multi-year effort to rebuild the processes it uses to prepare the Financial Report of the U.S. Government. FMS also worked closely with OMB in developing intra-governmental business rules.</td></tr>
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9. Management Challenge/High-Risk Area:	A. Collection of Unpaid Taxes (GAO)
Issue:	**Collecting taxes due the government has always been a challenge for the IRS. Congress and others are concerned that the decline in the IRS's compliance and collections programs are eroding taxpayers' confidence in the fairness of our tax system. The IRS's new effort to review compliance, the National Research Program, provides IRS payment and filing compliance data on a regular basis and with the first up-to-date information on reporting compliance rates and sources of noncompliance since tax year 1988.**
Bureau:	**Internal Revenue Service**

Actions Taken

- The IRS developed a comprehensive strategy and approach to modernize technology and improve collection processes.
- Completed implementation of a decision tool for the automated collection system that assists in managing calls and improve quality.
- Completed the data gathering phase of the National Research Program. The results phase is expected to provide the first up-to-date information on compliance rates and sources of noncompliance since it was last measured using 1988 tax returns.
- Implemented contact recording capability at one call site, a tool which allows managers to review call content with employees to focus on quality and efficiency of taxpayer contacts. Capability is being provided to other sites.
- Commenced a desktop integration pilot that enables collection employees to provide better service and expedite case dispositions.
- Implemented Automated Queue announcements which provided management flexibility in creating unique messages for taxpayers, providing for additional payment options while on hold.
- Initiated the use of Predictive Models to better select inventory for assignment to personnel. Those with a "full pay" indicator have the highest priority.
- Working with Treasury, IRS developed a legislative proposal for the use of Private Collection Agencies (PCA) to support its collection efforts. On October 10, 2004, Congress passed the legislation. Next steps include building a system and processes to allow PCAs to work cases best suited for resolution based on their authority and skills.
- Procedures were implemented that enable collection employees to work individual balance due cases exceeding $100,000, resulting in significant and timely attention being paid to collecting high dollar/high risk accounts.
- Increased closures of delinquent balance due cases 37% from FY 2002 to FY 2004, up 41% in phone collection and 31% for in-person collection.
- Increased identified and secured delinquent returns from non-filers 49% from FY 2002 to FY 2004, up 55% in phone collection and 40% for in-person collection.

Actions Planned or Underway

- Improve efficiency, effectiveness, quality and case resolution in the Automated Collection System. (09/2005)
- Develop and implement an Installment Agreement Risk and Treatment Approach to improve case processing. (09/2005)
- Implement Collection Tax Delinquent Account Reengineering to better identify cases with a high or low propensity to pay or to be unproductive, thus allowing for a better use of scarce resources. (09/2005)

10. Management Challenge/High-Risk Area:	A. Systems Modernization of the IRS (TIGTA) B. Manage Business Systems Modernization Program (GAO)
Issue:	Recognizing the long-term commitment needed to solve the problem of modernizing antiquated information systems, Congress created a special Business Systems Modernization (BSM) program to bring the IRS's business systems to a level equivalent with best practices in the private and public sectors.
Bureau:	Internal Revenue Service

Actions Taken

In FY 2004, IRS implemented three major recommendations resulting from external independent studies conducted in late FY 2003:

- Scale back the modernization portfolio to better align with IRS and contractors' capacities
- Engage IRS business units to drive the projects with a business focus
- Improve contractor performance on cost, scheduling, and functionality

The studies also raised a number of other key improvement opportunities, including:

- Adding outside expertise to manage the program and to complement IRS skills
- Ensuring projects are staffed appropriately
- Adhering to methodologies in areas such as configuration management, cost and schedule estimating, and contract management
- Simplifying the budget process
- Initiating the testing of the Consumer Account Data Engine (CADE) Business Rules

IRS used the results from the four comprehensive studies to create a BSM Challenges Action Plan comprised of more than forty action items. Since then the IRS closed several key action items, including: clarifying the roles of committees as advisory, accountability resides with individuals and not committees; identifying "blockers" on contracting issues; appointing business leaders to each project and defining their roles; establishing a risk-adjusted schedule and new baseline for CADE Releases 1.0 and 1.1; and, increasing the frequency of CADE reviews with the business leader to twice monthly. Many of the action items are still works-in-progress, some of which will take time to fully complete. Others will span the life of the BSM program.

Actions Planned or Underway

Key actions planned for completion in FY 2005 include:

- Custodial Accounting Project (CAP) will deploy an integrated link between tax administration revenue financial information and internal management administrative financial information. Custodial Accounting Project Release 1.2 is scheduled to deliver mid-year 2004 changes and the CADE data solution. (11/2004)
- CADE Release 1.2 will include tax law changes for filing season 2005. IRS estimates that CADE will process more than two million of the most basic 1040 EZ tax returns during the 2005 filing season. (01/2005)
- Modernized e-File, MeF Release 3.0, includes additional corporate and tax-exempt organization forms, an interface with state retrieval systems, a redesign of the signature matching process, and tax law changes for filing season 2005.
- Develop and publish e-Strategy for Growth: Expanding e-Government for Taxpayers and Representatives. (09/2005)
- Complete Modernized e-File re-sequencing plan to support Disaster Recovery requirements. (09/2005)

11. Management Challenge/High-Risk Area:	A. Tax Compliance Initiatives (TIGTA)
Issue:	**The IRS management challenge is to establish a tax compliance program that identifies those citizens who do not meet their tax obligations, either by not paying the correct amount of tax or not filing proper tax returns, and ensure that they meet their tax obligations.**
Bureau:	**Internal Revenue Service**

Actions Taken

- Established the Exempt Organization Compliance Unit to address non-compliance by tax-exempt organizations through correspondence and telephone contacts, reaching a greater number of organizations than possible through traditional audits.
- The IRS aggressively investigated allegations of fraud among consumer credit counseling organizations. Criminal Investigation is coordinating with TE/GE to determine the extent of the fraud; Criminal Investigation is creating liaisons to ensure that any referrals are directed to them.
- Issued six notices and announcements related to corporate tax shelters to increase examination compliance on tax shelter promoter activity through increased investigations.
- The IRS is promoting and supporting the Joint International Tax Shelter Identification Center (JITSIC) with the United States, Canada, United Kingdom, and Australia, to coordinate knowledge and actions to detect and deter Abusive Tax Avoidance Transactions (ATAT). JITSIC will focus primarily on promoters and investors.
- The IRS Office of Tax Shelter Administration, Chief Counsel, and Treasury began regular meetings to discuss trends identified through disclosures, registrations and other sources regarding ATAT. These meetings promote identification of issues and earlier action to detect and deter ATATs through guidance or legislation.
- Publicized a settlement initiative for taxpayers who invested in an abusive tax shelter commonly known as "Son of Boss," which evolved from a bond and option sales strategy shelter. More than 1,500 taxpayers filed Notices of Election by June 21, 2004 to accept an IRS settlement offer to resolve their tax issues.

Actions Planned or Underway

Key actions planned for completion in FY 2005 include:

- The IRS' Individual Reporting Compliance Study for Tax Year 2001 is in its final stages. Data from this study will be available by December 31, 2004.
- Establish the Exempt Organization Fraud and Financial Transactions Unit to provide specialized exempt organization expertise to law enforcement in identifying and working fraud cases. (4/2005)
- Streamline Joint Committee and claims processes. (09/2005)
- Implement the Curb Egregious Noncompliance initiative to balance compliance efforts, support tax law enforcement, and provide the necessary increase in resources across all major compliance programs, while leveraging new workload selection systems and case-building approaches developed through re-engineering. (09/2005)
- Continue to identify flow-through entities and other strategies used to disguise questionable structured transactions by high-income taxpayers. Detect those engaging in abusive tax practices through enforcement, full implementation of K-1 matching, education and research. (09/2005)

<table>
<tr><th>12. Management Challenge/High-Risk Area:</th><th>A. Security of the Internal Revenue Service: The Employees and the Facilities (TIGTA)</th></tr>
<tr><td>Issue:</td><td>Recent terrorist attacks demonstrated very graphically that the physical security of IRS employees, equipment, and structures should be of utmost concern to IRS management. The IRS must remain vigilant to all opportunities to enhance the safety of employees.</td></tr>
<tr><td>Bureau:</td><td>Internal Revenue Service</td></tr>
<tr><td colspan="2">Actions Taken</td></tr>
<tr><td colspan="2">• Continued work with the General Services Administration (GSA) and local law enforcement to safeguard personnel and assets.
• Monitored and changed as appropriate procedures for inspection of incoming mail and packages.
• Completed implementation of Level V security enhancements.
• Developed, and began implementation of a Federal Emergency Management Agency-based incident command structure, using Senior Commissioner Representatives as command managers.
• IRS is implementing a Shelter-in-Place program safety procedure, which is an alternative to building evacuation (during an emergency, employees remain in their building until it is safe to leave).</td></tr>
<tr><td colspan="2">Actions Planned or Underway</td></tr>
<tr><td colspan="2">• Complete build out of incident command structure. (9/2005)
• Continue and expand IRS ability to respond to emergencies through more frequent exercise of Continuity of Operations Plan (COOP) and other emergency response actions. (9/2005)
• Update and complete business resumption plans in response to changes in threat conditions. (9/2005)
• Fully support government-wide and Departmental emergency response initiatives. (9/2005)</td></tr>
</table>

13. Management Challenge/High-Risk Area:	A. Complexity of the Tax Law (TIGTA)
Issue:	**Recent Annual Reports by the Taxpayer Advocate to the Congress cite tax law complexity as a serious problem for individual and business taxpayers. The effect of tax law complexity is compounded as the IRS modernizes. Since complexity can be a major factor in the cost of operations, IRS must devote resources to simplifying tax administration within current law while at the same time modernizing its systems and processes.**
Bureau:	Internal Revenue Service

Actions Taken

The National Taxpayer Advocate's (NTA) 2003 Annual report to Congress focuses on three themes: several "extremely serious" problems facing taxpayers, the need to balance enforcement and customer service, and how Congress and the IRS should handle "perceived" problems in tax administration. The report urges Congress to address the alternative minimum tax before it bogs down tax administration and increases taxpayers' cynicism to such a level that overall compliance declines. The NTA also proposes that Congress direct Treasury to create a joint task force to compile information about the extent of 'problematic paid-preparer behavior.'

Actions Planned or Underway

The National Taxpayer Advocate's Fiscal Year 2005 Objectives Report to Congress provides a number of examples of TAS activities that will address the issues cited above, including but not limited to:

- Providing Congress with legislative recommendations in the upcoming Annual Report to Congress (December 2004), including a revised non-wage withholding recommendation.
- Finalizing the Taxpayer Rights Impact Settlement.
- Continuing to work with the IRS Office of Chief Counsel and the Treasury Department on revisions to the regulations under Internal Revenue Code 7216, relating to the use and disclosure of tax return information by tax returns preparers.
- Exploring IRS' training program relative to how employees are familiarized with TAS and with issues pertaining to protection of taxpayer rights.
- Examining the possibility of a Unified Family Credit that will combine the provisions of the Earned Income Tax Credit, Child Tax Credit, and Dependency Exemption, thereby further reducing taxpayer compliance burdens associated with claiming these provisions.
- Encouraging IRS to develop a system to protect victims of identity theft from unwarranted, intrusive, and repetitive audits and collection activity attributable to the misreported income.
- Participating in research initiatives such as "Abusive Tax Schemes: The 'Tipping Point' Study; The Impact of Representation on the Outcome of Earned Income Tax Credit (EITC) Audits, Federal Case Registry Study; EITC Certification Test; EITC Pre-certification Test; EITC Recertification; Downstream Effects of Compliance Initiatives.
- Advocating that taxpayers be provided the opportunity for an independent appeal of their case with an IRS Appeals Officer.

14. Management Challenge/High-Risk Area:	A. Processing Returns and Implementing Tax Law Changes During the Tax Filing Season (TIGTA)
Issue:	The filing season impacts every American taxpayer and is always a highly critical program. Many programs, activities and resources have to be planned and managed effectively for the filing season to be successful.
Bureau:	Internal Revenue Service

Actions Taken

The 2004 filing season was very successful as electronic filing set a record and reached over 61 million returns, an increase of approximately 16 % from last year.

- Home computer usage by individuals to prepare and e-file tax returns soared to over 14 million returns. Tax professional use of e-file jumped over 15 %, with 42.8 million filing electronically.
- In its second year, 3.5 million taxpayers used Free File, the on-line filing service, representing a 26% increase from 2003.
- More taxpayers used the IRS web site, including the "Where's My Refund?" feature, which allows taxpayers to inquire if the IRS received their return and whether their refund was processed and sent to them. There were almost 24 million inquiries to the on-line service to check on refunds.
- With more account and tax law inquiries moving to the Internet for resolution, the toll-free level of service for taxpayers who do not get a busy signal and get into the system is at 87%.
- IRS processed over 131 million individual returns and issued approximately 100 million refunds totaling $207.9 billion.
- Nearly 49 million taxpayers chose direct deposit of refunds this year, an increase of just under 11% increase from the 2003 record.

Actions Planned or Underway

Key actions planned for completion in FY 2005 include:

- Continue to enhance the functionality of the web site by providing new features such as enhanced search capabilities and presentation of results, tax applications and/or calculators of various types, and enhanced globalization to present web content in various languages. (09/2005)
- Develop secure access for taxpayers who file electronically to enable them to review their account electronically. (09/2005)
- Complete the ramp down of the Memphis Submission Processing Center (MSPC). (09/2005)

15. Management Challenge/High-Risk Area:	A. Improving Service to Taxpayers - Providing Quality Customer Service Operations (TIGTA)
Issue:	Providing top quality service to every taxpayer in every transaction is an integral part of IRS's strategic and modernization plans.
Bureau:	Internal Revenue Service

Actions Taken

- IRS has intensified efforts to assist taxpayers in filing correct, complete and compliant returns through pre-filing agreements and Industry Issue Resolutions.
- IRS has emphasized increased use of Published Guidance to clarify the law and resolve uncertainty regarding its application.
- With record numbers of Americans e-filing their tax returns and recently announced e-filing options for corporations and tax exempt organizations, this year the Internal Revenue Service launched a new online form that gives tax professionals a faster, easier method of applying to become an authorized e-filer.
- Tax professionals now have an online application form that cuts processing time and reduces errors associated with using the paper Form 8633, Application to Participate in IRS e-file. Once the application is approved by the IRS, tax professionals can e-file returns for their clients.
- The online application is the latest segment of a suite of Internet-based business tools called "e-services" that give tax professionals and financial institutions new choices for working electronically with the IRS and easier access to client information.

The Internal Revenue Service also released three new electronic e-services tools for tax professionals. Disclosure Authorization, Electronic Account Resolution and the Transcript Delivery System give tax professionals online options for working with the IRS. The Disclosure Authorization tool gives eligible tax practitioners an online option for submitting Power of Attorney or Taxpayer Information Authorization forms. Electronic Account Resolution allows tax practitioners to electronically correspond with the IRS. Using the Transcript Delivery System, tax practitioners can request transcripts of their client's tax records and receive them within minutes instead of days or weeks. The Internal Revenue Service also launched a new service through the IRS GuideWire list server to make technical guidance available via e-mail to tax professionals when the documents are issued.

Actions Planned or Underway

Quality customer service remains a foundation in the Strategic Plan implemented and is being monitored and measured in key IRS programs. Key activities to be completed include:

- Begin the rollout of Contact Recording, which will enable synchronized voice/data recordings to monitor face-to-face interactions, assessing quality as well as trends. (06/2005)
- Improve and enhance the availability of online services such as Internet EIN (Employer Identification Number), CAF (Centralized Authorization File) and PPS (Practitioner Priority Services). (09/2005)
- Continue redesigning and simplifying notices, forms and publications. (09/2005)
- Continue to work with private industry to expand low-cost Internet filing options. (09/2005)
- Expand the Internet Refund Fact of Filing (IRFOF) application to reduce toll-free demand and offer customers alternative methods of service. (09/2006)
- Complete the rollout of Q-Matic (Queuing Management) to facilitate customer traffic and workload planning. (09/2006)

16. Management Challenge/High-Risk Area:	A. Erroneous Payments; Refund Fraud; Earned Income Credit Noncompliance (TIGTA) B. Earned Income Credit Noncompliance (GAO)
Issue:	Both the President and the Congress have expressed concerns with the large amount of erroneous payments made by Federal agencies each year. The risk of improper payments increases in programs with complex criteria for computing payments, a significant volume of transactions or emphasis on expediting payments. Although many IRS programs are susceptible to erroneous payments, the Earned Income Tax Credit (EITC) Program is particularly vulnerable. Despite extensive education and outreach, the EITC has continued to experience high error rates due to its complicated calculation, taxpayer awareness of eligibility, and even fraud. IRS processing systems currently lack the capacity to detect some of the errors before the EITC claim is paid and IRS business processes are not designed to adequately administer the credit.
Bureau:	Internal Revenue Service

Actions Taken

The IRS administers a balanced EITC Program – one that reduces erroneous payments while increasing participation by eligible taxpayers. These efforts included customer service and public outreach campaigns, enforcement activities and enhanced research efforts. The IRS continued to educate taxpayers through partnerships with key stakeholders and a public service campaign. It has worked with over 180 partners at the national level and 165 community-based partners to educate taxpayers on EITC requirements and to encourage eligible taxpayers to apply. Since the majority of EITC claims are completed by paid Tax Preparers, the IRS made Tax Preparer education a priority and modified the return preparer strategy to include more emphasis on non-compliance with "due diligence requirements."

Since 1996, EITC has been identified as having an unacceptable rate of improper payments. One of the difficulties in developing strategies for reducing the high error rate was, and still is to a degree, measuring the actual error rate. A full compliance study was conducted on 1999 tax returns claiming EITC, resulting in error rate estimates ranging from 27% to 32% of an approximately $30 billion program.

Through various IRS initiatives such as the National Performance Review (NRP), updated error rate estimates will be available to determine whether EITC program actions during the past few years have been effective in reducing the error rate estimate and associated dollars. These results are expected in mid-FY 2005. Also expected in FY 2005 are the results of a study on the effect of the 2002 tax law changes that were implemented for the 2003 tax filing season. Finally, through complex program guidance developed by the government wide Chief Financial Officers Council, EITC will produce annual error rate estimates based on a statistically valid sample of a component of the program, using data from the Qualifying Child Residency Certification Study.

Actions Planned or Underway

- Support the implementation of technology solutions, including Risk Based Scoring and Selection – RBSS (01/2005); Selection/Assignment and Decision Support Tool – DST (01/2006); Corporate Inventory Management – CIM/Routing; and Contact Management/Outreach (01/2006).
- Develop an integrated strategy to enhance EITC compliance through return preparers. (03/2005)
- Execute a strategy that leverages partnership opportunities with states that offer tax credits comparable to the EITC. (09/2005)
- Evaluate the effectiveness of a procedure that will allow IRS to obtain the National Directory of New Hires (NDNH) from Health and Human Services to provide quarterly employee wage information by employer, and also information on newly hired employees. This information will allow for the identification of fraudulent W-2s or the substantiation of valid W-2s (Dependent upon authorizing legislation). (12/2005)
- Charter EITC research efforts to identify ways to reduce EITC erroneous payments, as well as identify trends in the diverse EITC taxpayer population. Use the results of these studies for strategic planning of the EITC program. (Ongoing)

17. Management Challenge/High-Risk Area:	A. Taxpayer Protection and Rights (TIGTA)
Issue:	**IRS has made significant progress in complying with RRA 98 and most provisions have been implemented. Significant management attention is still required to ensure that taxpayers' rights are not restricted by any IRS enforcement actions.**
Bureau:	**Internal Revenue Service**

Actions Taken

- Conducted an independent review to determine IRS' compliance with RRA 98 Section 1204, which prohibits the use of enforcement statistics to evaluate IRS employees or to impose or suggest production quotas or goals. All appropriate supervisors certified each quarter that they had not improperly used enforcement statistics in evaluating employees.
- TIGTA conducted an Independent Audit of the Section 1204 Program and found that: the IRS is in compliance with RRA 98 §1204 (a) and (b); no potential violations of the use of Records of Tax Enforcement Results were found; and employees were evaluated on the fair and equitable treatment of taxpayers.
- Implemented the K-1 matching program, reconciled partnership income reporting documents to the beneficiaries of this income on federal income tax returns, which promotes fairness of the tax system.
- Implemented information-sharing programs to promote income document matching and fairness of the tax system.
- Partnered with state taxing agencies to implement programs that compare state tax information with federal income and/or employment tax return information. More than 28,000 audit leads and other information were shared with the states.

Actions Planned or Underway

- Focus on taxpayer groups that are at higher risk of noncompliance to maintain confidence in the integrity of the tax administration program. (Ongoing)
- Rollout the Taxpayer Assistance Center (TAC) model, as it is critical to maintaining taxpayers' privacy and confidentiality, particularly as the IRS becomes more involved in compliance activities. (09/2005)
- Implement a solution for encrypting electronic return data during the transmission process from electronic return transmitters. (01/2005)
- Review IRS training to ensure that employees, particularly in compliance functions, are properly and regularly trained on the protection of taxpayer rights. (09/2005)
- Develop a new workload methodology that will focus on those areas of the filing population constituting the greatest increase in compliance risk with a high probability of unreported income. This strategy will promote fairness of our tax system by identifying potential noncompliance from taxpayers who would not otherwise be subject to matching document reviews. (09/2005)
- Work with preparers to design a program that enables the majority of taxpayers to feel confident that their preparers are competent to prepare their taxes and that IRS will punish preparers when they perform negligently or recklessly. (Ongoing)

18. Management Challenge/High-Risk Area:	A. Human Capital (TIGTA)
Issue:	**IRS continues to face a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with IRS' recent reorganization and modernization efforts**
Bureau:	**Internal Revenue Service**

Actions Taken

- IRS developed a phased retirement program for potential use as incentives for employees in critical job series to extend their association with the IRS. IRS also received the authority for waivers to annuity offsets in order to benefit from the vast experience of annuitants.
- A robust succession-planning model was implemented and executive search assistance was used in filling critical executive positions.
- A new, competency-based, transformational leadership development program was introduced to equip current and future leaders for increased service to both IRS employees and taxpayers. Training has been decentralized to give the operating divisions responsibility for technical training so it can be tailored to meet the needs of their specific taxpayers. Leadership development is a corporate asset, centrally managed by the Human Capital Office.
- Successfully partnered with the OPM *Go Learn* e-training initiative to acquire e-training products and services to leverage government-wide economies of scale.
- Reengineered training for newly hired revenue agents from sixty weeks to twenty-two weeks.
- Re-employed annuitants have been recruited for On-the-Job Instructor and Classroom Instructor positions, allowing highly skilled, senior professionals to remain on the frontlines.

Actions Planned or Underway

- The IRS will implement a comprehensive Human Capital Strategic plan, addressing the six human capital standards for success: strategic alignment, workforce planning and deployment, leadership and knowledge management, performance culture, talent, and accountability. IRS will establish baseline performance under the new Human Capital Metrics and identify areas for improvement activity in FY 2005.
- The IRS will also implement a multi-year recruitment/marketing strategy that includes the expansion of the internet employment website, a complete print media advertising campaign, market research, and an extensive internet media advertising campaign.

Part IV – *Appendices*

Full Report Of Treasury's FY 2004 Performance Measures By Focus And Strategic Goal

FY 2004 PERFORMANCE SUMMARY

This part reports on all Treasury's performance measures by focus and strategic goal (and further by bureau/organization) for which targets were set in the FY 2004 Performance Plan (as presented in the FY 2005 Justification for Appropriations and Performance Plans). For each performance measure, there is a definition for the measure, performance levels for three previous fiscal years (where available), the performance target and actual for the report year, and proposed performance targets for next fiscal year (where available). The report examines unrealized performance targets and presents actions for improvement.

The purpose of Treasury's strategic management effort is to develop effective performance measures to achieve the various goals, objectives and activities that will improve *results* delivered to the American public. In its final performance plan for FY 2004 that the Department transmitted to Congress, as part of the FY 2005 budget, Treasury detailed its performance targets.

Overall, the Department established 299 performance targets in FY 2004. Of these, 24 are baseline and 2 have no data available and will not be reported until the President's budget. Of the remaining 272 measures, Treasury met or exceeded 214 targets and did not meet 59 of its targets.

FY 2004 Treasury-wide Performance Summary

Total Measures	Targets Met	Targets Not Met	Other (Baseline & Not Available)
299	214 (71%)	59 (20%)	26 (9%)

Definitions and Other Important Information:

Determination Used in Target-Setting. Bureaus determined the performance measures and targets for their FY 2004 performance plan due to the refocusing of the mission of Treasury and/or to establish outcome-oriented performance measures that will better assess progress against Treasury's new strategic goals and objectives.

Actuals. Final actual data presented is in **bold**. Some of the actual numbers for FY 2004 are estimates at the time of publication, which are indicated in *italics*. Actual data for these estimated measures will be presented in the FY 2006 President's Justification for Appropriations and the FY 2005 Performance and Accountability Report. The data reflected in the charts are the most current and may not reflect previous editions of the Performance and Accountability Report and the Congressional Justification.

FY 2005 Targets. Proposed targets for FY 2005 will be presented from the FY 2006 President's Justification for Appropriations. These are shown in italics.

Unmet Targets. Targets which were not met are explained and include action for improvement.

Not Available Targets. Actual data will be reported in the FY 2005 Performance and Accountability Report. Some measures indicated as "Not Available" do not have actual data and will be discontinued in the FY 2006 President's Justification for Appropriations

Baselined Measures. 24 new FY 2004 measures were baselined (actuals determined) this year. Baselines facilitate target-setting in the future.

Discontinued Measures. Unless otherwise noted, measures which are being discontinued after FY 2004 have been replaced with more outcome-oriented measures to better gauge program success.

Additional Information. Additional Information relating to each measure can be found in the Department of the Treasury's FY 2005 Justification for Appropriations and Performance Plans and the Treasury Performance Budgeting Internet site at http://www.treas.gov/offices/management/budget/planningdocs/index.html.

List of Performance Measures by Strategic Goal, Objective and Bureau/Major Program

This section lists performance measures by Strategic Goal, Strategic Objective and Treasury bureau or major program. The list also references Full Report pages which provide the full performance report information for the measure.

E1: Promote Prosperous U.S. and World Economies

E1A: Stimulate Economic Growth and Job Creation

Community Development Financial Institutions Fund – CDFI Program

Community Development Financial Institutions – Bank Enterprise Award (BEA) Program

Community Development Financial Institutions – New Markets Tax Credit (NMTC) Program

Departmental Offices (DO)

Departmental Offices (DO) (Continued)

E1B: Provide a Flexible Legal and Regulatory Framework

Office of the Comptroller of the Currency (OCC)

Office of Thrift Supervision (OTS)

E1C: Improve and Simplify the Tax Code

Departmental Offices (DO)

	Page
Value of U.S. exports of cross border financial services, excluding insurance ($ in billions based on calendar year)	**286**
Average tax compliance cost for individuals and small businesses [BASELINE FY 2004]	**286**

E2: Promote Stable U.S. and World Economies

E2A: Increase Citizens Economic Security

Departmental Offices (DO)

Alcohol and Tobacco Tax and Trade Bureau (TTB)

E2B: Improve the Stability of the International Financial System

Departmental Offices (DO)

F3: Preserve the Integrity of Financial Systems

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

Departmental Offices (DO)

Financial Crimes Enforcement Network (FinCEN)

Treasury Forfeiture Fund (TFF)

F3B: Execute the Nation's Financial Sanctions Policies

Departmental Offices (DO)

F3C: Increase the Reliability of the U.S. Financial System

Bureau of Engraving and Printing (BEP)

Bureau of Engraving and Printing (BEP) (Continued)

Departmental Offices (DO)

U.S. Mint

Office of the Comptroller of the Currency (OCC)

Office of the Comptroller of the Currency (OCC) (Continued)

Office of Thrift Supervision (OTS)

F4: Manage the Government's Finances Effectively

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

Financial Management Service (FMS)

Internal Revenue Service (IRS)

Internal Revenue Service (IRS) (Continued)

Alcohol and Tobacco Tax and Trade Bureau (TTB)

F4B: Manage Federal Debt Effectively and Efficiently

Bureau of the Public Debt (BPD)

Bureau of the Public Debt (BPD) (Continued)

Departmental Offices (DO) (Continued)

Financial Management Service (FMS)

M5: Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

M5A: Protect the Integrity of the Department of the Treasury

Office of the Inspector General (OIG)

Treasury Inspector General for Tax Administration (TIGTA)

M5B: Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

Treasury Franchise Fund (Franchise Fund) – All Lines of Business

Treasury Franchise Fund (Franchise Fund) – All Lines of Business (Continued)

Treasury Franchise Fund (Financial Systems, Consulting, and Training)

Treasury Franchise Fund (Financial Management Administrative Support)

Treasury Franchise Fund (Consolidated/Integrated Administrative Management)

Treasury Franchise Fund (Consolidated/Integrated Administrative Management) (Continued)

Departmental Offices (DO)

Office of Thrift Supervision (OTS)

Office of Thrift Supervision (OTS)

ECONOMIC FOCUS

E1: Promote Prosperous U.S. and World Economies

E1A: Stimulate Economic Growth and Job Creation

Community Development Financial Institutions Fund – CDFI Program[20]

Performance Measure: ***Number of full-time equivalent jobs created or maintained in underserved communities***

Definition: A full-time equivalent job is defined as a minimum of 35 hours per week. Jobs created and maintained serve as an important indicator of the economic vitality of underserved areas.

Source: CDFI Institution Level Report and Transaction Level Reports

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
26,934	36,275	7,602	5,852	**7,179**	*5,417*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of businesses financed that are located in, or provide services or employment to, underserved communities***

Definition: Businesses include for-profit and non-profit businesses. The number of businesses financed is the number of unique businesses receiving a loan or investment from an awardee during the reporting period. Businesses financed are an important indicator of the economic health of a community because businesses generate employment and taxes, and may provide community services.

Source: CDFI Transaction Level Report and Transaction Level Reports

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	4,030	**7,325**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

[20] CDFI has a few measures that are repeated throughout Part IV. These repeat measures are applied to different programs and the targets are adjusted accordingly.

Performance Measure: ***Square footage of commercial real estate property developed in underserved communities [BASELINE FY 2004]***

Definition: The number of square feet of commercial real estate developed, rehabilitated or acquired in projects financed by CDFI commercial real estate loans.

Source: CDFI Transaction Level Report and Transaction Level Reports

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Baseline	**3,678,177**	*Discontinued*

FY 2004 Performance: Baseline established

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2004 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of clients served by community facilities located in or providing services to underserved communities***

Definition: This measures the number of people benefiting from needed community services such as health care and childcare.

Source: CDFI Institution Level Report and Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	392,395	**407,875**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2004 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of housing units (including rental units) developed or rehabilitated in underserved communities***

Definition: Housing unit is defined as a single-family rental or for-purchase housing unit. It includes single-family homes, condominiums and apartments.

Source: CDFI Institution Level Report and Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	61,242	34,009	35,194	**45,865**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of homebuyers in underserved markets that obtain purchase money mortgages or other home purchase financing***

Definition: Non-conforming purchase money mortgage is defined as a loan that is made for the purpose of purchasing a home and that does not meet the standards required for sale on the secondary market (to such government-sponsored entities as Fannie Mae and Freddie Mac).

Source: CDFI Institution Level Report and Transaction Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
3,157	6,069	4,554	5,310	**4,222**	*4,916*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Challenge may be due to unavailability of data; twenty-one CDFIs that do primarily housing financing had not submitted Institution Level Report and Transaction Report as of September 2004.

Performance Measure: ***Number of accounts opened at insured depository institutions that are located in underserved communities***

Definition: Accounts consist of Electronic Transfer Accounts (for federal benefits recipients who do not have accounts with financial institutions), First Accounts (for low and moderate-income individuals who are currently "unbanked"), Individual Development Accounts (for low-income individuals), and other checking and savings accounts.

Source: CDFI Institution Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
205,977	261,789	37,997	36,694	**27,460**	*Discontinued*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Challenge may be due to unavailability of data: thirty-two depository institution CDFIs had not yet submitted Institution Level Reports as of September 2004.

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of individuals or businesses in underserved communities provided financial education, home ownership, business and other training or technical assistance that may counter predatory lending and financial services***

Definition: Training is defined as classroom or group-based training. Technical assistance is defined as one-on-one counseling. Financial literacy training is defined as credit counseling and basic money management. Home ownership training covers home maintenance, finance, and protecting the value of the home. Business training teaches entrepreneurs how to manage a business.

Source: CDFI Institution Level Report and Transaction Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
49,982	61,571	139,491	81,249	**89,159**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Percentage of CDFI Program awardees with acceptable portfolio quality [BASELINE FY 2004]***

Definition: Portfolio quality is an important indicator of capacity because poor quality means that a CDFI's primary asset (its loan capital) is at risk of being depleted. A CDFI with poor portfolio quality is not a sustainable institution.

Source: CDFI Institution Level Report and Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Baseline	**60**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Percentage of CDFI Program awardees that increased the number of products and services offered, or increased the volume of financing activities [BASELINE FY 2004]***

Definition: CDFIs provide a range of financial products and services to the target markets. Products include mortgage loans and small business loans, while services include checking accounts and savings accounts. The more products and services, or volume, a CDFI offers to its target market, the more responsive it is to its market's needs.

Source: CDFI Institution Level Report and Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Baseline	**67**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Explanation of Challenge: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Percentage of the Hot Zones served by CDFIs [BASELINE FY 2004]***

Definition: Hot Zones are geographic units with high levels of economic distress. Additionally, all American Indian areas and similar entities that are eligible Investment Areas but do not meet the Hot Zone definitions are considered to be Hot Zones. "Served by CDFIs" is defined as financing.

Source: CDFI Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Baseline	**Not Available**	*Discontinued*

FY 2004 Performance: Not Available

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2004 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Percentage of awardees that have increased their level of self-sufficiency [BASELINE FY 2004]***

Definition: "Self-sufficiency" is defined as the percentage of operating costs that are covered by earned income. Earned income does not include grants. Level of self-sufficiency is an indicator of a CDFI's capacity because it measures the degree to which a CDFI is dependent on contributions to cover operating expenses versus generating income to cover operating expenses.

Source: CDFI Institution Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Baseline	**48**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building**.**

Performance Measure: ***Dollars of private and non-CDFI Fund investments that CDFIs were able to leverage because of their CDFI Fund financial assistance***

Definition: Leverage is defined as the 1:1 non-federal match (as required by the CDFI Program), plus funds the CDFI is able to leverage with CDFI Fund financial assistance grant and equity dollars, plus dollars that the awardees' borrowers leverage for projects that the awardees invest in.

Source: Disbursements of financial assistance are tracked by the Financial Manager and are used as the proxy for matching funds raised.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
503,060,784	659,728,560	1,623,000,000	669,291,656	**2,616,074,962**	*504,422,697*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Community Development Financial Institutions – Bank Enterprise Award (BEA) Program

Performance Measure: ***Dollar value of BEA applicant qualified investments that can be attributed to the prospect of receiving a BEA Award [BASELINE FY 2003]***

Definition: Leverage is defined as the portion of total eligible activity that can reasonably be attributed to the prospect of receiving a BEA Program award.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	$83,000,000	$167,000,000	**$307,000,000**	*$43,000,000*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of individuals or businesses in underserved communities provided financial education, home ownership, business and other training or technical assistance that may counter predatory lending and financial services***

Definition: Training is defined as classroom or group-based training. Technical assistance is defined as one-on-one counseling. Financial literacy training is defined as credit counseling and basic money management. Home ownership training covers home maintenance, finance, and protecting the value of the home. Business training teaches entrepreneurs how to manage a business.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	3,234	1,286	**1,300**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of clients served by community facilities located in or providing services to underserved communities [BASELINE FY 2004]***

Definition: This measures the number of people benefiting from needed community services such as health care and childcare.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not Available**	*Discontinued*

FY 2004 Performance: Not Available

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2004 to create a more equal balance between community development impacts and institutional capacity building. This is one of the community development impact measures that is being dropped so that a capacity building measure can be added.

Performance Measure: ***Number of homebuyers in underserved markets that obtain purchase money mortgages or other home purchase financing***

Definition: Non-conforming purchase money mortgage is defined as a loan that is made for the purpose of purchasing a home and that does not meet the standards required for sale on the secondary market (to such government-sponsored entities as Fannie Mae and Freddie Mac).

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	127	1,177	**2,823**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of accounts opened at insured depository institutions that are located in underserved communities***

Definition: Accounts consist of Electronic Transfer Accounts (for federal benefits recipients who do not have accounts with financial institutions), First Accounts (for low and moderate-income individuals who are currently "unbanked"), Individual Development Accounts (for low-income individuals), and other checking and savings accounts.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	1,200	2,572	**3,085**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2004 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of full-time equivalent jobs created or maintained in underserved communities [BASELINE FY 2003]***

Definition: A full-time equivalent job is defined as a minimum of 35 hours per week. Jobs created and maintained serve as an important indicator of the economic vitality of underserved areas.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	---	1,539	965	**1,128**	*250*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Square footage of commercial real estate property developed in underserved communities [BASELINE FY 2004]***

Definition: The number of square feet of commercial real estate developed, rehabilitated or acquired in projects financed by CDFI commercial real estate loans.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not Available**	*Discontinued*

FY 2004 Performance: Not Available

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of businesses financed that are located in, or provide services or employment to, underserved communities [BASELINE FY 2003]***

Definition: Businesses include for-profit and non-profit businesses. The number of businesses financed is the number of unique businesses receiving a loan or investment from an awardee during the reporting period.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	755	468	**679**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure is being discontinued because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of housing units (including rental units) developed or rehabilitated in underserved communities [BASELINE FY 2003]***

Definition: Housing unit is defined as a single-family rental or for-purchase housing unit. It includes single-family homes, condominiums and apartments. Affordable housing unit is defined as a rental unit whose monthly rent does not exceed 30% of the monthly income of a low-income family.

Source: BEA Report of Transactions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	1,337	1,609	**2,064**	*417*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Community Development Financial Institutions – New Markets Tax Credit (NMTC) Program

Performance Measure: ***Number of businesses and entrepreneurs provided financial counseling or other services by NMTC Program allocatees [BASELINE FY 2004]***

Definition: Financial or other counseling is advice provided by CDEs relating to the organization or operation of a trade or business.

Source: CDE Institution Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not Available**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Explanation of Challenge: Data was collected from 16 of the 66 first allocation round allocatees. These 16 institutions were the only ones that were legally bound by their allocation agreements to submit an Institution Level Report to the Fund in FY 2004. The Fund does not consider 16 institutions to be a sufficient sample upon which to create a baseline for this measure. The reason that so few institutions were required to report in FY 2004 is that the program is new and the rest of the 66 allocatees had not yet conducted eligible New Markets Tax Credit activities that would require them to report.

Future Plans: The measure will be discontinued in FY 2005 because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of clients served by community facilities located in or providing services to underserved communities [BASELINE FY 2004]***

Definition: "Community facility" is defined as a facility in which health care, childcare, educational, cultural or social services are provided. "Number of clients" is defined as the maximum annual capacity of the facility. For example, maximum number of students at a school, beds at a hospital, estimated maximum patients that can be served annually at a health clinic, child slots at a childcare center, slots at an eldercare center, etc. This measures the number of people benefiting from needed community services such as health care and childcare.

Source: CDE Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**0**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Explanation of Challenge: Data was collected from 16 of the 66 first allocation round allocatees. These 16 institutions were the only ones that were legally bound by their allocation agreements to submit an Institution Level Report to the Fund in FY 2004. The Fund does not consider 16 institutions to be a sufficient sample upon which to create a baseline for this measure. The reason that so few institutions were required to report in FY 2004 is that the program is new and the rest of the 66 allocatees had not yet conducted eligible New Markets Tax Credit activities that would require them to report.

Future Plans: The measure will be discontinued in FY 2005 because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of homebuyers in underserved markets that obtain purchase money mortgages or other home purchase financing [BASELINE FY 2004]***

Definition: Non-conforming purchase money mortgage is defined as a loan that is made for the purpose of purchasing a home and that does not meet the standards required for sale on the secondary market (to such government-sponsored entities as Fannie Mae and Freddie Mac).

Source: Not Applicable

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not Available**	*Discontinued*

FY 2004 Performance: Not available because measure is not applicable to CDFI

Future Plans: This measure is not applicable to the NMTC Program. This measure was inadvertently included in the Fund's FY 2004 budget request.

Performance Measure: ***Number of housing units (including rental units) developed or rehabilitated in underserved communities***

Definition: Housing unit is defined as a single-family rental or for-purchase housing unit. It includes single-family homes, condominiums and apartments. Affordable housing unit is defined as a rental unit whose monthly rent does not exceed 30% of the monthly income of a low-income family.

Source: CDE Transaction Level Reports

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**4**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Explanation of Challenge: Data was collected from 6 of the 66 first allocation round allocatees. These 6 institutions were the only ones that were legally bound by their allocation agreements to submit a Transaction Level Report to the Fund in FY 2004. The Fund does not consider 6 institutions to be a sufficient sample upon which to create a baseline for this measure. The reason that so few institutions were required to report in FY 2004 is that the program is new and the rest of the 66 allocatees had not yet conducted eligible New Markets Tax Credit activities that would require them to report.

Future Plans: The measure will be discontinued in FY 2005 because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Square footage of commercial real estate property developed in underserved communities [BASELINE FY 2004]***

Definition: The number of square feet of commercial real estate developed, rehabilitated or acquired in projects financed by CDFI commercial real estate loans.

Source: CDE Transaction Level Reports

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**540,347**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Explanation of Challenge: Data was collected from 6 of the 66 first allocation round allocatees. These 6 institutions were the only ones that were legally bound by their allocation agreements to submit a Transaction Level Report to the Fund in FY 2004. The Fund does not consider 6 institutions to be a sufficient sample upon which to create a baseline for this measure. The reason that so few institutions were required to report in FY 2004 is that the program is new and the rest of the 66 allocatees had not yet conducted eligible New Markets Tax Credit activities that would require them to report.

Future Plans: The measure will be discontinued in FY 2005 because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of businesses financed that are located in, or provide services or employment to, underserved communities***

Definition: Businesses include for-profit and non-profit businesses. They include microenterprises, defined as a business with five or fewer employees and receiving a loan or investment of up to $35,000, as well as larger businesses. The number of businesses financed is the number of unique businesses receiving a loan or investment from an awardee during the reporting period.

Source: CDE Transaction Level Reports

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**8**	*Discontinued*

FY 2004 Performance: Target will not be established from baseline data because measure will be discontinued in FY 2005

Explanation of Challenge: Data was collected from 6 of the 66 first allocation round allocatees. These 6 institutions were the only ones that were legally bound by their allocation agreements to submit a Transaction Level Report to the Fund in FY 2004. The Fund does not consider 6 institutions to be a sufficient sample upon which to create a baseline for this measure. The reason that so few institutions were required to report in FY 2004 is that the program is new and the rest of the 66 allocatees had not yet conducted eligible New Markets Tax Credit activities that would require them to report.

Future Plans: The measure will be discontinued in FY 2005 because the Fund modified its performance measures in FY 2005 to create a more equal balance between community development impacts and institutional capacity building.

Performance Measure: ***Number of full-time equivalent jobs created or maintained in underserved communities [BASELINE FY 2004]***

Definition: A full-time equivalent job is defined as a minimum of 35 hours per week. Jobs created are new jobs created after the loan or investment is made. Jobs created and maintained serve as an important indicator of the economic vitality of underserved areas.

Source: CDE Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**905**	*Baseline*

FY 2004 Performance: Not Available

Future Plans: Data was collected from 6 of the 66 first allocation round allocatees. These 6 institutions were the only ones that were legally bound by their allocation agreements to submit an Institution Level Report to the Fund in FY 2004. The Fund does not consider 6 institutions to be a sufficient sample upon which to create a baseline for this measure. The reason that so few institutions were required to report in FY 2004 is that the program is new and the rest of the 66 allocatees had not yet conducted eligible New Markets Tax Credit activities that would require them to report. In FY 2005, a larger sample of institutions will be required to report and the Fund will be able to use their data to establish a reasonable baseline.

Performance Measure: ***Amount of private equity raised by CDEs through NMTC allocations [BASELINE FY 2004]***

Definition: The total amount of Qualified Equity Investments (QEIs) that CDEs finalized and reported in the Fund's Allocation Tracking System.

Source: Allocation Tracking System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**133,080,343**	*Baseline*

FY 2004 Performance: Not Available

Future Plans: Data was collected from 16 of the 66 first allocation round allocatees. These 16 institutions were the only ones that had issued QEIs by the reporting period end date. The Fund does not consider 16 institutions to be a sufficient sample upon which to create a baseline for this measure. The reason that so few institutions were required to report in FY 2004 is that the program is new and the rest of the 66 allocatees did not have adequate time to issue QEIs between the date they closed their allocation agreements with the Fund and the reporting period end date. In FY 2005, a larger sample of institutions will have issued QEIs and the Fund will be able to use their data to establish a reasonable baseline.

Performance Measure: ***Number of accounts opened at insured depository institutions that are located in underserved communities [BASELINE FY 2004]***

Definition: Accounts consist of Electronic Transfer Accounts (for federal benefits recipients who do not have accounts with financial institutions), First Accounts (for low and moderate-income individuals who are currently "unbanked"), Individual Development Accounts (for low-income individuals), and other checking and savings accounts.

Source: CDE Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not Available**	*Baseline*

FY 2004 Performance: Not Available

Performance Measure: ***Number of individuals or businesses in underserved communities provided financial education, home ownership, business and other training or technical assistance that may counter predatory lending and financial services***

Definition: Training is defined as classroom or group-based training. Technical assistance is defined as one-on-one counseling. Financial literacy training is defined as credit counseling and basic money management. Home ownership training covers home maintenance, finance, and protecting the value of the home. Business training teaches entrepreneurs how to manage a business.

Source: CDE Transaction Level Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not Available**	*Baseline*

FY 2004 Performance: Not Available

Departmental Offices (DO)[21]

Performance Measure: ***U.S. unemployment rate***

Definition: The percentage of the U.S. labor force reported as unemployed in the last quarter of the reference fiscal year.

Source: Data are collected from the U.S. Department of Labor, Bureau of Labor Statistics

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	6.1	5.6	**5.4**	*5.3*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

[21] DO has a few measures that are repeated throughout Part IV. These repeat measures are applied to different programs and objectives.

Performance Measure: ***Sovereign bond issuers that continued to use Collection Action Clauses (CACs) in their New York Issuance (non first time)***

Definition: Value of sovereign bonds issued in other sovereigns' jurisdictions that include CACs, as percentage of total value of sovereign bonds issued in other jurisdictions during the year. Met equates to maintaining or improving upon the status quo.

Source: Treasury will request that the IMF compile the data on total issuances and issuances with CACs. The IMF uses commercial data services (such as Bondware) and collects other information on new issues.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Level of MDB grant financing and satisfactory results measurements (World Bank/IDA Grants) [in millions]***

Definition: Captures the portion of resources provided to borrowers from each MDB in the form of grants and whether such grant financing contains a satisfactory results measurement framework.

Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	1,233	1,602	***1,681***	*1,728*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Level of MDB grant financing and satisfactory results measurements (African Development Bank/AFDF Grants) [in millions]***

Definition: Captures the portion of resources provided to borrowers from each MDB in the form of grants and whether such grant financing contains a satisfactory results measurement framework.

Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	240	294	***65***	*216*

FY 2004 Performance: Target Not Met

Explanation of Challenge and Future Plans: The U.S. is currently engaged in replenishment negotiations for IDA and the AFDF. In both negotiations, the U.S. is pursuing an increase in grant financing, as well as continued improvements in results measurement, transparency, and private sector development.

Performance Measure: ***Sovereign bond issuers that used CACs for the first time in their New York Issuance (75% majority clauses and 85% majority clauses)***

Definition: Value of sovereign bonds issued in other sovereigns' jurisdictions that include CACs, as percentage of total value of sovereign bonds issued in other jurisdictions during the year.

Source: Treasury will request that the IMF compile the data on total issuances and issuances with CACs. The IMF uses commercial data services (such as Bondware) and collects other information on new issues.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	75	***75***	*Met*

FY 2004 Performance: Target Met

Performance Measure: ***Negotiate rules to discipline the use of untied aid, while preserving the tied aid rules within the OECD's Export Credit Arrangement***

Definition: International rules to govern untied aid programs are necessary for policy consistency with agreed rules for tied aid, and to avoid donors circumventing the highly successful tied aid rules by nominally untying their aid programs.

Source: Untied aid programs that are development focused rather than trade promotion focused can be implemented and monitored by rules-based transparency, both ex ante and ex post, for individual untied aid offers. OECD consultations (as exist for tied aid) on prospective untied aid offers is central to monitoring implementation of rules in real time. Ex post data on untied aid financed-projects verifies compliance with untied aid rules in the aggregate.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***U.S. Real GDP growth rate***

Definition: Real GDP is the most comprehensive measure of economic activity and is compiled throughout the year to reflect developments in each calendar quarter.

Source: Data are provided by the Department of Commerce, Bureau of Economic Analysis (BEA)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.3	1.3	2.5	3.5	**4.5**	*3.6*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Open foreign markets to U.S. financial services firms to increase efficiency in those markets, enhancing international growth and stability***

Definition: The number of international trade or investment agreements negotiated during the period that includes new commitments by a foreign government to open its financial services markets to U.S. providers.

Source: Count by International Affairs staff responsible for negotiations

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
3	2	6	5	**6**	*3*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Level of MDB grant financing and satisfactory results measurements (Grants as a % of AFDF FY Commitment)***

Definition: Captures the portion of resources provided to borrowers from each MDB in the form of grants and whether such grant financing contains a satisfactory results measurement framework.

Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	17.0	21.0	***39.2***	*19.5*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Level of MDB grant financing and satisfactory results measurements (Grants as a % of IDA FY Commitment)***

Definition: Captures the portion of resources provided to borrowers from each MDB in the form of grants and whether such grant financing contains a satisfactory results measurement framework.

Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	17.0	22.0	***18.8***	*19.6*

FY 2004 Performance: Target Not Met; Performance Exceeds Prior Year

Explanation of Challenge and Future Plans: The U.S. is currently engaged in replenishment negotiations for IDA and the AFDF. In both negotiations, the U.S. is pursuing an increase in grant financing, as well as continued improvements in results measurement, transparency, and private sector development.

Performance Measure: ***Sovereign bond issuers that did not use CACs in their New York Issuance***

Definition: Value of sovereign bonds issued in other sovereigns' jurisdictions that include CACs, as percentage of total value of sovereign bonds issued in other jurisdictions during the year.

Source: Treasury will request that the IMF compile the data on total issuances and issuances with CACs. The IMF uses commercial data services (such as Bondware) and collects other information on new issues.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Reform Paris Club debt substantially to reduce serial rescheduling***

Definition: Paris Club creditors tailor their debt treatment to the financial condition of the debtor so that the debtor will not need to return to the Paris Club for a further treatment; i.e., the Paris Club provides an "exit" treatment.

Source: Paris Club creditors and debtors negotiate and sign agreements that provide for exit treatments. These events would be communicated by the Treasury Office of International Debt Policy.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	1	**1**	*2*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Value of U.S. exports of cross border financial services, excluding insurance ($ in billions based on calendar year)***

Definition: In billions of dollars, the value of U.S. exports of cross border financial services (excluding insurance to other countries, such as a U.S. based firm providing services to another country and not a sale through an affiliate or other commercial presence) the U.S. exports to other countries.

Source: Treasury staff works with survey data compiled by the U.S. Commerce Department

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
15.5	15.9	Not Available	15.5	***21.3***	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of crisis in emerging markets - Defaults***

Definition: Crises in emerging markets can be defined as, "a sudden, usually unexpected collapse of confidence in a significant portion of the banking or financial system - or in currency markets - with potentially large real economic effects" per Morris Goldstein's Presumptive Indicators paper.

Source: Defaults are monitored by Moody's and Standard and Poor's (S&P), Treasury subscribes to both services. These events would be communicated by Treasury/Banking Office.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	4	3	3	***0***	*3*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of crisis in emerging markets - Currency depreciations***

Definition: Crises in emerging markets can be defined as, "a sudden, usually unexpected collapse of confidence in a significant portion of the banking or financial system - or in currency markets - with potentially large real economic effects" per Morris Goldstein's Presumptive Indicators paper.

Source: Data will track currency devaluations. Currency dislocations would incorporate a 20% nominal exchange rate depreciation over a 6-month period, per CIA/Blue Chip Early Warnings System. Treasury/QPA can provide a report on a regularly scheduled basis.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	11	7	6	***4***	*5*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of crisis in emerging markets - Banking system failures***

Definition: Crises in emerging markets can be defined as, "a sudden, usually unexpected collapse of confidence in a significant portion of the banking or financial system - or in currency markets - with potentially large real economic effects" per Morris Goldstein's Presumptive Indicators paper.

Source: Data will track banking system failures. A banking system failure can be characterized by either (1) a bank run leading to closure, merging or public intervention or (2) if no run and either a closure, merger or public intervention. These events would be communicated to us by Treasury/Banking Office.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	2	1	1	***0***	*1*

FY 2004 Performance: Target Met

E1B: Provide a Flexible Legal and Regulatory Framework

Office of the Comptroller of the Currency (OCC)

Performance Measure: ***Percentage of licensing applications and notices filed electronically [BASELINE FY 2003]***

Definition: This measure reflects the extent to which institutions are using the Internet to file licensing applications and after-the-fact notices with the OCC. The e-Corp component of OCC's National BankNet allows banks to file corporate applications and notices electronically.

Source: The Chief Counsel's office will use an e-Corp database to identify all licensing applications received electronically and will use the Corporate Activity Information System (CAIS) to identify the total volume of applications received during the fiscal year.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	8	15	**34**	*35*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Number of licensing applications and notices filed electronically during the fiscal year [BASELINE FY 2003]***

Definition: This measure is a workload indicator which reflects the total volume of electronic filings during the fiscal year. The e-Corp component of OCC's National BankNet allows banks to file corporate applications and notices electronically.

Source: The Chief Counsel's office will use an e-Corp database to identify all licensing applications received electronically.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	182	285	**893**	*875*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percentage of licensing applications and notices completed within established timeframes***

Definition: This measure reflects the extent to which OCC meets its established timeframes for reaching decisions on licensing applications.

Source: The Chief Counsel's office uses the Corporate Activity Information System (CAIS) to identify applications completed during the fiscal year.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
96	96	97	95	**96**	*95*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of licensing applications and notices completed during the fiscal year***

Definition: This workload indicator reflects the total volume of licensing applications and notices completed during the fiscal year.

Source: The Chief Counsel's office uses the CAIS to identify applications completed during the fiscal year.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	1,918	1,900	**2,477**	*2,400*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Average survey rating of OCC's timeliness on licensing applications***

Definition: This measure reflects the average responses to a survey of all applicants that receive a decision on a licensing application or notice during the fiscal year. A lower score is better.

Source: Survey results are input into an Excel spreadsheet by a licensing technician upon receipt of the completed survey. The surveys are used to obtain feedback on the timeliness and quality of licensing services provided by the OCC. The surveys are administered by the Licensing function in the Office of the Chief Counsel.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.15	1.19	1.16	1.50	**1.20**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report satisfaction with licensing services under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of licensing operations through the licensing survey.

Performance Measure: ***Average survey rating of the knowledge of OCC's licensing staff***

Definition: This measure reflects the average responses to a survey of all applicants that receive a decision on a licensing application or notice during the fiscal year.

Source: Survey results are input into an Excel spreadsheet by a licensing technician upon receipt of the completed survey. The surveys are used to obtain feedback on the timeliness and quality of licensing services provided by the OCC. The surveys are administered by the Licensing function in the Office of the Chief Counsel.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.17	1.19	1.14	1.5	**1.2**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report satisfaction with licensing services under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of licensing operations through the licensing survey.

Performance Measure: ***Average survey rating of the professionalism of OCC's licensing staff***

Definition: This measure reflects the average responses to a survey of all applicants that receive a decision on a licensing application or notice during the fiscal year.

Source: Survey results are input into an Excel spreadsheet by a licensing technician upon receipt of the completed survey. The surveys are administered by the Licensing function in the Office of the Chief Counsel.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.10	1.12	1.09	1.50	**1.10**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report satisfaction with licensing services under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of licensing operations through the licensing survey.

Performance Measure: ***Average survey rating of the overall licensing services provided by OCC***

Definition: This measure reflects the average responses to a survey of all applicants that receive a decision on a licensing application or notice during the fiscal year.

Source: Survey results are input into an Excel spreadsheet by a licensing technician upon receipt of the completed survey. The surveys are administered by the Licensing function in the Office of the Chief Counsel.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.16	1.17	1.14	1.50	**1.20**	*≤1.5*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of external legal opinions issued within established timeframes***

Definition: This measure reflects the extent to which OCC meets its established timeframes for issuing legal opinions on external requests.

Source: The Chief Counsel's office will use the Lotus Notes Project Tracking System (PTS) to identify the legal opinions issued during the fiscal year (exclusive of approved exceptions).

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	87	85	**87**	*86*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of external legal opinions issued during the fiscal year [BASELINE 2003]***

Definition: This workload indicator reflects the total volume of external legal opinions issued during the fiscal year.

Source: The Chief Counsel's office will use the Lotus Notes Project Tracking System (PTS) to identify the legal opinions issued during the fiscal year (exclusive of approved exceptions).

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	92	110	**119**	*125*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Office of Thrift Supervision (OTS)

Performance Measure: ***Difference between the inflation rate and the OTS assessment rate increase***

Definition: OTS strives to increase assessment rates by no more than the rate of inflation. (The inflation index is defined as the increase in the Gross Domestic Product Implicit Price Deflator). This measure was reworded to more precisely define the calculation of the inflation rate.

Source: OTS's current assessment rates are specified in OTS's Thrift Bulletins (the TB 48 series). OTS calculates this measure whenever a new assessment bulletin is issued.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	0	0	**0**	*0*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of applications processed within timeframes***

Definition: OTS regulations require thrift institutions to file an application before engaging in certain activities.

Source: The National Applications Tracking System (NATS) tracks the number of days required to process each application to completion.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	98	95	**97**	*95*

FY 2004 Performance: Target Met/Exceeded

E1C: Improve and Simplify the Tax Code

Departmental Offices (DO)

Performance Measure: ***Value of U.S. exports of cross border financial services, excluding insurance ($ in billions based on calendar year)***

Definition: In billions of dollars, the value of U.S. exports of cross border financial services (excluding insurance to other countries, such as a U.S. based firm providing services to another country and not a sale through an affiliate or other commercial presence) the U.S. exports to other countries.

Source: Treasury staff works with survey data compiled by the U.S. Commerce Department

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
15.5	15.9	Not Available	15.5	***21.3***	*15.5*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Average tax compliance cost for individuals and small businesses [BASELINE FY 2004]***

Definition: This measures the cost for individuals and small business to satisfy their tax obligations, including the amount of time spent filling out tax forms.

Source: IRS tax data

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not Available**	*0*

FY 2004 Performance: Not Available

E2: Promote Stable U.S. and World Economies

E2A: Increase Citizens Economic Security

Departmental Offices (DO)

Performance Measure: ***On-time payment of federal loan guarantee fees and repayment of underlying loans by borrowers***

Definition: Percent of fees and loan repayments made on time

Source: Transaction data regarding guarantee fee payments come from the Financial Reporting Branch of DO

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	100	100	100	***100***	*100*

FY 2004 Performance: Target Met

Performance Measure: ***U.S. household net worth as percentage of disposable personal income***

Definition: The ratio of household net worth to disposable person income in percentage terms in the last quarter of the referenced fiscal year.

Source: Economic data collected from the Federal Reserve Board of Governors, flow of funds data, and balance sheet of the household sector (B.100)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	512	***537***	*514*

FY 2004 Performance: Target Met/Exceeded

Alcohol and Tobacco Trade and Tax Bureau (TTB)

Performance Measure: ***Percentage of electronically filed COLA applications***

Definition: Measure calculated by dividing the number of e-filed applications by the total COLA submissions (paper and electronic).

Source: Data is captured thru the COLAs Online data base system. There are periodic statistical reports, searches, and queries that are generated.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	7	**15**	*20*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of non-beverage formula submissions processed within 10 working days of receipt***

Definition: It tracks the ability of the laboratory to examine samples and report findings within 10 days of receipt.

Source: When the RLIS database was being developed, we tested its monthly reporting capability to make certain that the database was dependably calculating the turnaround time.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	90	**95.3**	*90*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Response to unsafe products and product deficiencies discovered (alcohol)***

Definition: Tracks the number of corrections made to unsafe products and product deficiencies reported to TTB and discovered from inspector activities

Source: All entries are made by the project manager and reviewed by Field Operations

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	191	190	**154**	*Discontinued*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The 154 corrections include multiple corrections of samples in some instances. These corrections are taken from several thousand samples. Most of the corrections are not considered an imminent health hazard. Based on test results, the significance of the testing is that the products tested are considered predominantly safe for public consumption.

Future Plans: While significant testing will continue, this measure will be discontinued in FY 2005 and replaced by "Percentage of unsafe products responded to with appropriate action within 48 hours."

Performance Measure: ***Percentage of COLA approval applications processed within 9 working days of receipt***

Definition: The percentage of COLA applications processed electronically and by paper.

Source: Data is captured thru the COLAs Online data base system. There are periodic statistical reports, searches, and queries that are generated.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	60	**27**	*65*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The target was not met this year due to the increasing number of COLA application submissions, the customer and TTB employee learning curve when working with our new COLAs Online label application database, and because we are still in the process of acquiring and training new staff for this activity.

Performance Measure: ***Percentage of Specially Denatured Alcohol formula submissions completed within 10 days of receipt***

Definition: It tracks the ability of the laboratory to examine samples and report findings within 10 days of receipt.

Source: When the RLIS database was being developed; we tested its monthly reporting capability to make certain that the database was dependably calculating the turnaround time.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
---	--	--	90	**88.9**	*90*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The performance measure was set at an approximate target level, and the deviation from the level is slight. There was not effect on overall program or activity performance.

E2B: Improve the Stability of the International Financial System

Departmental Offices (DO)

Performance Measure: ***Number of crisis in emerging markets - Defaults***

Definition: Crises in emerging markets can be defined as, "a sudden, usually unexpected collapse of confidence in a significant portion of the banking or financial system - or in currency markets - with potentially large real economic effects" per Morris Goldstein's Presumptive Indicators paper. Data will track defaults.

Source: Defaults are monitored by Moody's and Standard and Poor's (S&P) - Treasury subscribes to both services. These events would be communicated to us by Treasury/Banking Office.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	4	3	3	***0***	*3*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of crisis in emerging markets - Currency depreciations***

Definition: Data will track currency devaluations. Currency dislocations would incorporate a 20% nominal exchange rate depreciation over a 6-month period.

Source: CIA/Blue Chip Early Warnings System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	11	7	6	***4***	*5*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of crisis in emerging markets - Banking system failures***

Definition: Data will track banking system failures. A banking system failure can be characterized by either (1) a bank run leading to closure, merging or public intervention or (2) if no run and either a closure, merger or public intervention.

Source: These events communicated by Treasury/Banking Office.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	2	1	1	***0***	*1*

FY 2004 Performance: Target Met/Exceeded

FINANCIAL FOCUS

F3: Preserve the Integrity of Financial Systems

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

Departmental Offices (DO)

Performance Measure: ***Increase the number of terrorist finance designations for which other countries join the U.S.***

Definition: Captures the number of countries around the world who simultaneously or post-event designate with the U.S. when new names are added to the list.

Source: International Affairs Task Force on Terrorist Finance maintains a database which includes this statistic.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	161	162	**195**	*Increase*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Increase the number of drug trafficking/terrorist related financial sanctions targets identified and made public***

Definition: This represents the number of targets which are either (1) identified by OFAC through its own independent research or (2) which are referred to OFAC by other U.S. government agencies or (3) referred to the U.S. government through either the UN or through bilateral discussions with the United State's international partners, for which there is a reasonable cause to believe that the target in question can be designated pursuant to U.S. and/or international legal authorities.

Source: OFAC independently researches each and every potential target and prepares an administrative record in order to establish that there is legal sufficiency to designate pursuant to U.S. authorities. This record serves as the basis for a case summary which is presented to the interagency for its consideration on whether to pursue a designation or alternative USG actions.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	335	335	***466***	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Increase targets frozen under drug and terrorist related sanctions programs***

Definition: This represents the number of targets which are either (1) identified by OFAC through its own independent research or (2) which are referred to OFAC by other U.S. government agencies or (3) referred to the U.S. government through either the UN or through bilateral discussions with the United State's international partners, for which there is a reasonable cause to believe that the target in question can be designated pursuant to U.S. and/or international legal authorities.

Source: OFAC independently researches each and every potential target and prepares an administrative record in order to establish that there is legal sufficiency to designate pursuant to U.S. authorities. This record serves as the basis for a case summary which is presented to the interagency for its consideration on whether to pursue a designation or alternative USG actions.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	335	335	***466***	*Discontinued*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Financial Crimes Enforcement Network (FinCEN)

Performance Measure: ***Average time to process a civil penalty case (in years)***

Definition: This measure tracks processing time for civil penalty matters received after January 1, 1998. (Previous cases were considered as a backlog and were processed as soon as possible.)

Source: The data for this measure is captured through an internal database that tracks civil penalty cases. The database records the date cases are received, the analyst assigned, the statute of limitations date, and the date each case was closed.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.8	1.5	1.3	1.2	**1.0**	*1.1*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Number of vulnerable industries covered by anti-money laundering regulations***

Definition: The number of financial industries covered by the Bank Secrecy Act anti-money laundering reporting and recordkeeping requirements.

Source: A list of industries is provided by FinCEN's Office of General Counsel

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	10	15	**10**	*15*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The anti-money laundering rules for insurance companies and dealers in precious metals, stones, and jewels have been slightly delayed to ensure that an examination/compliance program will be in place. Finalizing the anti-money laundering rules for Commodity Trading Advisors, Investment Advisors, and Unregistered Investment companies is taking additional time because it requires the resolution of some difficult issues raised by public comments, as well as coordination with two different functional regulators to ensure that cross cutting issues are resolved consistently throughout them.

Performance Measure: ***Share of Bank Secrecy Act filings submitted electronically***

Definition: The percentage of electronic Bank Secrecy Act filings submitted via the web-based Patriot Act Communication System based on two months of the fiscal year. Using two most recent months of fiscal year data to calculate the performance is a better indicator of the level of e-filing ultimately achieved.

Source: Reports are generated weekly by the PACS contractor based on automated tracking

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	6	20	**20**	*35*

FY 2004 Performance: Target Met; Performance Exceeds Prior Year

Note: FY 2003 results were changed from 4% to 6%. The targets in the FY 2005 Budget were based on the e-filing results anticipated at the end of September. However, the actual reported last year was based on an average of the calendar year's results. In addition, this methodology will allow management to take immediate action through out the year by monitoring the last two month's performance making it much easier to track progress on a quarterly basis.

Performance Measure: ***Number of subjects in completed investigative analytical reports***

Definition: The number of subjects researched and/or identified is an indicator of the complexity and volume of case research over time. It also indicates the level of manpower and computer support required to conduct the analyses.

Source: Automated systems are used to track and monitor this information. The results are reported to the Assistant Director on a quarterly basis.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
32,278	30,840	30,420	30,000	**19,158**	*31,000*

FY 2004 Performance: Target Not Met

Explanation of Challenge: During FY 2004, the total number of cases and corresponding entities through FinCEN's networks actually increased. FinCEN began to see a significant reduction in the number of basic data query type research cases submitted correlating directly to an increase in the number of Gateway users accessing our network to perform their own analysis. This change in workload and the reduction in the number of data query analysis cases received contributed to the significant decline in the number of entities in completed investigative analytical reports.

Future Plans: The shift in workload allowed FinCEN to begin to implement their strategic direction to redirect resources to more extensive research such as increasing the pro-active analysis of terrorism related suspicious activity reports and other information to identify investigative targets. The performance plans proposed for FY 2005 were adjusted accordingly.

Performance Measure: ***Percentage of FinCEN's customers rating its strategic analytical products as valuable***

Definition: This measures the number of financial industry customers who rate FinCEN's specialized analytical products as valuable, as a percent of the total customers surveyed.

Source: The survey will be conducted biennially by a contractor using a survey instrument. The contractor's performance work statement will require a margin of error or + or -5 percentage points at a 95% confidence level.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**Not established**	*Baseline*

FY 2004 Performance: Baseline not established

Explanation of Challenge: A decision was made to defer this survey to FY 2005 to allow an opportunity to change the overall focus and content of the semi-annual SAR Activity Reviews. The decision to defer was partially based on the feedback received after the publication of Issue #6, published November 2003.

Future Plans: The feedback form had been expanded to allow us to obtain more specific suggestions to improve these reports. Although not statistically valid, the feedback received indicated that changes were needed in the overall content and format. These changes were incorporated into the issue #7 published August 2004 and provided expanded analysis with highlights on seven issues. FinCEN has received positive feedback on these changes and a survey is planned for FY 2005.

Performance Measure: ***Number of users directly accessing BSA data through FinCEN's Gateway process***

Definition: The number of individuals with current passwords who have accessed the Bank Secrecy Act data through the Secure Outreach network in the past 12 months.

Source: The list can be checked through the Profile function at the Detroit Computing Center

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	1,105	1,700	**2,181**	*3,000*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Number of strategic analytic products***

Definition: The number of strategic analytic products prepared on a wide range of topics, including geographic regions, specific industries, and/or financial service areas.

Source: The data is captured by physical count and are maintained by FinCEN's Office of Strategic Analysis.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	80	**56**	*90*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The overall focus of our strategic analysis products changed from short-term products to longer-term statistical and non-statistical analysis. A number of these long-term products were not completed prior to the end of the fiscal year.

Future Plans: A new strategic report series concentrating on producing technical reference guides on financial mechanisms (such as wire transfer, money orders, stored value, and internet payment related systems) was a new initiative started in the 4th quarter. These guides will focus on financial mechanisms that are vulnerable to terrorist financing and money laundering system.

Treasury Forfeiture Fund (TFF)

Performance Measure: ***Percent of forfeited cash proceeds resulting from high-impact cases***

Definition: Measures the percentage of forfeited cash proceeds resulting from high-impact cases (those with asset seizures in excess of $100,000)

Source: This measure is calculated by dividing the total amount of forfeited cash proceeds from cases greater than $100,000 by the total amount of forfeited cash proceeds for all cases. Focusing on strategic cases and investigations which result in high-impact seizures will affect the greatest damage to criminal organizations while accomplishing the ultimate objective - to punish and deter criminal activity.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
78.54	73.00	80.55	75.00	**83.95**	*75.00*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

F3B: Execute the Nation's Financial Sanctions Policies

Departmental Offices (DO)

Performance Measure: ***Estimated number of sanctioned entities no longer receiving flow of funds from the U.S.***

Definition: OFAC systematically attacks hostile foreign governments, corrupt regimes, foreign drug cartels, and other sanctions targets determined by the President, the Secretary of State, or the Congress. In particular, OFAC attacks their networks of agents, front companies, business investments and money laundering vehicles, especially their penetrations of the legitimate economy, by exposing, isolating, and impeding or incapacitating them, principally through denying them access to the U.S. financial & economic system.

Source: The identification of these sanctioned parties is accomplished through their identification by either the President or Congress or through the various Specially Designated Nationals & Blocked Persons programs administered by OFAC.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	2,959	526	**526**	*526*

FY 2004 Performance: Target Met

F3C: Increase the Reliability of the U.S. Financial System

Bureau of Engraving & Printing (BEP)

Performance Measure: ***Manufacturing costs for currency ($ per 1000 notes)***

Definition: An indicator of currency manufacturing efficiency and effectiveness of program management. This standard is developed annually based on the past year's performance, contracted price factors, and anticipated productivity improvements. Actual performance comparison against the standard depends on BEP's ability to meet annual spoilage, efficiency, and capacity utilization goals established for this product line.

Source: BEP's accrual-based cost accounting system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
23.88	30.03	29.14	35.00	**28.06**	*37*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Currency shipment discrepancies per million notes***

Definition: A qualitative indicator reflecting BEP's ability to provide effective product security and accountability. This measure refers to product overages or underages of as little as a single currency note in shipments of finished notes to the Federal Reserve Banks.

Source: Federal Reserve Banks

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
0.00	0.00	0.00	0.01	**0.00**	*0.01*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Postage Stamp Deliveries (in billions)***

Definition: A measure of BEP's ability to meet customer volume demand. This measure allows BEP to most efficiently plan on the use of production equipment, personnel, and inventory resources.

Source: BEP's accrual-based cost accounting system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
15.9	12.0	9.9	7.0	**7.0**	*5*

FY 2004 Performance: Target Met

Performance Measure: ***Maintain/Upgrade ISO Certification***

Definition: ISO Certification signifies that the certified organization follows a rigorous quality control program under stringent international standards. ISO certification provides current and future Bureau customers assurance that our currency-manufacturing program will deliver high quality security products.

Source: ISO Registrar – Underwriter's Laboratories

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Federal Reserve Note Deliveries (in billions)***

Definition: A measure of BEP's ability to meet customer volume demand. This measure allows BEP to most efficiently plan on the use of production equipment, personnel, and inventory resources.

Source: BEP's accrual-based cost accounting system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
9.0	7.0	8.2	8.7	**8.7**	*9.1*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***General and administrative costs as a percent of total costs [BASELINE FY 2003]***

Definition: This measure is a quantitative indicator of the Bureau's ability to control and minimize its general and administrative support costs.

Source: BEP's accrual-based cost accounting system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	9.7	9.5	**9.5**	*9.5*

FY 2004 Performance: Target Met

Performance Measure: ***Employee turnover rate [BASELINE FY 2003]***

Definition: This measure tracks the percentage of Bureau employees that separate from Bureau employment annually (excluding retirements).

Source: Treasury HR Connect System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	3.00	2.75	**2.72**	*2.75*

FY 2004 Performance: Target Met

Performance Measure: ***Annual Financial Statement Audit Opinion***

Definition: This measure represents an assessment by an independent, certified public accounting firm of the integrity of the Bureau's revolving fund and the reliability of financial data used for managerial decision-making.

Source: Independent Certified Public Accounting Firm

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Security costs per 1000 notes delivered [Baseline FY 2004] (in dollars)***

Definition: An indicator reflecting the cost of providing effective and efficient product security and accountability.

Source: BEP's accrual-based cost accounting system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**5.95**	*6.10*

FY 2004 Performance: Baseline established

Performance Measure: ***Percent of contracts awarded competitively [BASELINE FY 2003]***

Definition: This measure tracks the Bureau's commitment to promoting fair and open competition in awarding contracts for goods and services. Competition for goods and services will ensure that they provided to the government in the most cost efficient and effective means possible.

Source: Treasury Acquisition Data System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	74	76	**76**	*76*

FY 2004 Performance: Target Met; Performance Exceeds Prior Year

Departmental Offices (DO)

Performance Measure: ***Increase percentage of participation rate of U.S. financial institutions in the FS-ISAC (by segment)***

Definition: The increase/decrease in usage by the financial services sector of the FS-ISAC by the number of financial sector institutions participating in the FS-ISAC at the end of each calendar year.

Source: The FS-ISAC will provide data from their subscription lists showing the number of financial sector institutions participating in the FS-ISAC.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	67	26%	***309%***	*20*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Implement all regulations necessary to pay claims under the act and create the physical plant necessary to process and manage the claims administration function***

Definition: Regulations are those necessary to manage the claims processing function including potential litigation under the program.

Source: TRIP program Executive Director responsible for managing and completing objective.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	9/30/2004	**9/30/2004**	*9/30/2005*

FY 2004 Performance: Target Met

Performance Measure: ***Promulgate all regulations by first anniversary of statute***

Definition: Physical plant for claims processing established and operational consistent with the regulations.

Source: TRIP Executive Director responsible for successful procurement of services and testing of facility

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	11/26/2003	**11/26/2003**	*Discontinued*

FY 2004 Performance: Target Met

U.S. Mint

Performance Measure: ***Conversion cost per 1000 coin equivalents (units in dollars)***

Definition: The cost of production (conversion cost) divided by the number of products made.

Source: Financial and production data from the United States Mint Enterprise Resource Planning system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
8.33	--	9.96	9.78	**7.93**	*7.03*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Inventory Turnover***

Definition: Number of times per year the average inventory is sold

Source: Financial and production data from the United States Mint Enterprise Resource Planning system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	1.60	1.96	3.30	**2.48**	*4.20*

FY 2004 Performance: Target Not Met; Performance Exceeds Prior Year

Explanation of Challenge: The result is an improvement of 27% from 1.96 in FY 2003, achieved mainly through increased sales. Costs of goods sold increased 23%, however average inventory levels decreased only slightly from FY 2003 (-3%). These improvements were not enough to achieve the FY 2004 target of selling the average inventory 3.3 times during the year. Initiatives for FY 2005 are focusing on reducing the time from product concept to production and on improving production planning. Greater flexibility to respond to market demands leads to improved inventory turnover and the United States Mint expects continued improvement in this measure.

Performance Measure: ***Workforce climate [BASELINE FY 2003]***

Definition: A survey designed to assess the attitudes of Mint employees concerning their work environment. It is administered each quarter to 25% of the Mint's permanent workforce.

Source: Survey administered each quarter to 25% of the United States Mint permanent workforce

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	60	65	***65***	*66*

FY 2004 Performance: Target Met; Performance Exceeds Prior Year

Performance Measure: ***Total Losses [BASELINE FY 2004]***

Definition: Measures the dollar amount of losses incurred due to the realization of threats against the Mint.

Source: The United States Mint Police maintain monthly reports. Any theft or fraud amount determined as unrecoverable is assessed on a case-by-case basis.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	3,109	*TBD*

FY 2004 Performance: Baseline established

Performance Measure: ***SG&A Costs as a Percent of Revenue (excludes bullion)***

Definition: Selling General & Administrative expenses divided by the Mint-wide revenue (excluding the bullion revenue).

Source: Financial data from the United States Mint Enterprise Resource Planning system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	12.7	15.3	16.0	**12.2**	*10.0*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Future Plans: The YTD performance is within the current year target of 16%, as efforts have been made to reduce budgeted spending throughout the year. A target of about 12% would have been more appropriate for United States Mint operations in FY 2004. Continued reductions in costs remain a priority in order to approach the benchmark of 7.7%.

Performance Measure: ***Yield***

Definition: Assesses the amount of metal or other material that results in a finished good, not including web scrap.

Source: The coin production and material consumption data are from the Enterprise Resource Planning System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	86.0	85.9	97.0	**86.1**	*97.0*

FY 2004 Performance: Target Not Met; Performance Exceeds Prior Year

Explanation of Challenge: A slight increase in performance from 85.9% in FY 2003. Performance is short of the target of 97%, a stretch goal designed to encourage broad thinking and suggestions for improvement from all personnel. The main impediment to reaching the target is the fact that the target does not include an allowance for the webbing that results from stamping round blanks from rectangular sheets of metal.

Performance Measure: ***Lost Time Accident Rate (per 100 employees)***

Definition: The rate of Lost Time Accidents (LTAs) per 100 employees working a full year. LTAs are unsafe acts that lead an employee to miss at least one full day of work.

Source: Compensation records from the Office of Worker's Compensation Program at the Department of Labor

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
3.93	2.24	1.48	1.24	**1.36**	*1.03*

FY 2004 Performance: Target Not Met; Performance Exceeds Prior Year

Explanation of Challenge: Improved to 1.36 in FY 2004 from 1.48 in FY 2003, an improvement of 8%. This result does not reach the target rate of 1.24. The FY 2004 final result may be adjusted at a later date pending a review or dispute of each incident's present classification. The addition of trained, experienced safety personnel has enhanced the United States Mint-wide safety process, focused our resources on achievable goals, and improved communication with management and labor.

Future Plans: In FY 2005, the United States Mint plans to reinvigorate the focus on safe work habits and safety awareness. Employee driven work teams have already identified and eliminated several unsafe work practices. We plan to build on this success in FY 2005 by demonstrating that employees are empowered to make meaningful changes to their work environment. The United States Mint will establish knowledge sharing networks to distribute proven solutions and develop new approaches to improve safety at its facilities.

Performance Measure: ***Machine Availability (in %)***

Definition: The amount of time the production equipment is available to produce finished goods

Source: Supervisory Control and Data Acquisition systems at the facilities monitor the status of each machine including time run and down time.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	52	56	64	**64**	*66*

FY 2004 Performance: Target Met; Performance Exceeds Prior Year

Performance Measure: ***Cycle Time (in days)***

Definition: Cycle time is the length of time from when material enters a production facility until it is delivered to the customer.

Source: Financial and production data from the United States Mint Enterprise Resource Planning system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	112	73	53	**85**	*53*

FY 2004 Performance: Target Not Met

Explanation of Challenge: Cycle-time for September was 85 days, which did not meet the target of 53 days. The cycle-time spiked 12 days from 73 in August due to renovations at Philadelphia that caused a lower average production level for the month. The underlying reason that performance is not meeting the target is a large amount of dollar coins in inventory. The demand for new dollar coins after its introduction in FY 2000 was highly volatile, thereby affecting the confidence levels of the production planning. The need for the dollar coin in commerce decreased in the years following introduction, leaving inventory on hand. Dollar coins demanded for commerce are currently fulfilled solely from this inventory. Excluding the dollar coin, the cycle-time is 55 days.

Performance Measure: ***Customer Service Index [BASELINE FY 2003] (in %)***

Definition: This measure is an indicator of the quality of our product and service to the customer. Production of quality products and excellent customer service is paramount.

Source: Orders data is pulled via a query from the United States Mint's order management system. Call data is pulled from telephone reports.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	87	87	**78**	*87*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Customer Service Index was 78% through FY 2004, lower than the target and baseline of 87% set in FY 2003. The Order Fulfillment and Quality elements remained level from FY 2003. The Call Answer element was affected by back-order situations for selected products, causing call volume to increase by 26% from FY 2003. This took place concurrently with call center staff reductions in anticipation of fully outsourcing this function in FY 2005. This function is still expected to be fully outsourced in early FY 2005 through a performance-based contract that requires the contractor to meet specified performance metrics. The United States Mint is also improving customer service by focusing on production planning and leveraging technology to improve order fulfillment and reduce back-order situations.

Office of the Comptroller of the Currency (OCC)

Performance Measure: ***Percentage of national banks that are well-capitalized***

Definition: This measure reflects whether the national banking system is well-capitalized at fiscal year-end.

Source: National banks file quarterly Reports of Condition and Income with the Federal Financial Institutions Examination Council (FFIEC) through the Federal Deposit Insurance Corporation's data processing center.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
98	99	99	95	***99***	*95*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of national banks with composite CAMELS rating 1 or 2***

Definition: This measure reflects the overall condition of the national banking system at fiscal year-end. The target is established at 90%, which is indicative of a strong national banking system that effectively supports the U.S. economy. This is considered the threshold for an overall safe and sound national banking system. Historical performance, including periods of greater volatility, has been considered in establishing the target. The factors that comprise the composite CAMELS rating are vulnerable to changes in economic conditions and this target has been established to account for these fluctuations. The target level recognizes that deficiencies are identified during bank examinations and that the OCC will make recommendations for improving operations, and where warranted, will take appropriate enforcement actions.

Source: Bank regulatory agencies use the Uniform Financial Institutions Rating System, to provide a general framework for assimilating and evaluating all significant financial, operational and compliance factors inherent in a bank. The Supervisory Information office identifies the current composite ratings from Examiner View (EV) and Supervisory Information System (SIS) at fiscal year-end. The number of national banks at fiscal year-end is obtained from the Federal Reserve Board's National Information Center database.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
94	95	94	90	***94***	*90*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of critically undercapitalized banks on which responsible action is taken within 90 calendar days after they become critically undercapitalized***

Definition: This measure reflects timely resolution of significant problem bank situations that can contribute to the effective maintenance of the Bank Insurance Fund.

Source: The date a bank becomes critically undercapitalized and the resolution date are recorded in EV. This information flows into the monthly Problem Bank Report, which is monitored to ensure responsible action is taken in a timely manner.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage of national banks with consumer compliance rating of 1 or 2***

Definition: This measure reflects the national banking system's compliance with consumer laws and regulations. The target is established at 94%, which is indicative of a national banking system that effectively complies with consumer laws and regulations. This target is considered the threshold for ensuring the overall national banking system is supportive of fair access to banking services and fair treatment of bank customers. Historical performance has been considered in establishing the target. The target level recognizes that deficiencies are identified during bank examinations and that the OCC will make recommendations for improving banking operations, and where warranted, will take appropriate enforcement actions.

Source: Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	96	94	***96***	*94*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of community banks that are within one year of its first large bank Community Reinvestment Act (CRA) examination where the OCC offers to provide consultation on community development opportunities***

Definition: This measure reflects the level of OCC's proactive outreach to community banks before they become subject to an assessment of their CRA investments under large bank requirements.

Source: Annually, the OCC's Community Affairs office in headquarters develops a list of national banks that on January 1, are within one year of its first large bank CRA examination, i.e., have exceeded $250 million in assets and is collecting large bank data. The district community affairs officer, in conjunction with the EIC, records in EV the offers of consultations made to the targeted banks.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage of consumer complaints closed within 60 calendar days of receipt***

Definition: The measure reflects the timeliness of OCC in facilitating the resolution of consumer complaints within an established standard. To promote fair access to financial services and fair treatment of bank customers, the OCC facilitates the resolution of consumer complaints involving national banks.

Source: The OCC's Ombudsman office identifies the number of closed consumer complaints recorded in the Remedy Action Response System (RARS) for the fiscal year. Processing of customer complaints is tracked in the RARS. Both the receipt and closure dates are recorded in RARS.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	87	80	**74**	*80*

FY 2004 Performance: Target Not Met

Explanation of Challenge: Of the cases closed, 74% were completed within 60 calendar days of receipt. This was a decline from 87% in FY 2003. Although the number of consumer complaint cases received declined by 9% from FY 2003, the increase in complexity of written cases and a decline in the number of cases that could be closed over the phone contributed to not meeting the performance goal this year. Management expects to meet this goal in FY 2005 by adding staff and increasing the efficient and effective use of technology.

Performance Measure: ***Number of consumer complaints opened during the fiscal year***

Definition: This workload measure reflects the total number of consumer complaints opened during the fiscal year.

Source: The OCC's Ombudsman office identifies the number of opened consumer complaints recorded in the Remedy Action Response System (RARS) for the fiscal year. To promote fair access to financial services and fair treatment of bank customers, the OCC facilitates the resolution of consumer complaints involving national banks.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	75,114	75,000	**68,026**	*80,000*

FY 2004 Performance: Target Not Met

Explanation of Challenge: This is a workload measure/indicator. The FY 2004 target was based on the volume (75,114) of consumer complaints opened in FY 2003. When the target was established, the OCC did not have any indicators that the volume of complaints was likely to decline in FY 2004. The OCC believes that the decrease in FY 2004's complaint volume can be directly attributed to a potential industry shift to provide improved customer service. In addition, during FY 2004 there were no major bank mergers completed or significant product changes that can also increase complaint volumes. The OCC expects the volume to increase in FY 2005 due to expanded telephone hours and new banks entering the national banking system.

Performance Measure: ***Number of consumer complaints closed during the fiscal year***

Definition: This measure reflects the total number of consumer complaints closed during the fiscal year.

Source: The OCC's Ombudsman office identifies the number of closed consumer complaints recorded in the Remedy Action Response System (RARS) for the fiscal year. To promote fair access to financial services and fair treatment of bank customers, the OCC facilitates the resolution of consumer complaints involving national banks.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	69,044	70,000	**68,104**	*75,000*

FY 2004 Performance: Target Not Met

Explanation of Challenge: This is a workload measure/indicator. The FY 2004 target was based on the volume (69,044) of consumer complaints closed in FY 2003. The actual number of complaints closed was a factor of the number of complaints received and subsequently opened during the year, which was almost 7,000 cases less than planned. The OCC's difficulty in closing consumer complaints within the processing standard discussed under the previous performance measure also contributed to the decline in cases closed during FY 2004.

Performance Measure: ***Average survey response that the examiner-in-charge and the examination team were knowledgeable***

Definition: Reflects the average of the responses to the selected question from the examination survey issued to financial institutions at the conclusion of their supervisory cycle.

Source: The results are compiled semi-annually, surveys received between January through June and between July and December each year. Survey results are input into an excel spreadsheet, by an Ombudsman analyst upon receipt of the completed survey.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	1.26	1.50	**1.34**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report the banks' assessment of the examination process under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of the examination process through its survey.

Performance Measure: ***Average survey response that the examiner's requests for information were reasonable and justified by the examination scope***

Definition: Reflects the average of the responses to the selected question from the examination survey issued to financial institutions at the conclusion of their supervisory cycle.

Source: The results are compiled semi-annually, surveys received between January through June and between July and December each year. Survey results are input into an excel spreadsheet, by an Ombudsman analyst upon receipt of the completed survey. The averages are computed using the functions in the spreadsheet application.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.36	1.36	1.31	1.75	**1.36**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report the banks' assessment of the examination process under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of the examination process through its survey.

Performance Measure: ***Average survey response that the examination team conducted the examination in a professional manner***

Definition: This measure reflects the average of the responses to the selected question from the examination survey issued to financial institutions at the conclusion of their supervisory cycle.

Source: The results are compiled semi-annually, surveys received between January through June and between July and December each year. Survey results are input into an excel spreadsheet, by an Ombudsman analyst upon receipt of the completed survey.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.21	1.21	1.20	1.75	**1.25**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report the banks' assessment of the examination process under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of the examination process through its survey.

Performance Measure: ***Average survey response that the examiner-in-charge and examination team clearly and effectively communicated their findings and concerns***

Definition: This measure reflects the average of the responses to the selected question from the examination survey issued to financial institutions at the conclusion of their supervisory cycle.

Source: The results are compiled semi-annually, surveys received between January through June and between July and December each year. Survey results are input into an excel spreadsheet, by an Ombudsman analyst upon receipt of the completed survey. The averages are computed using the functions in the spreadsheet application.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.33	1.32	1.27	1.75	**1.37**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report the banks' assessment of the examination process under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of the examination process through its survey.

Performance Measure: ***Average survey response that the report of examination clearly communicated examination findings, significant issues and the corrective actions management needed to take***

Definition: This measure reflects the average of the responses to the selected question from the examination survey issued to financial institutions at the conclusion of their supervisory cycle.

Source: The results are compiled semi-annually, surveys received between January through June and between July and December each year. Survey results are input into an excel spreadsheet, by an Ombudsman analyst upon receipt of the completed survey. The averages are computed using the functions in the spreadsheet application.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.31	1.30	1.26	1.75	**1.30**	*≤1.75*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Average survey response that ongoing communication by the examiner-in-charge with senior management and the board was appropriate***

Definition: This measure reflects the average of the responses to the selected question from the examination survey issued to financial institutions at the conclusion of their supervisory cycle.

Source: The results are compiled semi-annually, surveys received between January through June and between July and December each year. Survey results are input into an excel spreadsheet, by an Ombudsman analyst upon receipt of the completed survey.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.29	1.29	1.25	1.75	**1.30**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded

Future Plans: This measure will be discontinued in FY 2005. To streamline performance measures and at the suggestion of a consultant, the OCC will report the banks' assessment of the examination process under one comprehensive performance measure. The OCC will continue to obtain feedback on this element of the examination process through its survey.

Performance Measure: ***Rehabilitated problem national banks as a percentage of the prior fiscal year-end's problem national banks (CAMELS 3, 4 or 5)***

Definition: This measure reflects the successful rehabilitation of problem national banks during the fiscal year. Problem banks can ultimately reach a point where rehabilitation is no longer feasible.

Source: The Supervisory Information office in OCC's headquarters office uses EV and SIS to identify and compare the current and prior fiscal year composite CAMELS ratings for problem banks.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
44	47	32	40	***41***	*40*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Office of Thrift Supervision (OTS)

Performance Measure: ***Percent of thrifts with composite CAMELS ratings of 1 or 2***

Definition: OTS assigns a composite CAMELS rating to thrift institutions at each examination and may adjust the composite rating between examinations if the institution's overall condition has changed from the prior examination. New institutions are typically not assigned a composite CAMELS rating until the first examination.

Source: Composite CAMELS ratings are stored in and retrieved from the online Examination Data System (EDS) system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	93	90	**93**	*90*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of safety and soundness exams started as scheduled***

Definition: OTS performs safety and soundness examinations of its regulated institutions consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994. (This measure was reworded to delete the calculation of compliance exams started as scheduled; OTS is melding the safety and soundness and compliance examinations.)

Source: When an institution is examined, OTS staff enters into the Examination Data System (EDS) the examination type, examination beginning and completion dates, report of examination mail date, and CAMELS or equivalent ratings. Performance Tracking Reports are generated monthly and reviewed by OTS's Deputy Director and all four Regional Directors.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	92	90	**94**	*90*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent of thrift institutions issued formal or informal enforcement actions within 60 days after receiving an unsatisfactory safety and soundness or compliance rating, unless a waiver is appropriate***

Definition: OTS employs its enforcement powers to advance the agency's supervisory mission of maintaining a safe and sound thrift industry that complies with applicable laws and regulations. Most new enforcement cases focus on correcting unsafe and unsound practices or significant compliance issues in thrifts before they result in the institution becoming undercapitalized or the severity of the institution's noncompliance creates significant legal or financial exposure.

Source: OTS uses a management report prepared monthly with information taken from the Regulatory Action Data (RAD) system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of thrifts that are well capitalized***

Definition: Capital absorbs losses, promotes public confidence, and provides protection to depositors and the FDIC insurance funds.

Source: Prompt Corrective Action (PCA) ratings are stored in the Examination Data System (EDS) and can also be found in the Thrift Overview Report.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	99.5	95.0	99.8	95.0

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent of thrifts adequately capitalized or operating under an approved Capital Plan or Prompt Corrective Action (PCA) Directive, if capital-deficient, unless the thrift has been undercapitalized for less than 150 days, or has received prior approval by the Deputy Director for exceeding this timeframe***

Definition: OTS has adopted a measure that addresses both objectives of Prompt Corrective Action (PCA): 1) to recapitalize undercapitalized thrifts at the least cost to the deposit insurance fund; and 2) to do it promptly.

Source: PCA ratings are stored in the Examination Data System (EDS) and can also be found in the Thrift Overview Report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of safety and soundness reports of exam mailed to thrift institutions within targeted timeframes after completion of fieldwork***

Definition: During the post examination process, OTS finalizes and mails the report of examination (ROE) to the thrift.

Source: Data is captured using the Examination Data System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	91	80	**84**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of thrifts with compliance examination ratings of 1 or 2***

Definition: A uniform, interagency compliance rating system was first approved by the Federal Financial Institutions Examination Council (FFIEC) in 1980.

Source: Compliance examination ratings are stored in the EDS system. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of an association's compliance with civil rights and consumer protection statutes and regulations. OTS's implementation expands that coverage to encompass compliance with a number of other public interest regulations. Among these are the Bank Secrecy Act, Bank Protection Act, economic sanctions, and advertising.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	95	90	**94**	*90*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Frequency of technical assistance or training events provided to industry executives annually regarding community reinvestment responsibilities and opportunities***

Definition: Part of OTS' long term strategic goal is to support the industry's efforts to meet its CRA obligations and expand the full range of housing, other credit and financial services to all segments of their communities.

Source: OTS staff tracks the number of technical assistance occurrences or training events that OTS provides to industry executives annually regarding community reinvestment responsibilities and opportunities

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	70	36	**76**	*36*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

F4: Manage the Government's Finances Effectively

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

Financial Management Service (FMS)

Performance Measure: ***Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral***

Definition: The measure tracks the percentage of the dollar volume of debt referred to the total dollar volume that is eligible for referral.

Source: The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The referral data is contained in the program systems (TOP and DMSC). The referral data is loaded from the files received from FPAs.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
89	93	92	90	**99**	*92*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Amount of delinquent debt collected through all available tools (in billions of dollars)***

Definition: The measure provides information on the total amounts collected through debt collection tools operated by Debt Management Services.

Source: The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The collection data is generated by the program systems (TOP and DMSC) and is reported on a monthly basis. The tools include: tax refund offset, administrative offset, private collection agencies, demand letters, and credit bureau reporting. FMS also collects debt through the State debt program and tax levy.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
3.200	2.840	3.100	2.900	**3.000**	*3.000*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage increase in amount of debt collected for every dollar of debt collection program cost, compared to FY 2002 baseline of $52.53***

Definition: This measure shows the efficiency of having a centralized debt collection program.

Source: FMS' Debt Management Accounting System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	7	**-4**	*10*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: In an effort to more fully fund this program through fee revenue, the Debt Collection Program absorbed additional indirect program costs in FY 2004. If these costs were not incurred, FMS would have met and/or exceeded the target performance measure. FMS plans to revise this baseline to $46 in FY 2005.

Internal Revenue Service (IRS)

Performance Measure: ***ACS closures - Taxpayer Delinquent Accounts Closures***

Definition: Number of entity closures produced in the Automated Collection System (minus systemic reductions).

Source: Automated Collection System (minus systemic reductions) reported as entities

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1,006,000	950,696	1,155,697	1,139,016	**1,337,904**	*1,296,214*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***ACS Accuracy***

Definition: Capture the percent of taxpayers who receive the correct answer to their ACS question

Source: The CQRS monitor codes Field 715 on the Data Collection Instrument (DCI) as calls are reviewed. Data is input to the QRDbv2 for product review and service reporting.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	88	**89**	*88.5*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Individual Returns Examined - Field (SBSE & LMSB) > $100,000***

Definition: Number of Individual (Form 1040) returns closed through a time period from the beginning of the fiscal year with a total positive income or total gross receipts greater than $100,000.

Source: Audit Information Management System (AIMS) Closed Case Database There are various management reviews before an entry is input to AIMS.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
55,761	64,911	67,459	68,611	**70,497**	*69,992*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Individual Returns Examined - Field (SBSE & LMSB) < $100,000***

Definition: Number of Individual (Form 1040) returns closed through a time period from the beginning of the fiscal year with a total positive income or total gross receipts less than $100,000.

Source: Audit Information Management System (AIMS) closed case database. There are various management reviews before an entry is input to AIMS. If the input does not pass validity and consistency checks as it is entered into AIMS, it is rejected. It must be corrected before the data is accepted, posted on AIMS, and sent to the Master File. If the data fails any Master File systemic checks, it is rejected and sent back to the originator for necessary action.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
149,790	140,350	138,933	139,033	**127,058**	*170,217*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: The increased emphasis on strategic priorities, e.g., returns with a higher compliance risk and higher income, shifted emphasis to individual returns with greater than $100K of income.

Future Plans: During FY 2005, IRS will continue its focus upon returns with a higher compliance risk and income, reducing the number of closures in the less than $100K category. To minimize program impact, several efforts are ongoing to address program efficiencies. The focus will be on better preparing both the examiners and the taxpayers for an examination and is expected to lead to improved efficiencies. In addition, improvements in inventory management, as a result of the "Art and Science of Inventory Management" training given to territory and group managers during FY 2004, are expected to continue. Further, the Small Business Compliance organization realignments within functional lines will aid in maximizing program effectiveness and efficiencies.

Performance Measure: ***Examination Quality (SBSE) Office***

Definition: The score awarded to a reviewed Office Examination case by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.

Source: Examination Quality Measurement System Factors that influence the reliability of the data include the accuracy of individual case reviews, sample size, age of sample being reviewed, and accuracy of case selection. EQMS sites have established a 3-tier validity process to ensure consistency of case reviews. Each site conducts regularly scheduled meetings, where all reviewers evaluate the same case.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
70	74	76	75	**76**	*77*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Examination Customer Satisfaction (SBSE)***

Definitions: Customers' overall satisfaction with their Campus Examination experience stated as % satisfied (= "4" + "5"). Survey recipients are asked to rate IRS performance on a five-point scale, where 1 indicates" Very Dissatisfied" and 5 indicates Very Satisfied. Customers' overall dissatisfaction with their Campus Examination experience stated as % dissatisfied (= "1" + "2"). Survey recipients are asked to rate IRS performance on a five-point scale, where 1 indicates Very Dissatisfied and 5 indicates Very Satisfied.

Source: Customer surveys conducted six months preceding report date. Quarterly national reports from Pacific Consulting Group (PCG) and annual sub-national (Area). Contractor database received and archived by SESSR: E:PAI. Contractor provides measurement data file directly to BSP for Data Mart.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
47	47	63	60	**57**	*61*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: Satisfaction results in Examination correlate directly with the mix of work. There was an increase in the volume of customers with unagreed tax deficiencies and they tend to be less satisfied. Improvement actions underway to enhance satisfaction for all customers include: reducing the life cycle of the examination process from selection to conclusion, consultation between the agent and manager after initial taxpayer meeting and improved communication between the taxpayer and agent to specify examination issues.

Future Plans: The Examination Reengineering initiative implemented in FY 2004 will aid in addressing many of the key customer issues (the time customers spend on their audits, the length of the examination process, and issues surrounding the request for customer records) associated with customer satisfaction. SB/SE will continue to monitor the impact of Examination Reengineering on customer satisfaction results. A new SB/SE Customer Satisfaction Survey will focus on data received from a sample of the entire SB/SE customer base with emphasis on customers' pre-filing/filing experiences, including those customers who have not had specific interactions (examinations) with the Service. This survey data will be used to identify additional improvement opportunities with all SB/SE taxpayers.

Performance Measure: ***Correspondence Exam Accuracy***

Definition: Accuracy is one component of case quality under the embedded system, which measures the accuracy of the resolution of an exam case

Source: PAS/Quality Review Staff codes Field 715 on the DCI as cases are reviewed. Data is input to the QRDbv2. The QRDbv2 contains several levels of validation that occur as part of the review process.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	94	**89**	*93.9*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: Several challenges associated with penalty computations and sampling methodology affected performance. Baseline measures were identified in FY2003. In FY2004, sampling methodology changed to produce an improved statistically sound predictor of an accurate error rate and managers and reviewers were trained on the attributes to ensure consistency of reviews and coding. Several problems early in the fiscal year impacted performance: 1) Automation problems in one campus resulted in certain penalties being computed manually, which had a negative impact on quality results; this issue was corrected. 2) An error in the sampling methodology negatively impacted quality; this problem was also corrected

Future Plans: Actions IRS will take to improve FY 2005 performance: (1) Just-in-time training will be delivered on new casework initiatives; (2) As the Campus locations move into more of the SB/SE inventory, training will be coordinated with inventory delivery; and (3) Operational reviews will continue to stress the importance of emphasizing quality in team, department and operations meetings throughout the year.

Performance Measure: ***Compliance Services Collection Operation Accuracy***

Definition: The quality of the information given and actions taken by CSCO employees on incoming correspondence

Source: PAS analysts code Field 715 on the DCI as cases are reviewed. Data is input to the QRDbv2 for product review and service reporting.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	95	**94**	*95*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: Significant cross-training of new hires in FY 2004 to prepare for FY 2005 non-filer initiatives, such as the Automated Substitute for Return and High-Income Non-Filer Strategy, caused the IRS to miss the goal by one percent.

Future Plans: Continued work on consistency between the CSCO sites is expected to improve quality overall among the sites. With the conclusion of the FY 2004 training program, the senior personnel who conducted the training will return to the front-line work and the new hires will have completed their training, therefore FY 2005 accuracy will improve against FY 2004 performance.

Performance Measure: ***Criminal Investigations Completed***

Definition: Cumulative count of the number of all subject criminal investigations completed by Criminal Investigation during the fiscal year. This includes investigations that resulted in a criminal prosecution recommendation to the Department of Justice as well as investigations that were discontinued due to a lack of evidence or to a finding that the original allegation was false.

Source: CI Management Information System (CIMIS)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
3,340	3,201	3,766	3,400	**4,387**	*3,963*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Taxpayer Advocate Closure to Receipt Ratio***

Definition: This is the ratio of the number of regular TAS criteria closures to the number of regular TAS criteria receipts for the same period (i.e., month, FY cum, etc.). To ensure that TAS inventory does not increase, the ratio should be at least 100%.

Source: TAMIS database/VQ report

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
97.6	108	108	100	**101**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Appeals Closure to Receipt Ratio***

Definition: Ratio of Total Disposals to total cases Received in Appeals will measure total Appeals outcome

Source: Appeals Centralized Database System (ACDS)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
80	89	86	81	**105**	*86*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***EP/EO Customer Satisfaction***

Definition: Customers' overall level of satisfaction with the way their cases were handled by the IRS Employee Plans and Exempt Organizations Determination programs. Stated as % Satisfied.

Source: Customer Satisfaction Surveys conducted by an independent research company managed by the Organizational Performance Division.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
68	70	72	73	**74**	*73*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***EP/EO Examination Case Quality Score***

Definition: The level of quality in the EP or EO examination program, as measures by the Tax Exempt Quality Measurement System (TEQMS).

Source: TEQMS. Quality Measurement staff rate case quality by completing electronic input forms on sampled cases. Data is up-loaded into the TEQMS database and numeric scores are calculated automatically from rating information.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
73	75	82	82	**85**	*83*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Examination Customer Satisfaction (LMSB)***

Definition: Percentage of taxpayers who respond to our post-examination survey with a "5-Totally Satisfied" or a "4-Mostly Satisfied" to the question concerning overall satisfaction with their examination experience. Separately tracking the Customer Dissatisfaction percentage - the percent of taxpayers who respond with a "1 or 2" to the survey.

Source: The survey results and the analysis of the results that is performed by the outside contractor.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	86.0	80.0	83.5	**78.0**	*85.5*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: While LMSB did not meet its customer satisfaction goals, Coordinated Industry taxpayers who have been through an audit are generally satisfied with the process. Lower scores were attributed to the Length of the Process and the Time Spent on the Audit, critical factors to the Industry taxpayer.

Future Plans: LMSB has several initiatives underway that will make examinations more efficient and enable LMSB to expand compliance coverage. Initiatives include: increased participation in case planning through a joint planning of the audit process; lead specialist responsibilities that include more interaction with taxpayers; increased managerial inter-action with specialists and taxpayers and implementation of the Individual Document Request Management Process, which gives the Examination Team a structured process to use when gathering information during an examination.

Performance Measure: ***Number of Business Returns Examined (SBSE/LMSB)***

Definition: Number of Corporation (Form 1120) returns with assets less than $10 million closed through a time period from the beginning of the fiscal year.

Source: Audit Information Management System (AIMS) closed case database, accessed via A-CIS (an MS Access application).

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
23,163	21,159	18,957	15,283	**16,563**	*20,198*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Correspondence Exam Total Number of EITC Returns Examined***

Definition: The number of EITC audit closures produced in service center examination

Source: Audit Information Management System (AIMS) closed case database

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
479,983	367,799	418,237	422,431	**446,152**	*393,674*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Automated Underreporter Case Accuracy***

Definition: Accuracy is one component of case quality under the embedded system, which measures the accuracy of the resolution of an AUR case

Source: PAS analysts code Field 715 on the DCI as cases are reviewed. Data is input to the QRDbv2 database.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	94	**95**	*95*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Field Tax Delinquent Investigations closures***

Definition: A count of the number of actual TDI dispositions completed by field Revenue Officers on a monthly basis.

Source: This measure reflects actual Taxpayer Delinquent Investigation Dispositions and is reported as entities. NO-5000-3 Taxpayer Delinquency Investigation Monthly Report or NO-5000-4 Taxpayer Delinquency Investigation Cumulative Report.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
119,451	140,737	150,190	152,153	**197,499**	*162,278*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Examination Quality (LMSB) Coordinated Industry***

Definition: Average of the percentage of Critical Elements that were passed on Coordinated Industry cases reviewed.

Source: The LMSB Quality Measurement System (LQMS) database is used. This is a Microsoft Access database. The database is maintained by the LQMS Programmer in Chicago.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
80	78	89	90	**87**	*90*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: The Rating of the Administrative Procedures Document, which accounts for 20% of the overall quality score, negatively impacted the Quality scores in FY 2004. In a number of instances, Revenue Agents and Managers failed to include the document in the case file or properly sign it as required. Actions are being taken to re-emphasize the importance of this form. In addition, the growing complexity of returns examined by LMSB, including returns such as Tax Equity and Fiscal Responsibility Act, and Tax Shelters, affect quality scores. These are more complex returns and often include requirements and procedures with which agents are less familiar. As a result, incidences of errors, mistakes or oversights increased.

Future Plans: Communications highlighting the importance of including the Administrative Procedures Document in the case file for quality review will continue to be included in the IRS Quality Newsletter and other publications sent to the Field. The "LQMS Administrative Procedures Document, Form 13327" will also be a topic for the FY2005 Continuing Professional Education. The Quality Review staff will continue to do presentations on the Quality Measurement System at Group and/or Territory meetings. A "pilot test" will be conducted in which Team Managers will visit the review site and observe cases being reviewed to gain a clearer understanding of what is specifically required to be in a case file in order to receive a pass rating. Also, a Team Manager Check sheet recently developed and distributed by the Case Quality Improvement Council (CQIC) will aid managers in how to effectively evaluate the quality of cases prior to closing from the group.

Performance Measure: ***Examination Quality (LMSB) Industry***

Definition: Average of the percentage of Critical Elements that were passed on Industry cases reviewed.

Source: The LMSB Quality Measurement System (LQMS) database is used. This is a Microsoft Access database. The database is maintained by the LQMS Programmer in Chicago. The Examination Records Control System (ERCS) database is used to identify the universe of taxpayers that will be reviewed. ERCS is a reasonably accurate source of data on closed cases

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
70	69	74	80	**74**	*85*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: The Rating of the Administrative Procedures Document, which accounts for 20% of the overall quality score, negatively impacted the Quality scores in FY 2004. In a number of instances, Revenue Agents and Managers failed to include the document in the case file or properly sign it as required. Actions are being taken to re-emphasize the importance of this form. In addition, the growing complexity of returns examined by LMSB, including returns such as Tax Equity and Fiscal Responsibility Act, and Tax Shelters, affect quality scores. These are more complex returns and often include requirements and procedures with which agents are less familiar. As a result, incidences of errors, mistakes or oversights increased.

Future Plans: Communications highlighting the importance of including the Administrative Procedures Document in the case file for quality review will continue to be included in the IRS Quality Newsletter and other publications sent to the Field. The "LQMS Administrative Procedures Document, Form 13327" will also be a topic for the FY2005 Continuing Professional Education. The Quality Review staff will continue to do presentations on the Quality Measurement System at Group and/or Territory meetings. A "pilot test" will be conducted in which Team Managers will visit the review site and observe cases being reviewed to gain a clearer understanding of what is specifically required to be in a case file in order to receive a pass rating. Also, a Team Manager Check sheet recently developed and distributed by the Case Quality Improvement Council (CQIC) will aid managers in how to effectively evaluate the quality of cases prior to closing from the group.

Performance Measure: ***Field Collection quality of cases handled in person (in %)***

Definition: The score awarded to a reviewed Collection case by a third-party reviewer using the Collection Quality Measurement System (CQMS) quality standards. CQMS Composite Score is computed based on 19 quality standards taken from the CQMS check sheet. Each standard has a value of four points. However, four of these standards have been designated as critical and are weighted more heavily. Failure to meet any one of the critical standards results in the deduction of 24 points from the overall composite score.

Source: CQMS database

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
84	84	84	86	**82**	*87*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: Case Quality performance is on a slight negative trend, falling two points from historic results rather than the targeted two-point improvement. Analysis of performance on the various CQMS standards indicates that the greatest potential for improvement is in: setting clear action dates, documentation, no activity lapses greater than 75 days, and full compliance check.

Future Plans: In FY 2005, IRS will test a new Embedded Quality (EQ) system to replace CQMS. By aligning quality measures and individual performance, EQ creates a way of doing business that builds commitment and capability among all individuals to continually improve customer service, employee satisfaction and business results. EQ standards are linked directly to employee Critical Job Elements (CJEs) enabling employees to see how individual performance impacts SB/SE objectives.

Performance Measure: ***Number of TEGE Compliance Contacts***

Definition: The number of Employee Plan, Exempt Organization and Government Entity return examinations closed in all categories.

Source: TE/GE Audit Information Management System (AIMS) AIMS is programmed to generate regular error registers that identify possible data discrepancies The Director, EO Examinations and EP Examinations are responsible for correcting errors and the Director, Business Systems Planning monitors the error registers to ensure correction accuracy. Periodically, AIMS is SAT (systems acceptability testing) tested to ensure it is programmed to work in accordance with system requirements. In addition, the data collection system is checked periodically to ensure that the reports produced are correct.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
15,988	13,549	13,029	19,100	**16,518**	*22,800*

FY 2004 Performance: Target Not Met

Explanation of Shortfall: Although closures are up 27% from last year, TE/GE did not meet its goal for compliance contacts closed because examination agents in EP required more time than expected to close out their residual determination inventories from FY 2003.

Future Plans: TE/GE expects to increase dramatically its compliance contacts next year due to (1) the elimination of mixed determination and examination inventories in Employee Plans, which will increase the resources available for examinations, and (2) the first full year of operation for Exempt Organizations Compliance Unit, which initiates compliance checks to resolve issues with returns filed by tax-exempt organizations.

Performance Measure: ***Correspondence Exam Total Number of Non-EITC Returns Examined***

Definition: The number of non-EITC (discretionary) audit closures produced in service center examination.

Source: Audit Information Management System (AIMS) closed case database.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
146,621	177,447	262,431	288,636	**356,099**	*329,976*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***ACS Customer Satisfaction***

Definition: Derived from the Customer Satisfaction Survey that is voluntarily taken by customers who have contacted the Compliance organization. Satisfaction reflects the percentage of respondents who were completely satisfied (or checked the top box score).

Source: Customer satisfaction survey developed by an outside vendor, PCG.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
56	53	91	91	**91**	*91*

FY 2004 Performance: Target Met

Performance Measure: ***ACS closures – Taxpayer Delinquent Investigations (TDI)***

Definition: Number of Closures (entities) produced in the Automated Collection System (minus systemic inventory reductions)

Source: Automated Collection System (minus systemic inventory reductions)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
297,791	190,411	197,517	198,155	**295,010**	*246,723*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Field Tax Delinquent Accounts closures***

Definition: A count of the number of actual TDA dispositions completed by field Revenue Officers on a monthly basis.

Source: A TDA disposition arises on IDRS when the status of an account changes from an open status to a closed status (any) as defined in Section 8 of Document 6209 (ADP/IDRS Information.) The measure is reported as modules.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
757,392	724,430	880,939	892,460	**949,521**	*977,197*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Automated Underreporter (AUR) Cases closed***

Definition: Total number of closures of Automated Underreporter Cases

Source: Data is acquired through the Automated Underreporter Control System -controls and captures information on AUR cases. Information is loaded onto the WP & C (Work Planning and Control) system and have identified OFP (Organization Function Program) codes.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
2,511,424	2,922,182	2,905,478	3,081,830	**3,482,661**	*3,792,713*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Field collection Customer Satisfaction***

Definition: Percentage of satisfaction/ dissatisfaction of customers with the way their cases were handled by the IRS Field Collection program.

Source: Customer Satisfaction Transactional Surveys. Survey recipients are asked to rate IRS performance on a seven-point scale, where 1 indicates Very Dissatisfied and 7 indicates Very Satisfied.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
53.0	51.0	60.0	59.2	**61.0**	*60.1*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percentage of individual returns filed electronically***

Definition: Number of electronically filed individual tax returns divided by the total individual returns filed. Includes all returns where electronic filing is permitted (practitioner e-file, Telefile, VITA [Volunteer Income Tax Assistance], On-Line Filing, Federal/State returns, etc.).

Source: Returns filed through the e-file system are assigned unique Document Locator Number (DLNs) to identify them as electronically field returns. The summary data, including the number of individual returns filed electronically, is contained in Report 1541.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
31	36	40	45	**47**	*49*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Automated Underreporter Customer Satisfaction***

Definition: A summary measure of overall customer satisfaction with the taxpayers? Automated Underreporter experience.

Source: Data is collected via a paper survey and aggregated by Gallup Organization.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	43	49	**55**	*50*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Correspondence Exam Customer Satisfaction***

Definition: Satisfaction reflects the percentage of respondents who were completely satisfied (or checked the top box score). Dissatisfaction reflects the percentage of respondents who were completely satisfied (or checked the bottom box score).

Source: Derived from the Customer Satisfaction Survey that is voluntarily taken by customers who have contacted the Compliance organization. Customer satisfaction survey developed by an outside vendor, PCG

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
34	33	36	38	**40**	*40*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Examination Quality (SBSE) Field***

Definition: The score awarded to reviewed Field Examination cases by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards

Source: Examination Quality Measurement System Factors that influence the reliability of the data include the accuracy of individual case reviews, sample size, age of sample being reviewed, and accuracy of case selection. EQMS sites have established a 3-tier validity process to ensure consistency of case reviews.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
70	71	75	78	**78**	*80*

FY 2004 Performance: Target Met

Performance Measure: ***Customer service representative (CSR) level of service***

Definition: The measure is reported as the percentage of taxpayers that are calling our toll-free services and speak to an assistor.

Source: Daily site data is transmitted overnight to a database located in New Carrollton, MD. Each site is responsible to monitor data input and make corrections as necessary.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
56.4	68.0	80.0	83.0	**87.0**	*83.0*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Total published guidance items***

Definition: Published Guidance consists of the regulations and other guidance issued by IRS and Treasury to interpret and explain the Internal Revenue Code.

Source: These items include Actions on Decisions; Notices/Announcements; Published Guidance Proposals and Studies; Technical Advice Memoranda; Regulations; Revenue Procedures; and Revenue Rulings published.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
225	242	332	350	**320**	*360*

FY 2004 Performance: Target Not Met

Explanation of Challenge: In FY 2004, 320 Published Guidance items were published, as compared to 350 projected or approximately 14% fewer items. Reduced staffing combined with **increased demand in the Audit Advice and Assistance and Advanced Case Resolution programs contributed** to the decrease in this program. In addition, significant program time was consumed by extensive, complex regulation projects of great importance to the Operating Divisions, LMSB in particular. These projects will be published in FY 2005.

Future Plans: Counsel will continue to emphasize increased Published Guidance in FY 2005. As in FY 2004, Counsel will continue to work with IRS Operating Divisions and Treasury to identify and address emerging issues through Published Guidance and integrate efforts directed to the Published Guidance program with the IRS Operating Divisions. In July 2004, the Department of Treasury 2004-2005 Priority Guidance Plan was issued, which listed 276 projects. This plan represents a joint agreement among Treasury, IRS and Chief Counsel. The plan will be updated and republished on a quarterly basis. Counsel will continue to assess it to ensure efficiency, productivity and responsiveness to both its clients and taxpayers.

Performance Measure: ***Customer Accuracy - Toll Free Accounts***

Definition: Customer Accuracy is defined as a live assistor giving the correct answer with the correct resolution. It measures how often the customer received the correct answer to their inquiry and/or had their case resolved correctly based upon all available information and IRM required actions. This measure applies to all Tax Law and Account transactions.

Source: The CQRS monitor codes Field 715 on the Data Collection Instrument (DCI) as calls are reviewed. Data is input to the QRDbv2 for product review and service reporting. The CQRS monitor codes Field 715 on the DCI as calls are reviewed. Data is input to the QRDbv2.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	88	89	**89**	*91*

FY 2004 Performance: Target Met

Performance Measure: ***Percent Resolved on Time***

Definition: Percent of tickets closed within the time targets set forth in the Corporate Problem Management Guidelines and the Master Service Level Agreement

Source: INOMS/ITAMS Problem Management Database, Master Service Level Agreement

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	71	65	90	**90**	*90*

FY 2004 Performance: Target Met

Performance Measure: Percent ***Dollar Value of EITC Claims Paid in Error***

Definition: EITC claims paid that are later determined to have been made in error via amended return filing, claim filing or other.

Source: Department of the Treasury Report, February 28, 2002 - Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	TBD	**Not Available**	*Discontinued*

FY 2004 Performance: IRS based the current targets on the estimates of the 1999 compliance study with adjustments for changes in the overall population and statutory changes related to EITC. An individual reporting compliance study for Tax Year 2001 is currently underway as part of the National Research Program (NRP). IRS will use the results to refine the estimates for future years. This information should be available by mid-FY 2005. A new performance measure is being developed to replace this measure.

Performance Measure: ***Percent of Eligible Taxpayers who File for EITC***

Definition: The number of taxpayers who actually claim the Earned Income Tax Credit (EITC) compared to the number of taxpayers who appear to be eligible for the EITC.

Source: IRTF - Data captured from IRS processing; TY1 CPS "Census Bureau Survey; 1999 EITC Compliance Study" EITC Audits.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	80	**Not Available**	*80*

FY 2004 Performance: Data to calculate the actual results is expected to be available after the close of Calendar Year 2004. Will report in the FY 2006 Congressional Justification and the FY 2005 Performance and Accountability Report.

Performance Measure: ***Customer Accuracy - Toll Free Tax Law***

Definition: Customer Accuracy is defined as a live assistor giving the correct answer with the correct resolution. It measures how often the customer received the correct answer to their inquiry and/or had their case resolved correctly based upon all available information and IRM required actions. This measure applies to all Tax Law and Account transactions.

Source: The CQRS monitor codes Field 715 on the Data Collection Instrument (DCI) as calls are reviewed. Data is input to the QRDbv2 for product review and service reporting. The CQRS monitor codes Field 715 on the DCI as calls are reviewed. Data is input to the QRDbv2.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	82.0	85.0	**80.0**	*87.5*

FY 2004 Performance: Target Not Met

Explanation of Challenge: Customer Service Representatives (CSRs) were slow to adapt to the 2003 redesign of the response guide and the most common customer accuracy errors relate to use of the guide. By enabling CSRs to respond to a wider range of topics within a category, taxpayers with more than a single question received responses without being transferred to another CSR for assistance. As toll-free telephone site specialization efforts continued, the tax law designated sites were increasingly required to train and certify more of their CSRs to respond to tax law issues.

Future Plans: IRS will focus efforts to improve in the following areas: (1) Reformat Probe & Response Guide to enhance usability for assistors; (2) Deliver application-specific training and conduct proficiency certification; (3) Expand the completion of employee performance reviews to the second line managers as a part of the operational review process; (4) Conduct operational performance reviews at each campus and remote site; (5) Continue with front-line and department level ownership of various application topics; (6) Conduct ongoing research and analysis of quality data to identify improvement opportunities and initiatives; and (7) Utilize Contact Recording to enhance the ability of management to gauge and improve individual performance.

Performance Measure: ***Customer Accuracy - Customer Accounts Resolved (Adjustments)***

Definition: Customer Accuracy is defined as giving the correct answer with the correct resolution. It measures how often the customer received the correct answer to their inquiry and/or had their case resolved correctly based upon all available information and IRM required actions.

Source: PAS analysts code Field 715 on the DCI as cases are reviewed. Data is input to the QRDbv2 for product review and service reporting PAS analysts code Field 715 on the DCI as cases are reviewed. Data is input to the QRDbv2.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	87	89.0	**87.0**	*90.0*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The workload mix in FY 2004 changed to a higher average complexity than in FY 2003 because the Rate Reduction Credit (RRC) cases, which are of lower complexity, were completed in FY 2003 and thus not present. The IRS was not able to overcome a slow start at the beginning of FY 2004 because of the increased complexity of the cases received, resulting in performance slightly below the target.

Future Plans: IRS has engaged the sites in an ongoing dialog regarding accuracy trends and improvement actions. The following are initiatives to improve quality and timeliness in the Customer Account Correspondence product line: (1) Standardize managerial employee performance review requirements; (2) Provide uniform and consistent program guidance in the form of a Program Letter; (3) Conduct operational performance reviews at each campus and remote site; (4) Establish best practices and standardize the Service-wide Electronic Research Program; and (5) Conduct ongoing research and analysis of Embedded Quality data to identify improvement opportunities and initiatives.

Performance Measure: ***Field Assistance Accuracy of Tax Law Contacts***

Definition: Tax Law Accuracy is the quality of service provided to Taxpayer Assistance Center (TAC) customers. This is a measure of the accuracy of responses concerning issues involving tax law.

Source: TIGTA Auditors will make unannounced visits to selected TACs. The Auditors will anonymously review TAC sites and use tax law scenarios to evaluate answers for accuracy. TIGTA will provide IRS a briefing paper summarizing results. This paper will be the source of accuracy score.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	79	75	80	**75**	*80*

FY 2004 Performance: Target Not Met

Explanation of Challenge: During Fiscal Year 2004, TIGTA made anonymous visits to several TACs asking tax law questions to determine the accuracy of responses. Topics emphasized were retirement, filing status, child support, dependents and Social Security. The goal was not achieved because employees reviewed did not routinely ask all the necessary probes when responding to a tax law inquiry. As a result, incorrect responses were given to a number of questions. Using TIGTA's findings, employees in areas visited by reviewers concentrated their efforts on directed learning of specified topics and the importance of asking all probes. These corrective actions resulted in improved performance throughout the year. In April 2004, subsequent to the filing season, IRS implemented Embedded Quality (EQ) to measure Tax Law Accuracy.

Future Plans: In FY 2005, Field Assistance will change the method used to report the Accuracy of Tax Law Contacts. Group managers will use a uniform data collection instrument to conduct objective, consistent reviews of their employees' performance to assess quality and accuracy of customer contacts. Data analysis will also be used to identify training needs and areas for improvement, which will lead to increased efficiency and quality. Although the review process will change, initiatives to improve responses to tax law questions, such as mandatory use of the Publication Method Guide, will continue as planned.

Performance Measure: ***Percent Resolution at First Contact***

Definition: The percentage of tickets that can be resolved by the technician making first contact that are in fact resolved by the first contact technician.

Source: INOMS/ITAMS Program Management Database

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	47	70	70	**72**	*70*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Timeliness of Tax Products to the Public***

Definition: Measures the percentage of tax products (forms, schedules, instructions and publications) that meet the scheduled start to ship date in order to be available to the public timely.

Source: Publishing Services Data (PSD) System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	75	**76**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Field assistance customer satisfaction***

Definition: Taxpayer's overall satisfaction with the services provided by Field Assistance personnel as determined by the customer satisfaction survey.

Source: PCG collects and consolidates the responses and provides a monthly report to each Taxpayer Assistance Center.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
90	86	87	89	**89**	*90*

FY 2004 Performance: Target Met; Performance Exceeds Prior Year

Performance Measure: ***Toll-free customer satisfaction***

Definition: The percentage of customers who were satisfied with the way their cases were handled by the Toll Free Telephone Program.

Source: A representative sample of customers calling the IRS Toll-Free telephone numbers are surveyed by an independent contractor.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
59	56	95	93	**94**	*94*

FY 2004 Performance: Target Met/Exceeded

Alcohol and Tobacco Tax and Trade Bureau (TTB)

Performance Measure: ***Taxes collected from the alcohol and tobacco industries and FAET taxpayers (in billions)***

Definition: Includes revenue collected through alcohol, tobacco, firearms and ammunition excise taxes, and special occupational taxes.

Source: The Revenue Accounting Unit performs daily reconciliations by comparing subsidiary ledgers from FET and SOT to the revenue accounting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	14.7	14.6	**14.7**	*14.6*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage of tax-related transactions (applications, reports, returns) received electronically (in %)***

Definition: Represents the percent of tax-related documents received electronically from alcohol and tobacco customers, as well as the firearms excise taxpayers, who use electronic filing instead of paper filing.

Source: Burden will be lower because the cost of processing electronically is vastly lower than paper filing.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	0.1	0.2	**0.7**	*10.0*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percentage of Voluntary Compliance in filing tax payments timely and accurately***

Definition: The portion of total taxpayers that file payments on or before the scheduled due date, without notification of any delinquency.

Source: Late filed tax payments are maintained in the Federal Excise Tax system (FET).

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	82.0	**81.2**	92.0

FY 2004 Performance: Target Not Met

Explanation of Challenge: The performance measure was set at an approximate target level, and the deviation from the level is slight. There was no effect on program performance.

Performance Measure: ***Percentage of total tax receipts collected electronically***

Definition: The portion of total tax collected from taxpayers via electronic funds transfer (EFT).

Source: Data on tax payments made electronically are recorded in Cashlink. The Revenue Accounting Unit retrieves the wire transfer information from Cashlink. The detail records are input into the Electronic Wire Transfer table using the Federal Excise Tax System.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	98.0	**97.3**	*98.0*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The performance measure was set at an approximate target level, and the deviation from the level is slight. There was not an effect on overall program or activity performance.

Performance Measure: ***Annual compliance rate***

Definition: Portion of the taxpayers that have been audited that have no findings indicating adverse financial conditions, significant decline/change in the industry, weak internal controls and/or unfavorable business practices.

Source: Based on audit reports/findings issued for large taxpayers audited.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**91%**	*TBD*

FY 2004 Performance: Baseline established

Performance Measure: ***Ratio of taxes collected vs. resources expended***

Definition: Represents the amount of taxes collected, divided by the amount of resources expended to collect such taxes.

Source: Both of these components represent information that is subject to annual audits and routine reconciliation

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	242:1	257:1	**368:1**	*250:1*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

F4B: Manage Federal Debt Effectively and Efficiently

Bureau of the Public Debt (BPD)

Performance Measure: ***Percent of auction results released in two minutes + or - 30 seconds***

Definition: Treasury securities are broadly distributed to all financial markets throughout the world. To maintain an efficient market for Treasury securities and to minimize uncertainty in these markets, it is crucial that our securities auctions be completed and the results announced as quickly as possible.

Source: Both the auction close time and posting times are validated against the US Naval Observatory Master Clock.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	95.00	**99.53**	*95.00*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of Commercial Book Entry interest and redemption payments made timely and accurately***

Definition: More than $3 trillion of the public debt outstanding is maintained in accounts on the Commercial Book-Entry system. The operations and computer systems that comprise the commercial book-entry system annually make interest and redemption payments totaling approximately $2.3 trillion.

Source: Summary public debt accounting system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of Federal Investment Program transactions completed timely and accurately***

Definition: Federal program agencies contact us daily to request investments and redemptions for the more than 200 trust and deposit funds that participate in the Federal Investment Program.

Source: Production reports are run from our investment accounting system. Receive online transaction requests as well as fax transmissions from agencies.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of customers rating their overall satisfaction as good or excellent***

Definition: Customer satisfaction is determined by customers rating Public Debt's online services. These services include activities such as purchasing marketable and savings securities, reviewing account information, and calculating the value of savings bonds.

Source: Customers rate the various services by completing online surveys on our TreasuryDirect website.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	90.00	**93.54**	*90.00*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of TreasuryDirect interest and redemption payments made timely and accurately***

Definition: Our customers invest in Treasury securities with the expectation that the U. S. Government will make payments when due. Timely payments bolster investor confidence and ensure that Treasury securities remain an attractive investment option.

Source: An internal tracking system. Virtually all of our payments are calculated automatically by our automated systems.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	100	**100**	

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of employees rating their job satisfaction level as "satisfied" or better***

Definition: 30-question survey, using an OPM survey as a model, is administered to Public Debt employees electronically via the Internet.

Source: Contractor's commercial off-the-shelf software package administered electronically via the Internet

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	70	**74.8**	*70*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of retail customer service transactions completed within thirteen business days***

Definition: Savings bonds have been sold for more than 60 years. Our customer service goal is to provide timely customer service by completing 90% of customer transactions within 13 business days. These transactions include providing requested forms, information, and assistance; processing account changes; and reissuing savings bonds to reflect new ownership or to replace bonds that have been lost or stolen.

Source: For the convenience of our customers, we complete transactions by mail, telephone, fax, and/or email. Each Division in Public Debt's Office of Investor Services has a workload or casefile-tracking system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	90.0	**92.5**	*90.0*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of over-the-counter savings bonds issued within three weeks***

Definition: Our customers can purchase savings bonds directly from more than 40,000 financial institution locations throughout the United States. Our goal is to mail 99.95% of these over-the-counter bonds to customers within three weeks of purchase.

Source: Five Federal Reserve Banks process purchase orders for savings bonds. They use automated systems to measure the time it takes to complete purchase transactions. These systems count the number of days between the date a customer submits a purchase order and the date the bond is printed and mailed.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
99.97	99.95	99.996	99.95	**100**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

F4C: Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms

Financial Management Service (FMS)

Performance Measure: ***Percentage of paper check and Electronic Funds Transfer (EFT) payments made on time***

Definition: This measure rates the effectiveness of the payments issuance process. "On time" means that FMS releases checks to the U.S. Postal Service and EFT payments to the Federal Reserve Bank such that normal delivery by them will result in timely receipt by the payees.

Source: Data on check and EFT volumes are received monthly from the Production Reporting System (PRS) via a report submitted to FMS Headquarters by FMS' Regional Financial Centers.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	99.9999	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage collected electronically of total dollar amount of Federal government receipts***

Definition: This measure represents the percentage of total dollar amount of Government receipts collected by the electronic mechanisms compared to total amount of Government collections.

Source: The system receives deposit and accounting information from local depositories and provides detailed accounting information to STAR, FMS' central accounting and reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
75.3	79.0	80.0	81.0	**81.0**	*82.0*

FY 2004 Performance: Target Met; Performance Exceeds Prior Year

Performance Measure: ***The dollar amount of collections handled through Pay.gov, a government-wide transaction portal (in billions of dollars)***

Definition: This measure reflects the dollar amount of these ACH debit transactions settled by financial institutions through Pay.gov.

Source: Pay.gov is an Internet portal which will offer an electronic alternative to paper check payments to lockboxes by offering Automated Clearing House (ACH) debit authorization over the Internet, thereby increasing Electronic Funds Transfer (EFT) options to remitters.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	2.00	3.77	10.00	**4.04**	*12.00*

FY 2004 Performance: Target Not Met; Performance Exceeds Prior Year

Explanation of Challenge: During FY 2003, FMS switched the primary software developer for Pay.gov because best practices were not exercised, commercially available product features were not utilized and there were scalability and maintenance issues. This switch led to some scheduling impacts and subsequently affected collections. Major portions of the system had to be re-developed by a new contractor. This prevented many revenue collection programs across the government from using the system until the last quarter of the fiscal year.

Performance Measure: ***Percentage increase in dollar value loaded onto stored value cards***

Definition: Amount of funds loaded onto stored value cards in comparison to the funds loaded in FY 2002.

Source: The stored value card program is an electronic payment system that offers an alternative to cash, checks, money orders and vouchers by loading funds onto smart cards for the purchase of goods and services at participating merchant locations.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	15	**31**	*34*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of check forgery and non-receipt claims adjudicated within 14 days***

Definition: This measure assesses the efficiency of claims processing. Adjudication is a segment of the entire process. The measure records the time it takes a claims analyst to make a determination to settle, deny or to defer a final disposition of the claim pending the receipt of additional information and/or investigative reports.

Source: The data projection is based on actual performance in previous years. Actual performance is based on data extracted from the Check Payment & Reconciliation (CP&R) data base file.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
96.5	98.0	98.0	94.0	**99.9**	*Discontinued*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percentage of payments customers indicating an overall rating of satisfied or better***

Definition: This measure directly assesses satisfaction of payments customers (i.e., Federal program agencies) with both checks and electronic payments.

Source: It is based on a survey sent to FMS' disbursing customers. It includes measures of levels of service for core businesses: electronic payments, check payments, electronic funds transfer non-receipts, electronic certification system, and overall customer service.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	99	99	99	**98**	*99*

FY 2004 Performance: Target Not Met

Explanation of Challenge: In an effort to obtain more meaningful data and identify areas for improvement, FMS added a question to its customer satisfaction survey regarding payment process improvements. Six out of 102 respondents would like to see a faster roll-out of some improvements, which FMS has and continues to focus on. Had this question not been added, FMS would have met this target.

Performance Measure: ***Number of electronic payments (thousands)***

Definition: This is an input measure of the number of electronic payments FMS makes at the request of the program agencies.

Source: FMS Production Reporting System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
677,413	665,905	684,832	696,000	**705,966**	*725,040*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of check payments (thousands)***

Definition: This is an input measure of the number of check payments FMS makes at the request of the program agencies.

Source: FMS Production Reporting System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
269,335	252,849	244,568	238,000	**234,967**	*228,960*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Number of check claims submitted (thousands)***

Definition: This is an input measure of the number of inquiries made against Federal check payments, whether disbursed by FMS or by other agencies. FMS handles all Federal government check claims.

Source: N/A

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1,490	1,736	1,494	1,350	**1,438**	*1,300*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Unit Cost for Federal Government payments (in dollars)***

Definition: Unit cost combines both paper and electronic payment mechanisms, and includes the aftermath processes (reconciliation and claims) for both types of payment mechanisms.

Source: The cost data is captured through an activity based costing process

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	0.34	**0.34**	*0.34*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage reduction in rate of increase in transaction costs to collect Federal government receipts through the Electronic Federal Tax Payment System***

Definition: Reflects FMS' progress and results in ensuring the Government's cost in operating its collection systems are minimized.

Source: Federal government receipts through the Electronic Federal Tax Payment System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	70	**100**	*65*

FY 2004 Performance: Target Met/Exceeded

Future Plans: FMS far exceeded this metric for the reduction in the rate of increase in transaction costs. By renegotiating all EFTPS prices, transaction costs did not increase but rather decreased, yielding a 100% reduction in the rate of increase of transaction costs (surpassing the 70% target). Since the new EFTPS pricing structure is based largely on fixed and not variable costs, this metric will be replaced in future years with a new measure for the efficiency of Government collections.

Performance Measure: ***Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately***

Definition: The measure is the percentage of check and EFT payments that FMS makes which are not duplicate or double payments.

Source: The RFCs submit statistics on duplicate payments and will submit the data for the performance measures. The payments issued through FMS' RFCs are balanced with payment certifications that are certified and submitted to FMS by the Federal program agencies (FPAs).

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	99.9998	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage of Treasury payments and associated information made electronically***

Definition: This measure shows the portion of the total volume of payments which are made electronically by FMS. Electronic payments include transfers made through the automated clearinghouse and wire transfer payments made through the FEDWIRE system.

Source: The amount and number of payments issued by RFCs are also maintained under accounting control.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
72	73	74	75	**75**	*76*

FY 2004 Performance: Target Met; Performance Exceeds Prior Year

F4D: Optimize Cash Management and Effectively Administer the Government's Financial Systems

Bureau of the Public Debt (BPD)

Performance Measure: *Receive unqualified audit opinions on the Schedule of Federal Debt and Loans Receivable*

Definition: The responsibility to account for and report on Treasury financing through the Schedule of Federal Debt and Loans Receivable financial statements is a fundamental Public Debt mission. The summary level accounting system and various subsidiary securities systems process billions of dollars in transactions daily.

Source: Summary level accounting system and various subsidiary securities systems

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Meet	**Met**	*Met*

FY 2004 Performance: Target Met/Exceeded

Departmental Offices (DO)

Performance Measure: *Cost per dollar of debt issued (Net interest cost) [in millions]*

Definition: The net interest cost issued includes net interest paid on the debt.

Source: Data is from the OMB review for marketable debt issuance/net interest cost and Treasury's financial data for operational cost.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
206,000	171,000	153,000	165,000	***116,157***	*185,000*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: *Audit opinion received on government-wide financial statements*

Definition: This is the independent audit opinion rendered on the financial statements by GAO.

Source: GAO is the statutorily prescribed auditor.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	***Met***	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Operational cost of debt issued (in millions)***

Definition: The operational cost are DO operating costs (e.g., salaries, benefits, travel, communications, other services, supplies and equipment).

Source: Data is from the OMB review for marketable debt issuance/net interest cost and Treasury's financial data for operational cost

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	1.664	1.742	***1.150***	*1.805*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Variance between estimated and actual receipts (annual forecast)***

Definition: Percentage error measures the accuracy of the Mark receipts forecasts produced monthly by the Office of Cash and Debt Management (OCDM). It measures the relative amount of error or bias in OCDM's receipts forecasts.

Source: OCDM within the Office of the Fiscal Assistant Secretary compiles receipts data by major categories (i.e., withheld income taxes, individual taxes, FICA, corporate, customs deposits, estate and excise) as well as by types of collection mechanisms (electronic and paper coupons). OCDM is also responsible for forecasting the daily tax receipts in order to manage the Federal Government's cash flow. Data on monthly and daily federal tax receipts of actual and forecasts are compiled by the office and are used to report on the United States' monthly, weekly, and daily cash position in addition to determining the optimal financing for cash management.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	5.0	***3.3***	*4.5*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Release Federal Government-wide financial statements on time***

Definition: This report is the audited consolidated financial report of the Federal Government required by the Government Management Reform Act.

Source: Data are collected from the audited financial results of all federal agencies and is audited by GAO

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	Met	Met	Meet	***Met***	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Marketable debt issuance [in millions]***

Definition: Marketable debt issuance is outstanding debt, marketable only.

Source: Data is from the OMB review for marketable debt issuance/net interest cost and Treasury's financial data for operational cost

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
2,473,000	3,691,000	4,121,000	4,500,000	***3,337,711***	*4,500,000*

FY 2004 Performance: Target Not Met

Financial Management Service (FMS)

Performance Measure: ***Percentage of Government-wide accounting reports issued accurately***

Definition: All Government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Statement of Receipts, Outlays, and Balances of the U.S. Government) will be 100% accurate.

Source: A monthly tracking system reports on the various published statements and monitors errata as it pertains to this data.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	98	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percentage of Government-wide accounting reports issued timely***

Definition: All Government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be on time 100% of the time.

Source: A monthly reporting system is used to track the release dates to the public of all of the various government-wide statements.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percentage of reporting locations with reconciliation differences, for deposits and payments, less than three months old***

Definition: Measures the extent to which reports on deposits and payments from reporting sources in Federal agencies (ALCs) differ from FMS' data.

Source: The ALC identifies an agency, bureau or other reporting source.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	96.00	95.00	**92.00**	95.00

FY 2004 Performance: Target Not Met

Explanation of Challenge: FMS has consistently tightened this measure to improve the quality of financial information. It was six months in FY 2002, reduced to four months in FY 2003 and again to three months in FY 2004. However, the 95% target remained the same. Had FMS not revised this score for FY 2004, it would have been met. In order to achieve this goal in the future, FMS developed a Quarterly Scorecard showing the results of Federal Program Agency's (FPA) financial reporting performance to measure compliance with FMS reporting requirements in an effort to facilitate meeting the performance goal. The first Quarterly Scorecards were issued to FPA Chief Financial Officers for third quarter activity. Responses to the scorecard thus far indicate significant progress will be achieved in meeting the performance goal. In addition, many deposit differences are caused by bank errors.

Future Plans: Since agencies expressed this concern, FMS is working with the Federal Agencies and the banking community to assist them in making improvements and reconciling their accounts in a timely fashion.

Performance Measure: ***Receipt of unqualified audit opinion on FMS' Schedule of Non-entity Assets, Non-entity Costs, and Non-entity Custodial Revenues, and Schedule of Non-entity Government-wide Cash***

Definition: FMS receives an unqualified opinion when the Schedule of Non-entity Assets, Non-entity Costs, and Non-entity Custodial Revenues and the Schedule of Non-entity Cash present fairly, in all material respects, the activity of the Treasury Managed Accounts that make up the schedules.

Source: The management of the Treasury accounts that make up the schedule is critical to obtaining a clean/unqualified audit opinion on the Department-wide financial statements as well as the Financial Report of the U.S. Government. For this reason, FMS established a performance measure for the audit opinion on FMS' financial audit.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

MANAGEMENT ENABLING GOAL

M5: Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

M5A: Protect the Integrity of the Department of the Treasury

Office of Inspector General (OIG)

Performance Measure: ***Percent of audits and evaluations sampled that meet applicable standards***

Definition: The Inspector General Act requires that audits be conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Source: Manual verification of the submitted numbers.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Completed audits and evaluations***

Definition: Audits and evaluations are a key element in fulfilling the Federal government's duty to be accountable to the public.

Source: Audits and evaluations completed during the year

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
97	130	116	48	**49**	*53*

FY 2004 Performance: Target Met

Performance Measure: ***Percent of audits required by statute completed by the required date***

Definition: Legislation mandates certain audit work and generally prescribes, or authorizes OMB to prescribe, the required completion date for recurring audits. For other types of mandated audits, legislation generally prescribes a timeframe for issuing a report following the date of the event that triggered the audit.

Source: Official audit files

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	92	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent of investigations sampled that meet PCIE standards***

Definition: The President's Council on Integrity and Efficiency issued qualitative standards regarding the planning, execution, and reporting of investigations, as well as the information management system for investigations.

Source: Investigations Data Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Investigations referred for prosecution within one year of initiation***

Definition: Criminal and civil investigations referred to the Justice Department for prosecution

Source: OIG calculates the figure for a fiscal year by dividing the criminal and civil investigations referred to the Justice Department for prosecution within one year of case initiation by the total number of investigations referred to the Justice Department.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
7	5	9	5	**13**	*7*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Routine misconduct investigations referred to management for administrative adjudication within 4 months of initiation***

Definition: In cases where investigations uncover misconduct that does not rise to the level of criminal or civil prosecution, the case should be reported to the bureau or office for administrative action.

Source: Investigations Data Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
9	10	15	10	**10**	*15*

FY 2004 Performance: Target Met

Treasury Inspector General for Tax Administration (TIGTA)

Performance Measure: ***Increase in potential financial accomplishments that result from audit activities***

Definition: Total potential government revenue from either increased tax, interest and penalties from taxpayers, or denied refunds, identified in final audit reports issued during a fiscal year. This includes assessment or collection of additional taxes (increased revenue), or prior denial or claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system (revenue protection). Potential monetary benefits are the total questioned costs and funds that could be put to better use identified in audit reports issued in a fiscal year.

Source: Data is input into a centralized database and verified against draft and final report documents. Data on questioned costs and funds put to better use resulting from each audit is tracked manually. This data is input into a centralized database and verified against draft and final report documents.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**32 million**	*TBD*

FY 2004 Performance: Baseline established

Performance Measure: ***Increase in the total taxpayer accounts potentially impacted as a result of audit activities (in millions)***

Definition: Total number of taxpaying entities for whom rights and entitlements are protected, taxpayer burden is reduced or privacy and security over sensitive taxpayer data is improved because of audit recommendations made in audit reports issued during a fiscal year.

Source: This data is input into a centralized database and verified against draft and final report documents. In addition, IRS management is given the opportunity to review the data and the methodology used to calculate the data at the draft report stage.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
14.5	7.5	47.0	13.4	**49.7**	*13.4*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Number of final audit reports issued***

Definition: The total number of audit reports issued in a particular fiscal year. These reports include those resulting from audits conducted by the TIGTA Office of Audit as well as audit reports prepared by the Defense Contract Audit Agency on behalf of TIGTA.

Source: Inspector General (for Tax Administration) Automated Management Information System (IGAMIS)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	128	**139**	*128*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Average staff days to issue final audit report***

Definition: The total number of direct hours divided by eight charged by the assigned team to an individual audit. A direct hour reflects time spent by a member of the assigned audit team toward planning, conducting, and reporting on the results for a specific audit.

Source: Inspector General (for Tax Administration) Automated Management Information System (IGAMIS)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	350	**319**	*350*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Average calendar days to issue final report***

Definition: The total number of days elapsed from the start of an audit to the final report issuance date.

Source: Inspector General (for Tax Administration) Automated Management Information System (IGAMIS)

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	300	**338**	*300*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Office of Audit's (OA) goal for average calendar days per audit is just one process measure used to help ensure OA meets its goal for the number of final audit reports issued, in fitting with GPRA's "basket of measures" concept. While OA exceeded its goal for the number of final audit reports and bettered its other process goal (average staff days per audit), it did not meet its goal for average calendar days. Perhaps the most significant reason for this was the number of highly complex audits OA undertook this year, addressing some areas of IRS that had not been audited in recent years (or perhaps at all) and other areas that were extremely complicated. In both cases, additional time was required to perform the audit work.

Performance Measure: ***Increase in financial accomplishments that result from audit and investigative activities***

Each of the following (A – C) makes up the total performance measure:

A. Total potential increased revenue or revenue protected as a result of audit recommendations during the fiscal year.

Definition: Total potential government revenue from either increased tax, interest and penalties from taxpayers, or denied refunds, identified in final audit reports issued during a fiscal year. This includes assessment or collection of additional taxes (increased revenue), or prior denial or claims for refund, including recommendations that prevent erroneous refunds or efforts to defraud the tax system (revenue protection).

Source: Data is input into a centralized database and verified against draft and final report documents.

B. Potential monetary benefits from audit recommendations made during the fiscal year.

Definition: Potential monetary benefits are the total questioned costs and funds that could be put to better use identified in audit reports issued in a fiscal year. The term "questioned cost" means a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation ("unsupported cost"); or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. Questioned costs also include "disallowed costs," which means a cost that management has sustained or agreed should not be charged to the government. The term "funds put to better use" means funds that could be used more efficiently and effectively if management took actions to implement and complete an audit recommendation(s).

Source: Data on *questioned costs* and *funds put to better use* resulting from each audit is tracked manually. This data is input into a centralized database and verified against draft and final report documents.

C. Protection of dollars and financial recoveries.

Definition: Total protection of dollars and financial recoveries associated with closed investigations during a fiscal year includes tax assessments potentially compromised by a bribe, threat or embezzlements, value of government property recovered, resources protected against malicious loss, dollar value of court ordered criminal and civil penalties, restitution and seizures, forfeitures, and recoveries.

Source: Data on the protection of dollars and financial recoveries is extracted from the Performance and Results Information System (PARIS).

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	$1.18 billion	**$5.7 billion**	*$1.18 billion*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage increase in positive results from investigative activities***

Definition: The percentage increase is computed by dividing the total number of Criminal, Civil and Administrative Actions with a result, by the total investigative cases closed during the fiscal year.

Source: The total number of investigative cases closed along with the total number of completed Criminal, Civil and Administrative Actions is extracted from PARIS.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Baseline	**64**	*67*

FY 2004 Performance: Baseline established

Performance Measure: ***Percentage of IRS employees working during the fiscal year who attended a TIGTA integrity briefing***

Definition: The purpose of the integrity briefings is to educate employees on the expected professional conduct as they execute their responsibilities, to include recognizing and reporting bribe overtures. Integrity briefings have a potential deterrent effect and could dissuade employees from taking inappropriate advantage of their positions.

Source: Data for this measure is extracted from the Investigations Management Information System (IMIS).

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
43	39	36	33	**43**	*33*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

M5B: Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

Treasury Franchise Fund (Franchise Fund) – All Lines of Business

Performance Measure: ***Total revenue equals or exceeds total expenses for each franchise operation for each fiscal year***

Definition: "Break-Even Analysis" reflects whether revenues exceed or are equal to expenses

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage change in total number of customers serviced from prior year***

Definition: Each franchise location defines a customer according to its type of business (e.g. One organization may deal with customers at the division level while others may deal with customers at the bureau level).

Source: Customers are captured in an Access or Oracle database. Each organization is required to be consistent in its approach to customer count/measurement.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
14	18	12	10	**21**	*10*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Current ratio***

Definition: The ability of an organization to either have cash on hand or be able to turn assets into cash in the near-term, usually with a one year period, to pay its short-term debt.

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.3	1.4	1.3	1.2	**1.4**	*1.2*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Customer satisfaction approval rating***

Definition: Indicates an objective level of customer satisfaction

Source: The result of the survey is derived from the following: (a) ongoing management service reviews with customers through on-site visits; (b) ongoing management contract review with contractors; and (c) customer surveys using scale method with quantitative statistical analysis and results.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
92	93	83	80	**85**	*80*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***100% voluntary program participation***

Definition: Indicates whether customers are free to choose services from the Franchise Fund or select another service provider.

Source: Each reimbursable agreement has an escape clause included as a required provision.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Cost of goods sold as a percentage of revenue***

Definition: Defined as the costs actually incurred in producing the product or service (e.g. vendor costs). It is the direct cost of production or service.

Source: The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Operating expenses as a percentage of revenue***

Definition: Defined as those expenses associated with running the business but are not directly related expenses to the line of goods or services being sold.

Source: The data is captured in an Oracle Financials system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***No Management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein***

Definition: Identification of deficiencies are based on evidentiary findings based on sources of information provided in Circular A-123 in part include: Management knowledge gained from the daily operation of agency programs and systems; management reviews; IG and GAO reports, including audits; program evaluations; audits of financial statements conducted pursuant to the Chief Financial Officers Act; annual risk assessments and review of financial systems.

Source: The data is captured in an Access database for some operational data and in the Oracle Financial system at BPD (ARC) in Parkersburg, WV, or other auditable system. Management routinely pulls data for review from the Oracle Discover Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Not Met**	*Meet*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Franchise Fund had a management letter comment concerning the strength of internal controls over the accounts receivable billing and collection processes. Management of the Franchise Fund acknowledges the strength of internal controls over the accounts receivable billing and collection processes should be improved and will be implementing standardized policies and procedures for the Franchise Fund to correct this deficiency.

Performance Measure: ***Unqualified Annual Financial Statement Audit Opinion from independent external auditors***

Definition: Indicates an external review/opinion on the reasonable assurance about whether the financial statements are free of material misstatement.

Source: The review includes examining on a test basis: (a) evidence supporting the amounts and disclosures in the financial statements; (b) assessment of the accounting principles used and significant estimates made by management; and (c) evaluation of the overall financial statement.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Percent change in total sales from prior year***

Definition: Indicates percentage growth/decline over prior year

Source: This data comes from the Oracle Financial system or other auditable source.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
36	41	34	10	**35**	*10*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The performance target was set at an approximate target level, and the deviation from the target is slight. There was no effect on overall program or activity performance.

Treasury Franchise Fund – Financial Systems, Consulting, and Training

Performance Measure: ***Total revenue equals or exceeds total expenses for each franchise operation for each fiscal year***

Definition: The "Break-Even Analysis" - reflects whether revenues exceed or are equal to expenses.

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Cost of goods sold as percentage of revenue***

Definition: The costs actually incurred in producing the product or service (e.g. vendor costs). It is the direct cost of production or service.

Source: The consolidated Franchise Fund will either maintain or decrease the cost of goods sold as a percentage of revenue year to year. The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Current ratio***

Definition: The ability of an organization to either have cash on hand or be able to turn assets into cash in the near-term, usually with a one year period, to pay its short-term debt.

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
2.9	2.0	3.7	1.2	**3.9**	*1.2*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Unqualified Annual Financial Statement Audit Opinion from independent external auditors***

Definition: Indicates an external review/opinion on the reasonable assurance about whether the financial statements are free of material misstatement.

Source: The review includes examining on a test basis: (a) evidence supporting the amounts and disclosures in the financial statements; (b) assessment of the accounting principles used and significant estimates made by management; and (c) evaluation of the overall financial statement.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Percent change in total sales from prior year***

Definition: Indicates percentage growth/decline over prior year

Source: This data comes from the Oracle Financial system or other auditable source.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
60	-15	1	10	**7**	*10*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior

Performance Measure: ***Customer Satisfaction Approval Rating***

Definition: Indicates an objective level of customer satisfaction

Source: The result of the survey is derived from the following: (a) ongoing management service reviews with customers through on-site visits; (b) ongoing management contract review with contractors; and (c) customer surveys using scale method with quantitative statistical analysis and results.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
93	93	87	80	**85**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent change in customers serviced from prior year***

Definition: Each franchise location defines a customer according to its type of business (e.g., One organization may deal with customers at the division level while others may deal with customers at the bureau level).

Source: Each organization is required to be consistent in its approach to customer count/measurement. Customers are captured in an Access or Oracle database.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
37	11	2	10	**19**	*10*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Operating expenses as a percentage of revenue***

Definition: Defined as those expenses associated with running the business but are not directly related expenses to the line of goods or services being sold.

Source: The data is captured in an Oracle Financials system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***100% Voluntary Program Participation***

Definition: Indicates whether customers are free to choose services from the Franchise Fund or select another service provider.

Source: Each reimbursable agreement has an escape clause included as a required provision.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***No Management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein***

Definition: Identification of deficiencies are based on evidentiary findings based on sources of information provided in Circular A-123 in part include: Management knowledge gained from the daily operation of agency programs and systems; management reviews; IG and GAO reports, including audits; program evaluations; audits of financial statements conducted pursuant to the Chief Financial Officers Act; annual risk assessments and review of financial systems.

Source: The data is captured in an Access database for some operational data and in the Oracle Financial system at BPD (ARC) in Parkersburg, WV, or other auditable system. Management routinely pulls data for review from the Oracle Discover Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Not Met**	*Meet*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Franchise Fund had a management letter comment concerning the strength of internal controls over the accounts receivable billing and collection processes. Management of the Franchise Fund acknowledges the strength of internal controls over the accounts receivable billing and collection processes should be improved and will be implementing standardized policies and procedures for the Franchise Fund to correct this deficiency.

Treasury Franchise Fund – Financial Management Administrative Support

Performance Measure: ***Cost of goods sold as a percentage of revenue***

Definition: Defined as the costs actually incurred in producing the product or service (e.g. vendor costs). It is the direct cost of production or service.

Source: The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Current ratio***

Definition: The ability of an organization to either have cash on hand or be able to turn assets into cash in the near-term, usually with a one year period, to pay its short-term debt.

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.2	1.5	1.2	1.2	**1.5**	*1.2*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Customer Satisfaction approval rating***

Definition: Indicates an objective level of customer satisfaction

Source: The result of the survey is derived from the following: (a) ongoing management service reviews with customers through on-site visits; (b) ongoing management contract review with contractors; and (c) customer surveys using scale method with quantitative statistical analysis and results.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
90	90	94	80	**85**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Total revenue equals or exceeds total expenses for each franchise operation for each fiscal year***

Definition: The "Break-Even Analysis" - reflects whether revenues exceed or are equal to expenses.

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Unqualified Annual Financial Statement Audit Opinion from independent external auditors***

Definition: Indicates an external review/opinion on the reasonable assurance about whether the financial statements are free of material misstatement.

Source: The review includes examining on a test basis: (a) evidence supporting the amounts and disclosures in the financial statements; (b) assessment of the accounting principles used and significant estimates made by management; and (c) evaluation of the overall financial statement.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Percent change in total sales from prior year***

Definition: Indicates percentage growth/decline over prior year.

Source: This data comes from the Oracle Financial system or other auditable source.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
22	15	29	10	**29**	*10*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***100% Voluntary Program Participation***

Definition: Indicates whether customers are free to choose services from the Franchise Fund or select another service provider.

Source: Each reimbursable agreement has an escape clause included as a required provision.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Percent change in customers serviced from prior year***

Definition: Each franchise location defines a customer according to its type of business (e.g., One organization may deal with customers at the division level while others may deal with customers at the bureau level). However, each organization is required to be consistent in its approach to customer count/measurement.

Source: Customers are captured in an Access or Oracle database.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
50	21	13	10	**7**	*10*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The combined total sales for these businesses in FY2004 increased by 7%. This challenge is primarily due to TAS discontinuing a business line in FY2004 that existed in FY2003 (Financial Management Consulting).

Performance Measure: ***Operating expenses as a percentage of revenue***

Definition: The consolidated Franchise Fund will either maintain or decrease operating expenses as a percentage of revenue year to year. Operating expenses are defined as those expenses associated with running the business but are not directly related expenses to the line of goods or services being sold.

Source: The data is captured in an Oracle Financials system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Meet	**Met**	*Met*

FY 2004 Performance: Target Met

Performance Measure: ***No Management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein***

Definition: Management controls, per OMB Circular A-123, are the organization, policies, and procedures used by agencies to assure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud and mismanagement; (iv) laws and regulations are followed; (v) reliable and timely information is obtained, maintained, reported and used for decision making. Identification of deficiencies are based on evidentiary findings based on sources of information provided in Circular A-123 in part include: Management knowledge gained from the daily operation of agency programs and systems; management reviews; IG and GAO reports, including audits; program evaluations; audits of financial statements conducted pursuant to the Chief Financial Officers Act; annual risk assessments and review of financial systems.

Source: The data is captured in an Access database for some operational data and in the Oracle Financial system at BPD (ARC) in Parkersburg, WV, or other auditable system. Management routinely pulls data for review from the Oracle Discover Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Not Met**	*Meet*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Franchise Fund had a management letter comment concerning the strength of internal controls over the accounts receivable billing and collection processes. Management of the Franchise Fund acknowledges the strength of internal controls over the accounts receivable billing and collection processes should be improved and will be implementing standardized policies and procedures for the Franchise Fund to correct this deficiency.

Treasury Franchise Fund – Consolidated/Integrated Administrative Management

Performance Measure: ***Cost of goods sold as a percentage of revenue***

Definition: The consolidated Franchise Fund will either maintain or decrease the cost of goods sold as a percentage of revenue year to year. Cost of Goods Sold is defined as the costs actually incurred in producing the product or service (e.g., vendor costs). It is the direct cost of production or service.

Source: The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Current ratio***

Definition: The ability of an organization to either have cash on hand or be able to turn assets into cash in the near-term, usually with a one year period, to pay its short-term debt.

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
1.2	1.5	1.2	1.2	**1.3**	*1.2*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Customer Satisfaction approval rating***

Definition: Indicates an objective level of customer satisfaction

Source: The result of the survey is derived from the following: (a) ongoing management service reviews with customers through on-site visits; (b) ongoing management contract review with contractors; and (c) customer surveys using scale method with quantitative statistical analysis and results.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
90	90	94	80	**87**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Total revenue equals or exceeds total expenses for each franchise operation for each fiscal year***

Definition: The "Break-Even Analysis" - reflects whether revenues exceed or are equal to expenses.

Source: The data is captured in Oracle Financials system on a daily basis and posted to the appropriate Standard General Ledger (SGL) accounts at the transaction level and reported through Oracle's Discoverer Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Unqualified Annual Financial Statement Audit Opinion from independent external auditors***

Definition: Indicates an external review/opinion on the reasonable assurance about whether the financial statements are free of material misstatement.

Source: The review includes examining on a test basis: (a) evidence supporting the amounts and disclosures in the financial statements; (b) assessment of the accounting principles used and significant estimates made by management; and (c) evaluation of the overall financial statement.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Percent change in total sales from prior year***

Definition: Indicates percentage growth/decline over prior year.

Source: This data comes from the Oracle Financial system or other auditable source.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
22	15	29	10	**37**	*10*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***100% Voluntary Program Participation***

Definition: Indicates whether customers are free to choose services from the Franchise Fund or select another service provider.

Source: Each reimbursable agreement has an escape clause included as a required provision.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
100	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Percent change in customers serviced from prior year***

Definition: Each franchise location defines a customer according to its type of business (e.g., One organization may deal with customers at the division level while others may deal with customers at the bureau level). However, each organization is required to be consistent in its approach to customer count/measurement.

Source: Customers are captured in an Access or Oracle database.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
50	21	13	10	**21**	*10*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Operating expenses as a percentage of revenue***

Definition: The consolidated Franchise Fund will either maintain or decrease operating expenses as a percentage of revenue year to year. Operating expenses are defined as those expenses associated with running the business but are not directly related expenses to the line of goods or services being sold.

Source: The data is captured in an Oracle Financials system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	Not Met	Meet	**Met**	*Met*

FY 2004 Performance: Target Met

Performance Measure: ***No Management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein***

Definition: Management controls, per OMB Circular A-123, are the organization, policies, and procedures used by agencies to assure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud and mismanagement; (iv) laws and regulations are followed; (v) reliable and timely information is obtained, maintained, reported and used for decision making. Identification of deficiencies are based on evidentiary findings based on sources of information provided in Circular A-123 in part include: Management knowledge gained from the daily operation of agency programs and systems; management reviews; IG and GAO reports, including audits; program evaluations; audits of financial statements conducted pursuant to the Chief Financial Officers Act; annual risk assessments and review of financial systems.

Source: The data is captured in an Access database for some operational data and in the Oracle Financial system at BPD (ARC) in Parkersburg, WV, or other auditable system. Management routinely pulls data for review from the Oracle Discover Reporting system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Not Met**	*Meet*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The Franchise Fund had a management letter comment concerning the strength of internal controls over the accounts receivable billing and collection processes. Management of the Franchise Fund acknowledges the strength of internal controls over the accounts receivable billing and collection processes should be improved and will be implementing standardized policies and procedures for the Franchise Fund to correct this deficiency.

Departmental Offices (DO)

Performance Measure: ***Percentage of Treasury budget/program activities that have efficiency measures in the Annual Performance Budget [BASELINE FY 2003]***

Definition: Measures progress in integrating budget and performance by the use of cost accounting information. Efficiency measures include timeliness metrics and unit cost metrics that identify full cost (direct, indirect and overhead) to performance activity/function.

Source: Annual Performance Budget

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	19	19	**22**	*20*

FY 2004 Performance: Target Met/Exceeded; ; Performance Exceeds Prior Year

Performance Measure: ***Percent of monthly financial submissions by bureaus/reporting entities that are timely and contain quality data (Management Challenge, President's Management Agenda)***

Definition: This measures the percentage of bureaus and reporting entities whose data are entered into Treasury's Financial Analysis and Reporting System (FARS) within the prescribed timeframe each month and meets all data quality metrics.

Source: FARS

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
84	100	100	100	**100**	*100*

FY 2004 Performance: Target Met

Performance Measure: ***Percent of all IT systems that are currently certified and accredited to operate***

Definition: The Certified and Accredited (C&A) percentage represents the overall Treasury's Major Applications and General Support Systems (e.g., including IRS) The Federal Information Security Management Act (FISMA) is the legal requirement mandating that Federal agencies develop a comprehensive information technology (IT) security program.

Source: Data will be collected and maintained by Treasury's Office of the Chief Information Officer. The Office of Inspector General conducts its annual evaluation of the resulting data for its adequacy.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
15.5	32	50	70	**86**	*90*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Efficiency (time) rate for evacuating buildings (in minutes)***

Definition: The time it takes to evacuate buildings occupied by DO employees during an emergency.

Source: Drills conducted by emergency evacuation representatives

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	12	10	**10**	*10*

FY 2004 Performance: Target Met

Performance Measure: ***Delivery date of Treasury-wide financial statement and audit opinion (Target: November 15th/UnQualified)***

Definition: This measures the quality of Treasury's financial statements in terms of the opinion rendered as a result of an independent audit.

Source: Treasury's Accountability Report and audit opinions

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Met	Met	Met	Meet	**Met**	*Meet*

FY 2004 Performance: Target Met

Performance Measure: ***Percentage of Treasury budget/program activities that have outcome-oriented measures in the Annual Performance Budget***

Definition: Percentage of measures that are outcome-oriented.

Source: Data will be captured and tabulated by a member of OPB by reviewing the types and number of measures included in each bureau's annual performance plan.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	58	58	**76**	*65*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Complete investigations of EEO complaints within 180 days***

Definition: Number of completed investigations of EEO complaints within 180 days.

Source: The Annual Federal EEO Statistical Report of Discrimination Complaints and the Department's Complaint Tracking System are the primary sources of data.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	40	**34**	*40*

FY 2004 Performance: Target Not Met

Performance Measure: *Number of open material weaknesses*

Definition: Material weaknesses are significant problems with an organization's systems' reliability; controls on waste, fraud or abuse; mission performance; and/or compliance with laws and regulations.

Source: Identified by the General Accounting Office, Treasury's Inspectors General, and/or Treasury bureaus

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
29	20	9	6	***8***	*6*

FY 2004 Performance: Target Not Met; Performance Exceeds Prior Year

Explanation of Challenge: Treasury had planned to close three of its existing nine material weaknesses in FY 2004. However, delays in addressing systems security weaknesses at Departmental Offices and the IRS precluded Treasury from closing those two weaknesses.

Performance Measure: *Percent of bureaus in compliance with FFMIA financial systems requirements*

Definition: This measures the percentage of Treasury bureaus that are in compliant with these requirements.

Source: The Federal Financial Management Improvement Act Of 1996 requires agencies to maintain financial management systems that comply substantially with Federal financial management systems requirements.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
67	72	80	90	**93**	*90*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Note: While Treasury is at 93% compliance in terms of the number of bureaus, the one noncompliant bureau is IRS, which accounts for approximately 72% of Treasury's operating budget and also accounts for the majority of the government's revenues.

Performance Measure: *Percent of new IT capital investments that are within costs, on schedule, and meeting performance targets*

Definition: Under the Federal Acquisition Streamlining Act, Part V (FASA V), and in line with OMB Guidance, Treasury must ensure that information technology investments are within costs, on schedule, and meeting performance targets. By complying with FASA V, Treasury is able to demonstrate appropriate management of its capital investments.

Source: Treasury CIO is implementing the Control phase of the Capital Planning and Investment Control processing beginning in FY 2005 using the ProSight tool.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
0	50	76	90	**91**	*100*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Increase the percentage of allegations of discrimination for which Alternative Dispute Resolution processes are used***

Definition: In accordance with the Administrative Dispute Resolution Act of 1996, ADR is defined as any method used in lieu of litigation or the formal administrative processes, i.e. the Equal Employment Opportunity complaint process, to adjudicate disputes.

Source: This is a revised measure. To increase opportunities for early resolution of discrimination complaints the Department uses Alternate Dispute Resolution (ADR) processes. Complaint Center records are used.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	20	18	**4**	*22*

FY 2004 Performance: Target Not Met

Explanation of Challenge: This year was a transition for the Complaint Centers – moving from four Centers to one Center, and moving to IRS management. During the transition, Center staff was not able to focus on ADR. However, the Center is developing new ADR tools and concepts for next fiscal year to help it meet its goals.

Performance Measure: ***Bureau performance plans for supervisors, managers, and SES members contain elements that link to the bureau mission***

Definition: The overall percentage of bureaus' whose performance plans for supervisors, managers, and SES members contain elements that specifically link to the bureau mission.

Source: Data will include bureau feedback in response to questions and answers posed by the Office of the DAS for Workforce Management and from sample evaluation plans submitted by the bureaus.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	75	**88**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of total eligible FTE competitively-sourced***

Definition: Determine the number of eligible FTE competed or directly converted in accordance with A-76 as compared to the FY 2000 Fair Act Commercial Inventory, DO only.

Source: Bureau study plans

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	18	Not Available	10	**0**	*Discontinued*

FY 2004 Performance: Target Not Met

Future Plans: Treasury continues to meet monthly with OMB officials on its competitive sourcing activities as part of the president's Management Agenda. OMB no longer tracks the percentage of the Fair Act Inventory FTE completed.

Performance Measure: ***Percent reduction in the injury and illness rate over FY 2003 baseline – Treasury-wide***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses for Treasury-wide, including DO

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	3	-6	**30**	*-6*

FY 2004 Performance: Target Not Met

Future Plans: Treasury plans to improve its performance in FY 2005.

Performance Measure: ***Percent reduction in the injury and illness rate over FY 2003 baseline - Departmental Offices***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses for Departmental Offices.

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	-8.85	-6.00	**27.00**	*-6.00*

FY 2004 Performance: Target Not Met

Future Plans: Treasury plans to improve its performance in FY 2005.

Performance Measure: ***Injury and illness rate – Treasury-wide (incidents per 100 employees)***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses Treasury-wide, including DO

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	4.01	3.90	3.00	**4.17**	*2.94*

FY 2004 Performance: Target Not Met

Future Plans: Treasury plans to improve its performance in FY 2005.

Performance Measure: ***Injury and illness rate - Departmental Offices (incidents per 100 employees)***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses for Departmental Offices

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	1.92	2.09	1.46	**1.95**	*1.34*

FY 2004 Performance: Target Not Met

Future Plans: Treasury plans to improve its performance in FY 2005.

Performance Measure: ***Percent of non-IT capital investments meeting costs, on schedule, and performance targets***

Definition: New non-IT assets must meet cost, schedules, and performance goals for which they were acquired.

Source: Investment criteria to be established by the Treasury Capital Investment Review Board. Data will be maintained in the Information Technology Investment Portfolio System, supplemented by the non-IT 300B's.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
Not Met	Not Met	80	85	**0**	*90*

FY 2004 Performance: Target Not Met

Explanation of Challenge: The FY 2004 measure could not be met due to the lack of project performance data within the new ProSight data base and the completed status of prior year non-IT project initiatives. A new measure has been identified to measure Real Property Asset performance.

Performance Measure: ***Lost time due to injury and illness rate over FY 2003 baseline - Departmental Offices (lost time per 100 employees)***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses for Departmental Offices

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	0.38	0.49	0.28	**0**	*0.26*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Lost time due to injury and illness rate over FY 2003 baseline – Treasury-wide (lost time per 100 employees)***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses for Treasury-wide, including DO.

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	0.91	0.74	0.69	***0.92***	*0.61*

FY 2004 Performance: Target Not Met

Future Plans: Treasury plans to improve its performance in FY 2005.

Performance Measure: ***Percent reduction in lost time due to injury and illness rate over FY 2003 baseline - Departmental Offices***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses for Departmental Offices

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	-20	-6	**-6**	*-6*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent reduction in lost time due to injury and illness rate over FY 2003 baseline – Treasury-wide***

Definition: Measures amount of time lost from work as a result of work-related injuries and illnesses for Treasury-wide, including DO.

Source: Data are collected from the Safety and Health Information Management System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	20	-6	**26**	*-6*

FY 2004 Performance: Target Not Met

Explanation of Challenge: Treasury plans to improve its performance in FY 2005.

Office of Thrift Supervision (OTS)

Performance Measure: ***Percent of complaints involving OTS-regulated thrift institutions answered within 60 days***

Definition: OTS consumer affairs staff in the four regional offices handle most complaints. All complaints are reviewed to ensure compliance with federal consumer protection laws and regulations and to identify any institution conduct that warrants further scrutiny. Complaints alleging discrimination in housing finance that are covered by the Fair Housing Act are also shared with U.S. Department of Housing and Urban Development.

Source: The Consumer Complaints System tracks the receipt and processing times for complaints.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	72	80	**82**	*80*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent of Congressional inquiries forwarding complaints involving OTS-regulated institutions answered within 30 business days***

Definition: Constituent services, Congressional committee and document requests have different customer-imposed deadlines

Source: Congressional inquiries are tracked using the Congressional Affairs Tracking System

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	80	80	**86**	*80*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent of written External Interpretive Opinions processed within 60 or 90 days as specified in the External Interpretive Opinions Customer Service Plan***

Definition: Providing interpretive guidance to thrifts is an important OTS function. OTS receives written requests for interpretation of its regulations and laws.

Source: The Office of Chief Counsel opinions are tracked using an Access data base tracking system

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	100	80	**100**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of OTS-regulated thrifts provided a customer service feedback form***

Definition: OTS distributes the Annual Thrift Satisfaction Survey to every OTS-regulated institution. Thrift institutions are OTS' main customer.

Source: Annual Thrift Satisfaction Survey

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	100	100	**100**	*100*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of months during the fiscal year that OTS achieved an overall green rating on Treasury's Financial 3-Day Close Data Quality Scorecard***

Definition: OTS strives to provide accurate and timely financial data to Treasury within three business days after the end of each month.

Source: Treasury's DCFO Website contains the financial indicator scorecard for each Treasury bureau. The data is also disseminated to OTS management and budget staff through an online system.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	--	80	**100**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of regulatory staff receiving at least 30 hours of training designed to keep them current in regulatory issues and industry developments***

Definition: Regional supervisors assess upcoming and emerging issues at institutions in the region, the strength of regional examiners in the skills required to address these needs, and the training which would address areas of need. The Professional Development Program, specialty examiner tracks, accreditation programs, and management development programs, keep employee skills at top levels.

Source: A training management data base allows OTS Professional Development staff to track the hours of training received by each OTS staff member.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	65.5	60.0	**60.0**	*60.0*

FY 2004 Performance: Target Met

Performance Measure: ***Percent of survey respondents that indicated satisfaction with the accuracy, timeliness, and manner in which OTS offices interact with them***

Definition: Providing accurate and timely information to thrifts is one of OTS' important functions.

Source: Annual Thrift Satisfaction Survey

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	100	80	**96**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of survey respondents that indicated the tone and content of the Report of Examination was consistent with the board or management exit meeting***

Definition: At the conclusion of an examination, OTS examiners conduct an exit meeting to summarize key findings, make recommendations and receive and consider management's responses. This measure ensures that the information and tone of the exit meeting is consistent with the information and tone of the Report of Examination.

Source: Annual Thrift Satisfaction Survey

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	98	80	**97**	*80*

FY 2004 Performance: Target Met/Exceeded

Performance Measure: ***Percent of survey respondents that indicated examiners maintained adequate communications with management during the examination***

Definition: Thrift executives have sometimes conveyed uncertainty with the regulatory process. OTS endeavors to remove all mystery or obstacles surrounding examinations, as examinations are our primary supervisory and communication tool. OTS is committed to maintaining communication channels before, during and after the examination.

Source: OTS calculates this measure by dividing the number of survey respondents that indicated examiners maintained adequate communications with management during the examination by the total number of respondents.

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	98	80	**99**	*80*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent of survey respondents that indicated the examiners took time at the start of the examination to gain an understanding of the thrift's business strategy and operating philosophy***

Definition: Examiners understand the importance of taking the necessary time at the beginning of the examination process to gain an understanding of the thrifts' business strategy and operating philosophy.

Source: Annual Thrift Satisfaction Survey

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	98	80	**99**	*80*

FY 2004 Performance: Target Met/Exceeded; Performance Exceeds Prior Year

Performance Measure: ***Percent of survey respondents that indicated the examination was of value to their organization***

Definition: Our regulatory responsibility is an ongoing effort to maintain a safe and sound industry. A key aspect of this effort is to provide thrift executives prompt responses to inquiries to any concerns. A priority of our regulatory process is effective communication before, during and after the examination.

Source: Annual Thrift Satisfaction Survey

FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004		FY 2005 Proposed
			FY Plan	FY Actual	
--	--	98	80	**98**	*80*

FY 2004 Performance: Target Met/Exceeded

Completeness and Reliability of Performance Data

Treasury's Commitment to Quality Performance Measurement

The availability of quality performance information to assess program performance has long been a priority at the Department. Beginning with the FY 1998 performance plans, Treasury has provided descriptive information on each performance measure to define what was being measured and the significance of the measurement. With the FY 1999 performance plans, a description of the accuracy and means to verify data was included for each measure. In the FY 2000 performance plans, bureaus were required to provide self-assessments of data quality and if there were any material inadequacies, describe any actions done to resolve the inadequacies.

These self-assessments require bureaus to rate the data for each performance measure as having:

- *Reasonable Accuracy:* Judged to be sufficiently accurate for program management and performance reporting purposes (specified in OMB Circular A-11, Section 230-4(f).
- *Questionable or Unknown Accuracy:* Judged to be materially inadequate (specified in OMB Circular A-11, Section 230-4(f) as "materially inadequate").
- Where statistical confidence intervals are available, these are provided instead of the rating statements.

More verification efforts were added in FY 2001 - FY 2003, when bureaus were required to address any data reliability issues regarding their performance measures in the Assurance Statements required by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Completeness of Data

FY 2004 Data

Not Available. The following performance measures did not have any data available for this Report, but will have final numbers presented in the FY 2006 President's Justification for Appropriations:

Performance Measure
Percent Dollar Value of EITC Claims Paid in Error
Percent of Eligible Taxpayers who File for EITC
Lost time due to injury and illness rate over FY 2003 baseline - Departmental Offices

FY 2003 Data

<u>Not Available</u>. The following performance measures did not have data available at the time of publication of the FY 2003 Performance and Accountability Report. They are presented here, with their final FY 2003 data.

Performance Measure	FY 2003 Plan	FY 2003 Actual
Departmental Offices		
Level of U.S. direct investment abroad ($ in billions)	GDP Growth	Not Available
Dollar value of U.S. exports of goods and services ($ in billions)	Growth	$1,020
Percent of total eligible FTE competitively-sourced	1%	Not Available
U.S. Mint		
Total losses	Baseline	Not Established
Per unit cost – Penny	0.0095	0.0098
Per unit cost – Nickel	0.0308	0.0378
Per unit cost – Dime	0.0231	0.0321
Per unit cost – Half-Dollar	0.1196	0.1492
Per unit cost – Quarter	0.0515	0.0771
Reduction in number of new workers compensation claims accepted by the Office of Worker's Compensation Program	Baseline	19%*
* Note: claims decreased from 182 in FY 2002 to 147 in FY 2003 for a reduction of 19%. This information does not include those claims initially denied by OWCP and then accepted on appeal. OWCP is unable to generate a report that would include this information.		
Office of the Comptroller of the Currency		
Percentage of the nine merit system principles that are rated favorably by at least 75% of OCC employees surveyed	55	Deleted

<u>Estimates</u>. The following performance measures only had estimated data available at the time of publication of the FY 2003 Performance and Accountability Report. They are presented here, with their final FY 2003 data.

Performance Measure	FY 2003 Report	FY 2003 Actual
Office of the Comptroller of the Currency		
Percentage of national banks that are well-capitalized	99	99
Percentage of national banks with composite CAMELS	94	94
Rehabilitated problem national banks as a percentage of the prior fiscal year-end's problem national banks (CAMELS 3, 4 or 5)	32	32
Percentage of national banks with consumer compliance rating 1 or 2	96	96
Departmental Offices		
Economic conditions in developing countries	5.0	5.0
Economic conditions in the global economy	3.2	3.2
Economic conditions in transitional countries	4.9	4.9
Economic conditions in foreign countries that are major U.S. trading partners – European Union (Euro Area)	0.5	0.5
Economic conditions in foreign countries that are major U.S. trading partners – China	7.5	7.5

Performance Measure	FY 2003 Report	FY 2003 Actual
Departmental Offices (Continued)		
Economic conditions in foreign countries that are major U.S. trading partners – United Kingdom	1.7	1.7
Economic conditions in foreign countries that are major U.S. trading partners – Mexico	1.5	1.5
Economic conditions in foreign countries that are major U.S. trading partners – Japan	2.0	2.0
Economic conditions in foreign countries that are major U.S. trading partners – Canada	1.9	1.9

Data Reliability

Performance data presented in this Report meets the standards for reliability set forth in OMB Circular A-11, Section 230-5(f). There is neither a refusal nor a marked reluctance by agency managers or Government decision makers to use the data in carrying out their responsibilities. Data judged as materially inadequate, along with a brief reason for the inadequacy and planned corrective actions are in the following chart.

Bureau	Data Not Reasonably Accurate/ Materially Inadequate	Reason for Inadequacy and Actions to Correct
CDFI	Number of full-time equivalent jobs created or maintained in underserved communities	Inability to verify jobs data. CDFI will review a sample of jobs data in FY 2005 to determine reliability.
	Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund financial assistance	Inability to verify project level leverage. CDFI will review a sample of jobs data in FY 2005 to determine reliability.

Improper Payments Information Act Reporting Details

Background

The requirements of the Improper Payments Information Act of 2002 (IPIA) include an annual review of programs and activities to identify those that are susceptible to significant erroneous payments. 'Significant' means that an estimated error rate and a dollar amount exceed 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.

Results of Treasury's Approach to IPIA Implementation

I. a) Description of Treasury's risk assessment(s) performed subsequent to compiling its full program inventory.

Treasury bureaus were required to review their programs, identified by Treasury fund symbols (TFS), by conducting a risk assessment (RA) on each payment type, e.g., payroll, contract, vendor, travel, etc. If the results indicated high risk and the dollar amount met the threshold described above, then a statistically valid sample of payments had to be taken to estimate the level of improper payments. Based on the structure of the RA, responses to the questions produced a score that fell into pre-determined categories of risk. The following table describes the actions to be taken at each risk level.

RISK LEVEL	ACTION(S)
High 2.5% error rate and ≥ $10M	Take statistical sample/ estimate level of improper payments
Medium	Bureau discretion whether to sample and estimate
Low	No action

b) Risk-susceptible program(s) identified through risk assessment.

The only high risk program is the Internal Revenue Service's (IRS) Earned Income Tax Credit (EITC). 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. A Tax Year 1999 compliance study estimated the level of improper over claims between $8-10 billion –27% and 32% – of approximately $30 billion in total program payments. It is important to note that since the time of the 1999 compliance study, several statutory and administrative changes have been implemented, and those changes may have affected the estimated levels of improper over claims.

II. Description of EITC's Plan to Estimate Improper Over Claims Error Rates.

The complexity of EITC's program, the nature of tax processing, and the expense of compliance studies preclude statistical sampling on an annual basis in order to develop error rates for comparison to reduction targets. As a result, data is not available that would update the FY 2002 baseline and compare actual error rate estimates to the reduction targets reported in Treasury's FY 2003 Performance and Accountability Report (PAR).

The government-wide Chief Financial Officers Council, with assistance from OMB, developed an alternative to producing annual error rates for complex programs such as EITC, and allows error rate estimating for a program component. As a result of IPIA requirements and the complex program guidance, EITC will update its FY 2002 baseline rate in the FY 2005 PAR and report its progress in reducing erroneous over claims as follows.

The results of the National Research Program study of Tax Year 2001 data, expected in FY 2005, will provide an updated baseline error rate estimate and demonstrate whether the error rate estimate is trending up or down. At that time, the reduction targets will also be updated. EITC intends to conduct compliance studies periodically for the entire program. Beginning in 2005, during the intervening years, EITC will provide annual error rate estimates on the Qualifying Child Residency component of the program. If, in any year, the error rate estimate exceeds the reduction target for either the total program or component, corrective actions will be developed and reported in that year's PAR. It should be noted that this methodology is not a full and complete substitute for an estimate developed through a comprehensive evaluation of overall EITC compliance. However, it does reflect a focus on one of the primary sources of error associated with the credit and will enable the IRS to more effectively evaluate the success of its strategy to reduce this type of error.

The methodology for determining the annual estimates, which has been favorably reviewed by the U.S. Government Accountability Office (GAO), the Treasury Inspector General for Tax Administration (TIGTA), and Mathematica Policy Research, Inc., consists of taking a random sample of 25,000 EITC claimants who will be required to complete a certification process and using a control group with similar characteristics to the test group. Through extensive data collection, EITC will determine the impact of certification on taxpayer filing behavior. Results of the study are expected to provide data on the level of erroneous payments in this component.

III. Explanation of EITC's corrective action plan being implemented to reduce the erroneous over claims. This discussion includes the cause(s) of errors and the changes that are needed to reduce/prevent future over claims.

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 to ensure that eligible taxpayers whose returns are being examined receive their refunds quickly.
- Minimize the burden and enhance the quality of communications with taxpayers by improving the existing audit process.
- Encourage eligible taxpayers to claim the EITC by increasing outreach efforts and making the requirements for claiming the credit easier to understand.
- Ensure fairness by refocusing compliance efforts on taxpayers who claimed the credit but were ineligible because their income was too high.
- Pilot a certification effort to substantiate qualifying child residency eligibility for claimants whose returns are associated with a high risk for error.

As part of this initiative, in FY 2004, the IRS began several tests to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers:

- Qualifying Child Test: Requires EITC claimants to certify that they meet qualifying child residency requirement before paying out the refund;
- Filing Status Test: Reviews filing status claims to ensure they are correct. IRS selected claimants whose filing status had changed to one that increased the value of the credit (generally, from married filing joint to head of household);

- Misreporting Income (Automated Underreporter) Test: Enhances error detection through the automated under-reporter program. This test focuses not on the number of cases IRS is reviewing, but on improved selection methodologies.

Completing these tests is imperative to assessing their effectiveness in reducing erroneous EITC over claims while maintaining high participation rates by eligible taxpayers. If the results are positive, IRS intends to implement these approaches on a broader scale.

IV. a) Annual Improvement Targets in EITC Error Rate Estimates.

EITC was required to report under OMB Circular A-11, section 57 in FY 2003. The baseline data in the table for 2002 contains the estimated error rate and dollar amount range for Tax Year 1999. Reduction targets, from the baseline, in years 2003 through 2007 will be updated in FY 2005 when study results from the National Research Program are available. See chart below.

b) EITC Qualifying Child Residency component baseline error rate estimates and reduction targets from FY 2004 through FY 2007.

FY 2004 baseline error rate estimates and reduction targets for the program component will be available in FY 2005.

V. Discussion of Treasury's recovery auditing efforts, the actions taken to recover EITC over claims, and the changes to business processes and internal controls instituted to prevent further occurrences.

As with any other improper tax payment, EITC recovers over claims through IRS' normal tax examination process. By increasing outreach efforts to encourage participation in the program and making the credit requirements easier to understand by both taxpayers and tax preparers, EITC reduces the incidence of paying improper claims. Significant reductions may be realized through pre-qualifying eligible claimants whose returns may contain a high risk for error.

Note: Further information on Treasury programs recovery efforts is included in the Recovery Act reporting.

VI. A description of the steps that Treasury has taken to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

The Secretary of the Treasury delegated responsibility for improper payments to the Assistant Secretary for Management/Chief Financial Officer (ASM/CFO). The area of improper payments falls under Treasury's management control program. Through associated risk assessments, these are an extension of each bureau's annual review process. Through TD 40-04, executives and other managers are required to have management control responsibilities as part of their performance plans. With oversight mechanisms such as the Treasury CFO Council and IRS' Financial and Management Control Executive Steering Committee, managerial responsibility and accountability in all management control areas are visible and well documented.

	2002 Baseline		**2003 Target**		**2004 Target**		**2005 *Target***		**2006 Target**		**2007 Target**	
Total Estimated Payments (In Billions)	$33.3		$38.1		$39.4		$40.5		$41.5		$42.5	
Range of Under & Over claims Estimates*	$ 9.0 - $10.6	27% - 32%	$ 9.5 - $11.5	25%- 30%	$ 8.6 - $10.7	22% 27%	$ 8.5 - $10.5	21% - 26%	$ 7.9 - $10.0	19% - 24%	$ 7.7 – $ 9.8	18% - 23%

* EITC payments are not typical improper payments and are subject to both pre- and post-refund (i.e., payment) verification.

Improper payments were recently included as a separate initiative under the President's Management Agenda and has been monitored for improvement as a material weakness under the Federal Managers' Financial Integrity Act. Managers who are responsible and accountable for reducing the level of EITC over claims have been identified, while other senior and middle-level officials have responsibility for monitoring progress in this area as bureau and program internal control officers.

VII. A. Information systems and other infrastructure needs required to reduce EITC erroneous over claims to the target levels.

N/A.

B. Resources that EITC has requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.

The IRS' $22 million FY 2005 budget submission included the following for the proof of concept tests:

- Approximately $5 million to continue the qualifying child residency eligibility test.
- Approximately $1.5 million to continue the filing status test.
- Approximately $5.4 million to continue the misreporting income (Automated Underreporter) test.

In addition, technology-enabled business process improvements are being designed to augment the efficiency and effectiveness of compliance activities.

VIII. A description of statutory or regulatory barriers that limit EITC's corrective actions in reducing erroneous over claims.

A number of factors serve as barriers to reducing improper payments in the EITC program. These include:

- The complexity of the tax law.
- The structure of the earned income credit.
- Confusion among eligible claimants.
- Fraud.

No one of these factors can be considered the primary driver of program error. Furthermore, the interaction among the factors makes addressing the credit's erroneous claims rate, while balancing the need to ensure the credit makes its way to taxpayers who are eligible, extremely difficult.

Recovery Auditing Activities for FY 2003 and FY 2004

I. Description of Recovery Auditing Program

Treasury considers post-payment reviews to identify errors a good management practice that should be included among minimal payment controls. All of Treasury's bureaus use some form of recovery auditing techniques to identify improper payments during post-payment reviews. At times, bureaus may use the services of recovery auditors to help them identify payment anomalies and target areas for improvement.

Strong payment controls exist throughout Treasury, and recovery activity among the bureaus is minimal. In fact, the only program that has an unacceptable level of improper payments is the Earned Income Tax Credit (ETIC) administered by the Internal Revenue Service. As with any other improper tax payment, EITC recovers over claims through IRS' normal tax examination process. See PART IV for details of EITC's plan for reducing its improper over claims. The results of the recovery auditing activities for fiscal years 2003 and 2004 follow.

II. Recovery Audit Program Costs

Agency S&E (In-house staff): $250,000, est.

Recovery Contractor(s):
Amount Paid: **$ N/A**
Amount Owed:

Total Costs: **$250,000, est.**

III. Total Amount of Payment Errors

Recovery By	Total Payment Errors Identified		Total Recovered		% of Total Payment Errors		Total Outstanding*		% of Total Payment Errors	
FY	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Treasury	$1,956,541	$854,638	$1,895,404	$668,715	97%	78%	$61,137	$185,923	3%	22%
Recovery Auditor	-0-	-0-	-0-	-0-	N/A	N/A	N/A	N/A	N/A	N/A
Totals	$1,956,541	$854,638	$1,895,404	$668,715	97%	78%	$61,137	$185,923	3%	22%

*** Pending final resolution or collection, with no amounts deemed unrecoverable.**

IV. Description and Evaluation of Management Improvement Program. The low level of improper payments in FYs 2003 and 2004 did not require any Treasury bureau to develop a management improvement program under Recovery Act guidance. EITC has a number of initiatives designed to reduce erroneous EITC payments while increasing participation by eligible taxpayers.

V. Description of Excluded Contract Classes. No contract classes were excluded in Treasury's review of improper payments.

Systems, Controls, and Audit Follow-up

This section provides additional details on the topics under this heading addressed in Part I.

Summary of Open Federal Managers' Financial Integrity Act Material Weaknesses and Federal Financial Management Improvement Act Compliance As of September 30, 2004

Bureau/ Reporting Entities	Number of Material Weaknesses For FMFIA Section 2			Number of Material Instances of Non-Conformance For FMFIA Section 4			Grand Total (Sec 2 & Sec 4)	Substantial Compliance with FFMIA?
	Carry over from Prior Years	New This Year	Total	Carry over from Prior Years	New This Year	Total		
Bureau of Engraving and Printing	0	0	0	0	0	0	**0**	Yes
Bureau of the Public Debt	0	0	0	0	0	0	**0**	Yes
Community Development Financial Institutions Fund	0	0	0	0	0	0	**0**	Yes
Departmental Offices	1	0	1	0	0	0	**1**	Yes
DC Pension Fund	0	0	0	0	0	0	**0**	Yes
Exchange Stabilization Fund	0	0	0	0	0	0	**0**	Yes
Executive Office of Asset Forfeiture	0	0	0	0	0	0	**0**	Yes
Financial Crimes Enforcement Network	0	0	0	0	0	0	**0**	Yes
Financial Management Service	1	0	1	0	0	0	**1**	Yes
Treasury Franchise Fund	0	0	0	0	0	0	**0**	Yes
Internal Revenue Service	5	0	5	1	0	1	**6**	No
U.S. Mint	0	0	0	0	0	0	**0**	Yes
Office of the Comptroller of the Currency	0	0	0	0	0	0	**0**	Yes
Office of Thrift Supervision	0	0	0	0	0	0	**0**	Yes
Alcohol and Tobacco Tax and Trade Bureau	NA	0	0	NA	0	0	**0**	Yes
Total	**7**	**0**	**7**	**1**	**0**	**1**	**8**	**14 1**

Recapitulation of Material Weaknesses (MWs):	Section 2	Section 4	Total
Balance at the Beginning of FY 2004:	**7**	**2**	**9**
Closures/downgrades during FY 2004:	**0**	**-1**	**-1**
New MW declared during FY 2004:	**0**	**0**	**0**
Balance at the End of FY 2004:	**7**	**1**	**8**

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2004		
BUREAU	**DESCRIPTION OF MATERIAL WEAKNESS**	**REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION**
DO-02-01 (Departmental Offices)	Lack of substantial compliance with Federal Information Security Management Act (FISMA), including the Treasury communication system back-up and disaster recovery capability.	DO needs to improve the level of Certifications and Accreditations throughout the Department, complete the establishment of bureau connectivity to the backup site and conduct testing, and improve the entity-wide security program for headquarters operations. Target Date: December 2004
FMS-01-16 (Financial Management Service)	The 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 2006
IRS-88-01 (Internal Revenue Service)	IRS needs to resolve IRS' workload of Tax Assessments and prioritizing Collectible Assessments	IRS plans to improve systems support and explore the use of private collection agencies. Target Date: April 2007
IRS-95-03	Improve Modernization Management Controls and Capabilities.	IRS plans to improve Modernization Management Controls and Capabilities to consistently ensure delivery of systems with expected functionality within budget and on time that will dramatically improve both internal operations and services to taxpayers. Target Date: January 2006
IRS-99-01	Earned Income Tax Credit (EITC)	The IRS needs to implement several program enhancements to reduce the high number of overclaims and erroneous payments. Target Date: September 2006

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 2004		
BUREAU	**DESCRIPTION OF MATERIAL WEAKNESS**	**REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION**
IRS-01-01	Various systems security controls need improvement.	The IRS needs to ensure that access to key computer applications and systems was limited to authorized persons, and to effectively monitor key networks and systems to identify unauthorized activities and inappropriate system configurations. Target Date: May 2005
IRS-01-02	Measuring Taxpayer Compliance	IRS needs to continue to improve its ability to measure taxpayer compliance. Target Date: March 2005

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 2004		
BUREAU	**DESCRIPTION OF MATERIAL NON-CONFORMANCES**	**REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION**
IRS-95-01	GAO's audits of the IRS' financial statements have disclosed material weaknesses in financial reporting processes that affect IRS' ability to prepare reliable financial information on an ongoing basis. IRS' financial management systems do not substantially comply with the requirements of the FFMIA of 1996.	1. Implement Custodial Accounting Project (CAP) - A single, integrated data repository of taxpayer account information, integrated with the general ledger and accessible for management analysts and reporting. 2. Provide completed analysis and recommendations concerning feasibility of converting legacy accounts to the Automated Trust Fund Recovery (ATFR) system. Determine programming resources needed to implement recommendations and any impact on Phase III schedule completion date and ATFR rewrite completion date. 3. Implement the Integrated Financial System (IFS) to replace IRS' legacy administrative financial system. Phase I scheduled for implementation in Winter of 2004. Target Date: May 2007

Audit Follow-up Activities – Potential Monetary Benefits

The statistical data in the following summary table and preceding charts represents audit report activity for the period from October 1, 2003 through September 30, 2004. The data reflects information on reports that identified potential monetary benefits that were issued by the Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA).

Audit Report Activity With Potential Monetary Benefits
For Which Management Has Identified Corrective Actions
(OIG and TIGTA)
October 1, 2003 through September 30, 2004
(Dollars in Millions)

	Disallowed Costs		Better Used Funds		Revenue Enhancements		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Reports	Dollars
Beginning Balance*	10	$8.0	18	$5,565.9	17	$7,305.7	45	$12,879.6
New Reports	8	3.1	9	897.5	9	1,176.2	26	2, 076.8
Total	18	11.1	27	6,463.4	26	8,481.9	71	14,956.4
Reports Closed	10	7.5	11	6,286.8	10	591.1	31	6,885.4
a. Realized or Actual	*6*	*1.8*	*6*	*3,638.7*	*5*	*.3*	*17*	*3,640.8*
b. Unrealized - Written off	*4*	*5.7*	*5***	*2,648.1***	*5****	*590.8****	*14*	*3,244.6*
Ending Balance	**8**	**$3.6**	**16**	**176.6**	**16**	**$7,890.8**	**40**	**$8, 071.0**

* The beginning balance row was revised to reflect certain retroactive corrections of the beginning balances.

** This category includes two reports written off in the amount of $92.8 million for which IRS did not agree with TIGTA's recommended corrective action, and also includes two reports in the amount of $2,550.4 million for which the IRS did not concur with TIGTA's projected benefit.

*** This category includes two reports written off in the amount of $464.2 million, for which IRS did not agree with TIGTA's recommended corrective actions, one report in the amount of $9.8 million for which the IRS did not concur with TIGTA's projected benefit, and two reports written off in the amount of $116.6 million, for which TIGTA does not agree with the IRS that the benefits will not be realized.

The following provides a snap shot of OIG and TIGTA audit reports with significant recommendations reported in previous semiannual reports for which corrective actions had not been completed at September 30, 2003 and September 30, 2004, respectively. There were no "Undecided Audit Recommendations" during the same periods.

Significant Unimplemented Recommendations				
	9/30/2003		9/30/2004	
	OIG	TIGTA	OIG	TIGTA
	No. of Reports	No. of Reports	No. of Reports	No. of Reports
Unimplemented	11	37	9	38

The following presents a summary of TIGTA and OIG audit reports that were open for more than a year with potential monetary benefits at the end of PAR Report Year.

	Number of Reports Open for More than One Year			
	PAR Report Year	FY 2002	FY 2003	FY 2004
TIGTA	No. of Reports	14	15	14
	$ Projected Benefits	$358.3 million	$355.7 million	$7,045.1 million
OIG	No. of Reports	6	5	2
	$ Projected Benefits	$84.6 million	$6.3 million	$.5 million

FY 2004 Results – Alcohol and Tobacco Tax and Trade Bureau (TTB)'s TAX Audit Division

During FY 2004, TTB's Tax Audit Division opened all 10 field locations and staffed these locations with 82 professional and administrative full time equivalents (FTEs). In FY 2005, Tax Audit plans to staff an additional 21 professional positions.

In FY 2004, TTB's Tax Audit Division completed 55 audits of TTB's regulated taxpayers. Through these audits, TTB was able to validate over $16.2 billion in federal excise taxes paid as well as $91 million in claims related to the Manufacture of Non-Beverage Products. Additionally, these audits resulted in approximately $860,000 in additional excise tax collections and $8.7 million in additional tax collections due. At the end of FY 2004, an additional 51 audits were "in-progress."

Financial Management Systems Framework

Overview. The Department of the Treasury's financial management systems structure consists of financial and mixed systems maintained by the Treasury bureaus and the Department-wide Financial Analysis and Reporting System (FARS). The bureau systems process and record the detailed financial events and submit summary-level information to FARS on a scheduled basis. FARS maintains key financial data for consolidated financial reporting. In addition, the FARS modules also maintain data on performance management, the status of audit-based corrective actions, and the inventory of commercial positions in accordance with the Federal Activities Inventory Reform Act of 1998 (FAIR Act). Under this systems structure, the bureaus are able to maintain financial management systems that meet their specific business requirements. On a scheduled basis, the required financial and performance data is submitted to FARS to meet Departmental analysis and reporting requirements. The Department uses FARS to produce its periodic financial and performance reports as well as the annual Performance and Accountability Report. This structured financial systems environment enables the Department to receive an unqualified audit opinion.

The FARS structure consists of the following components: bureau financial management systems that process and record detailed financial transactions; the Treasury Information Executive Repository (TIER) data warehouse; the CFO Vision™ on-line analytical processing (OLAP) tool; the Joint Audit Management Enterprise System (JAMES) to capture information on audit findings; the Performance Reporting System (PRS) to track the status of key performance measures; and the FAIR Act System to record the Department's inventory of commercial positions. Bureaus submit summary-level financial data to TIER on a monthly basis, within three business days of the month-end. The TIER data is then loaded into CFO Vision™, a commercial off-the-shelf (COTS) analytical tool, to perform analysis and generate financial statements and reports on both a Department-wide and bureau-level basis. This structure enables the Department to produce its quarterly and audited annual financial statements.

Treasury's efforts to streamline its financial management systems structure include reducing the number of legacy financial systems. As of September 2004, Treasury's inventory of financial management systems lists 93 financial and mixed systems compared to 101 financial management systems in September 2003. As part of the Department's streamlining effort, ten Treasury bureaus and reporting entities are cross-serviced by the Treasury Franchise Fund. Cross-servicing enables the smaller bureaus to have access to core financial systems without having to maintain the necessary technical and systems architectures.

E-Government Activities. As part of the President's Management Agenda, Treasury participates in the government-wide initiatives to implement E-Gov solutions. Treasury awarded an e-Travel contract to one of the three GSA approved travel vendors. With this award, Treasury bureaus will consolidate their travel system processing into one common system. The Treasury Franchise Fund has taken the lead in the management and implementation of the e-Travel initiative.

Building upon the efforts of the Federal Enterprise Architecture Program to expand E-Government, OMB launched the Financial Management Lines of Business (FMLOB) initiative. The vision of the FMLOB is to establish a government-wide financial management solution that improves business performance while ensuring integrity in accountability, financial controls, and mission effectiveness. Treasury is participating in this initiative to improve financial management performance in the Federal government.

Treasury is also participating in the government-wide Integrated Acquisition Environment (IAE). The goal of the IAE is to create a simpler, common integrated business process for buyers and sellers that promote competition and integrity. One component of the IAE is the Intra-governmental Transaction Exchange (IGTE). The objective of the IGTE is to reduce payment and collection discrepancies between government entities and enable swift and accurate revenue and expense elimination processes for preparing consolidated financial statements.

Continued Improvement. Treasury's target financial management systems structure will build upon the current FARS foundation. As processing and reporting requirements change and FARS is expanded to collect additional financial data, it may be necessary to implement additional applications to support these new requirements. FARS will provide management with the tools to produce the financial management information necessary to analyze Department and bureau performance.

Treasury bureaus continue to improve their financial systems capabilities. The IRS is implementing the Integrated Financial System (IFS) as their new core financial system. IFS will replace multiple steady-state systems with a single, integrated and cohesive JFMIP certified COTS system. IFS will provide core financial accounting, budget management, cost management, and reporting capabilities. The IRS is implementing the Custodial Accounting Project (CAP) to provide an automated revenue accounting and collection allocation system. CAP supports the IRS requirement to implement business processes and systems that provide custodial financial performance measurement capabilities. The Custodial Account Data Engine (CADE) is also being implemented and will replace the decades-old Master File legacy system.

As previously indicated, the Treasury Franchise Fund cross-services ten Treasury bureaus and reporting entities. An additional two entities were added beginning in fiscal year 2005. The Department plans on reducing the number of core financial systems from fourteen to ten. This includes those being cross-serviced by other Federal agencies. In addition to the cross-servicing for core financial systems, Treasury bureaus are also being cross-serviced for other financial management services, such as electronic travel processing.

Federal Financial Management Improvement Act Compliance. At the beginning of FY 2004, two Treasury bureaus were non-compliant with the Federal Financial Management Improvement Act (FFMIA). The Internal Revenue Service's financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. Thus, IRS' systems remain non-compliant with FFMIA. The IRS remediation plan includes the implementation of a new financial system (Integrated Financial System) beginning in FY 2005 to support the administrative and revenue activities and the implementation of the Custodial Accounting Project (CAP) to support the revenue and tax operations. The initial phase of CAP is planned for a rollout in fiscal year 2005. The requirements and schedules for additional releases to both systems will be developed after the initial releases are successfully completed and the results evaluated.

The Financial Management Service's financial management systems previously were not in compliance with FFMIA due to a material weakness in general computer controls, access controls, change controls, and systems software. As a result of completing remediation plan corrective actions, FMS' systems are now in compliance with FFMIA.

Glossary Of Acronyms

ACE	Automated Commercial Environment
ACS	Automated Collection System
ACD	Advances Counterfeit Deterrent
ACDS	Appeals Centralized Database System
ACH	Automated Clearing House
ACSI	American Customer Satisfaction Index
ADR	Alternative Dispute Resolution
AGI	Adjusted Gross Income
AIMS	Audit Information Management System
ALC	Agency Location Code
AML	Anti-Money Laundering
APEC	Asia Pacific Economic Cooperation
ARC	Administrative Resource Center
ASAP	Automated Standard Application for Payment
ATAT	Abusive Tax Transactions
ATF	Bureau of Alcohol, Tobacco and Firearms
ATFR	Automated Trust Fund Recovery
ATSB	Air Transportation Stabilization Board
ATTFs	Anti-Terrorism Task Force
AUR	Automated Underreporter
BEA	Bank Enterprise Award
BEP	Bureau of Engraving and Printing
BICE	Bureau of Immigration and Customs Enforcement
BIT	Bilateral Investment Treaty
BMF	Business Master File
BPD	Bureau of Public Debt
BPI	Budget and Performance Integration
BPMS	Business Performance Management System
BPRS	Business Performance Reporting System
BSA	Bank Secrecy Act
BSP	Business Systems Planning
BSMO	Business System Modernization Office
C&A	Certification and Accreditation
CAC	Collection Action Clauses
CACR	Cuban Assets Control Regulations
CADE	Custodial Account Data Engine
CAF	Centralized Authorization File
CAG	Customer Advisory Group
CAIS	Corporate Activity Information System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitive Rating System
CAP	Custodial Accounting Project
CAG	Customer Assistance Group
CBS	Commercial Bank of Syria
CDFI	Community Development Financial Institutions Fund
CDE	Community Development Entity

CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act
CFTC	Commodities and Future Trading Commission
CHECK 21	Check Clearing for the 21st Century Act
CI	Criminal Investigations
CIAO	Critical Infrastructure Assurance Office
CIO	Chief Information Officer
CIP	Critical Infrastructure Protection
CN	Congressional Notification
COLA	Certificate of Label Approval
COTS	Commercial Off-the-Shelf
CP&A	Check Payment and Reconciliation
CPS	Contractor Performance System
CPIC	Capital Planning and Investment Control Process
CPO	Coalition Provisional Authority
CQIC	Case Quality Improvement Council
CQRS	Collection Quality Review System
CRA	Community Reinvestment Act
CS	Competitive Sourcing
CSCO	Compliance Services Collection Operation
CSR	Customer Service Representative
CSR&DF	Civil Service Retirement and Disability Fund
DCI	Data Collection Instrument
DCP	Office of D.C. Pensions
DEA	Drug Enforcement Administration
DFAS	Defense Finance and Accounting Service
DFI	Development Fund for Iraq
DHS	Department of Homeland Security
DLN	Document Locator Number
DMSC	Debt Management Servicing Center
DO	Departmental Offices
DOD	Department of Defense
DOJ	Department of Justice
EBRD	European Bank for Reconstruction and Development
EDS	TE/GE Determination System
EEO	Equal Employment Opportunity
EIC	Earned Income Credit
EIC	Examiner-in-charge
ESF	Exchange Stabilization Fund
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
E-Gov	Expanded E-Government
EGTRRA	Economic Growth and Tax Relief Reconciliation Act of 2001
EITC	Earned Income Tax Credit
EOAF	Executive Office of Asset Forfeiture
EOTF/FC	Executive Office of Terrorist Financing and Financial Crime
EP/EO	Employee Plans and Exempt Organization
EQ	Embedded Quality
EQMS	Exam Quality Measurement System
ERICS	EP/EO Return Inventory Control System
ERO	Electronic Return Originators

EU	European Union
EV	Earned Value
EV	Examiner View
FA	Financial Agreement
FACT	Federal Accurate Credit Transaction
FAET	Firearms and Ammunition Excise Tax
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FASA-V	Federal Acquisition Streamlining Act, Part V
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FCDA	Foreign Currency Denominated Assets
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FECA	Federal Employees' Compensation Act
FEHBP	Federal Employees Health Benefits Program
FEGLI	Federal Employees Group Life Insurance Program
FERS	Federal Employees Retirement System
FET	Federal Excise Tax system
FFB	Federal Financing Bank
FFIEC	Federal Finance Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FIU	Financial Intelligence Units
FLEC	Financial Literacy and Education Commission
FLETC	Federal Law Enforcement Training Center
FMFIA	Federal Managers' Financial Integrity Act
FMLOB	Financial Management Lines of Business
FMS	Financial Management Service
FOC	Final Operating Capability
FP	Improved Financial Performance
FPA	Federal Program Agency
FRB	Federal Reserve Board
FS-ISAC	Financial Sector-Information Sharing and Analysis Center
FRBNY	Federal Reserve Bank of New York
FS-ISAC	Financial Service Information Sharing and Analysis
FTA	Free Trade Agreement
FTE	Full Time Equivalent
FTD	Federal Tax Deposit
FTO	Fine Troy Ounce
FY	Fiscal Year
GAB	General Arrangements to Borrow
GAO	Government Accountability Office
GAS	Government Account Series
GDP	Gross Domestic Product
G-Fund	Government Securities Investment Fund
GFRS	Government-wide Financial Report Systems
GPRA	Government Performance and Results Act
GWA	Government-wide Accounting
GSA	General Services Administration
HC	Human Capital

HCSP	Human Capital Strategic Plan
HHS	Health and Human Services
IA	International Affairs
IAP	International Assistance Program
ICERC	Interagency Country Exposure Risk Committee
IDA	International Development Association
IDB	Inter-American Development Bank
IDRS	Integrated Data Retrieval System
IFI	International Financial Institutions
IFS	Integrated Financial System
IGAMIS	Inspector General Automated Management Information System
IMF	International Monetary Fund
IMF (tax)	Individual Master File
INOMS	Integrated Network and Operations Management System
IPIA	Improper Payments Information Act of 2002
IRFOF	Internet Refund/Fact of Filing
IRTF	Individual Return Transaction File
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
ISO	International Organization of Standardization
IT	Information Technology
ITAMS	Information Technology Assets Management System
JAMES	Joint Audit Management Enterprise Systems
JGTRRA	Jobs and Growth Tax Relief Reconciliation Act
JITSIC	Joint International Tax Shelter Identification Center
JTTF	Joint Terrorism Task Forces
LITC	Low Income Taxpayer Clinics
LMSB	Large/Mid-Size Business
LQMS	LMSB Quality Measurement System
LTA	Lost Time Accident
MDB	Multilateral Development Bank
Mint	U.S. Mint
MITS	Modernization, Information Technology and Security Services
MPBS	Monthly Performance Business Summary
NAB	New Arrangements to Borrow
NATS	National Applications Tracking System
NEA	National Endowment for the Arts
NIST	National Institute of Standards and Technology
NMF	Non-Master File
NMTC	New Markets Tax Credit
NRP	National Research Program
NSC	National Security Council
NTA	National Tax Advocate
OA	Office of Audit
OAS	Organization of American States
OCC	Office of the Comptroller of the Currency
OCDM	Office of Cash and Debt Management
OCIO	Office of Chief Information Officer
OCIP	Office of Critical Infrastructure Protection and Compliance Policy
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
OF/D	Operating/Functional Divisions

OFE	Office of Financial Education
OFP	Office of Fiscal Projection
OGC	Office of General Counsel
OHR	Office of High Representative
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPB	Office of Performance Budgeting
OPEB	Other Post Employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OTA	Office of Technical Assistance
OTS	Office of Thrift Supervision
PACS	PATRIOT Act Communications System
PAR	Performance and Accountability Report
PARIS	Performance Results Information System
PART	Program Assessment Rating Tool
PAS	Process Analysis System
PCA	Private Collection Agencies
PCC	Paper Check Conversion
PCG	Pacific Consulting Group
PCIE	President's Council for Integrity and Efficiency
PMA	President's Management Agenda
PMO	Program Management Office
PPS	Practitioner Priority Services
PRS	Performance Reporting System
PSD	Publishing Services Data
RAD	Regulatory Action Data
RARS	Remedy Action Response System
RFC	Request for Comments
RFC	Regional Finance Center
ROE	Report of Examination
RRA 98	Restructuring and Reform Act of 1998
RRC	Rate Reduction Credit
SAR	Suspicious Activity Reports
SB/SE	Small Business/Self Employed
SDNT	Specially Designated Narcotics Traffickers
SDR	Special Drawing Rights
SEC	Securities Exchange Commission
SG&A	Selling, General and Administrative
SGL	Standard General Ledger
SLHC	Savings and Loan Holding Companies
SME	Small and Medium Enterprise
SIS	Supervisory Information System
SOI	Statistics of Income
SOT	Special Occupation Tax
SPEC	Stakeholder, Partnerships, Education and Communication
STAR	Software Technical Assistance Recognition
SVC	Stored Value Card
TAC	Taxpayer Assistance Center
TAS	Taxpayer Advocate Services
TCIS	Treasury Check Information System
TDA	Taxpayer Delinquent Account

TDI	Taxpayer Delinquent Investigations
TE/GE	Tax Exempt/Government Entities
TEOF	Treasury Executive Office of Asset Forfeiture
TEQMS	Tax Exempt Quality Measurement System
TFF	Treasury Forfeiture Fund
TFI	Office of Terrorism and Financial Intelligence
TIGTA	Treasury Inspector General for Tax Administration
TIER	Treasury Information Executive Repository
TOP	Treasury Offset Program
TTB	Alcohol and Tobacco Tax and Trade Bureau
UN	United Nation
USAID	United States Agency for International Development
USCS	United States Customs Service
USSS	United States Secret Service
USG	United States Government
VITA	Volunteer Income Tax Assistance
VWG	Vulnerability Working Group
WWTG	World Wide Trade Group
YTD	Year to Date

Treasury On-line	**www.treas.gov**
Alcohol and Tobacco Tax and Trade Bureau (TTB)	**www.ttb.gov**
Bureau of Engraving and Printing (BEP)	**www.moneyfactory.gov**
Bureau of the Public Debt (BPD)	**www.publicdebt.treas.gov**
Community Development Financial Institutions (CFDI)	**www.cdfifund.gov**
Financial Crimes Enforcement Network (FinCEN)	**www.fincen.gov**
Financial Management Service (FMS)	**www.fms.treas.gov**
Internal Revenue Service (IRS)	**www.irs.gov**
U. S. Mint (Mint)	**www.usmint.gov**
Office of the Comptroller of the Currency (OCC)	**www.occ.treas.gov**
Office of Thrift Supervision (OTS)	**www.ots.treas.gov**

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