DEPARTMENT OF THE TREASURY

PERFORMANCE & ACCOUNTABILITY REPORT

HIGHLIGHTS

FISCAL YEAR 2007

The United States Department Of The Treasury

Our Mission

Serve the American people and strengthen national security by managing the U. S. Government's finances effectively, promoting economic growth and stability, and ensuring the safety, soundness and security of U.S. and international financial systems.

Our Values

Service – *Work for the benefit of the American people.*

Integrity – *Aspire to the highest ethical standards of honesty, trustworthiness, and dependability.*

Excellence – *Strive to be the best, continuously improve, innovate, and adapt.*

Objectivity – *Encourage independent views.*

Accountability – *Responsible for our conduct and work.*

Community – *Dedicated to excellent customer service, collaboration, and teamwork while promoting diversity.*

Contents

Major Sections

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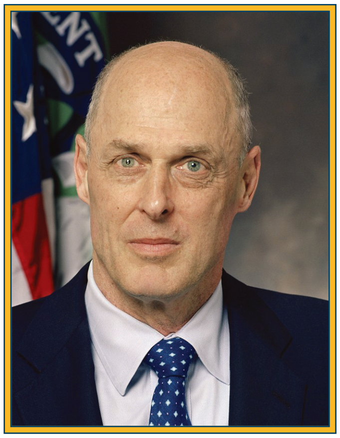
Message from the Secretary



November 15, 2007

On behalf of the Department of the Treasury, I am pleased to submit the Fiscal Year 2007 Performance and Accountability Report. This annual report provides our stakeholders with insight into the Department's broad leadership role for the economic and financial activities of the U.S. Government. Currently, the United States has a fundamentally healthy economy. Our unemployment rate remains low and real incomes are rising. In industry after industry, we innovate and create new opportunities.

The Treasury Department continues to work on maintaining a healthy economy. Our mission is to promote the conditions for prosperity and stability in the United States, and in the world's economies.

To meet our mission and focus our efforts, the Treasury Department released its Strategic Plan for fiscal years 2007-2012. This plan outlines the Department's priorities in the coming years and identifies the desired outcomes that will guide us to effectively manage and leverage resources across the Department.

Measuring performance is paramount to keep the Department of the Treasury accountable to the American people. In fiscal year 2007, the Department met 72 percent of its performance targets; an increase of 13 percent over last year. The Department continues to address performance challenges, and is developing meaningful performance measures that align resources to deliver outcomes and help ensure taxpayer dollars are spent effectively.

The President's Management Agenda is the central focus for the Treasury Department's effort in management improvement. The Department maintained its scores in Performance Improvement, Human Capital, Credit Management, E-Government, and Competitive Sourcing, while improving its score in the Financial Performance initiative.

During fiscal year 2007, the Department of the Treasury achieved progress on many fronts; however, the effective administration and oversight of information technology systems continues to be one of our major challenges, representing risk to our operations and mission responsibilities. Significant advancements were made in addressing ongoing challenges by building an integrated and consolidated information technology infrastructure, successfully managing large IT investments, and improving information security. In fiscal year 2007, the Treasury Department concentrated on expanding its oversight of the bureau IT governance process, and progressed in safeguarding privacy information and related assets.

The Department of the Treasury has again received an unqualified opinion on its financial statements, which validates the accuracy, completeness, and reliability of the financial data in this report. Likewise, the performance data presented herein are complete and reliable. The Department has continued to make progress in reducing management control weaknesses. We also established corrective action plans to satisfy federal financial systems and control objectives.

The successes and challenges of this fiscal year will serve as a foundation for our future efforts. Looking ahead, the Treasury Department will continue to work to keep the economy strong, tackle long-term issues such as entitlement reform, maintain our competitiveness, protect the global financial system from illicit use, and strengthen trade and investment policies that can provide better jobs and higher wages to American workers.

Sincerely,

Henry M. Paulson, Jr.
Secretary of the Treasury

Message from the Assistant Secretary for Management and Chief Financial Officer

November 15, 2007

Secretary Paulson's message describes the Department of Treasury's broad management role as the economic and financial leader for the U.S. Government. The Department's vast and complex responsibilities are reflected in its financial statements -- $9.5 trillion in assets and liabilities, $2.7 trillion in gross revenues, and $436 billion in net outlays.

To effectively manage the Department's $17 billion operating budget in support of these efforts, senior department leaders meet regularly to prioritize activities, discuss emerging issues, and review long term strategies. Our key functional leaders in the areas of procurement, human capital, information technology, and finance have each formed robust councils that oversee compliance, best practices, and new initiatives across the Department.

In fiscal year 2007, the Department maintained or improved its results in all of the President's Management Agenda initiatives, most notably in the Financial Management initiative, and consistently closed its books within three days following the end of each month, enabling prompt delivery of reliable financial information to key decision makers.

Other important developments in fiscal year 2007 included the release of Treasury's revised five-year Strategic Plan, a strengthened investment review process for information technology projects, an initiative to establish an office to address privacy issues, and a methodology to link proprietary costs to budget activities and their associated performance measures.

Despite our successes, we have ongoing challenges to address. In 2003, the Department of the Treasury had fourteen material management control weaknesses under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Through continuous senior level attention over the past several years, the Department has been able to close eight of these, leaving six material weaknesses open as of September 30, 2007. Due to these six weaknesses, the Department provides only qualified assurance that it is meeting Federal management control objectives. Moreover, due to one of the weaknesses, the Department is not in full compliance with Federal financial systems requirements. Nevertheless, the Department of the Treasury again received an unqualified opinion on its consolidated financial statements – the eighth consecutive unqualified opinion.

Looking ahead, continued oversight and emphasis is needed as we work toward eliminating the Department's six material weaknesses. The Department expects to close one such weakness in fiscal year 2008. The remaining five are complex systems issues requiring several years to rectify. The last of the Department's material weaknesses is scheduled to be closed in fiscal year 2011. Similarly, constant attention to the Management Challenges outlined by the Department's Inspectors General is required. While these challenges do not necessarily indicate deficiencies in performance, they represent inherent risks that must be monitored continuously. Finally, continued progress toward our goal of "Making Treasury a Great Place to Work" will ensure the Department is able to attract, develop, and retain the diverse talent it requires to meet its mission today and into the future.

The Department of the Treasury has a rich and proud 218-year history as the steward of the Nation's financial resources. The staff of the Assistant Secretary for Management and Chief Financial Officer has a special responsibility to maintain the integrity of Treasury's financial operations and to manage the resources entrusted to the Department in a way that best serves the American people. We strive to merit this trust, to continuously improve, and to position the Department effectively for the future.

Sincerely,

Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer

About this Report

The Department of the Treasury's Performance and Accountability Report (PAR) for fiscal year 2007 provides information that enables Congress, the President, and the public to assess the Department's performance relative to its mission and stewardship of the resources entrusted to it. The Treasury Department's report is designed around four areas of focus: Financial, Economic, Security, and Management. Each of these four areas has one strategic goal with a supporting objective with multiple outcomes and performance measures that outline the Treasury Department's approach and measures their progress.

In fiscal year 2007, the Treasury Department estimated the costs to achieve the outcomes stated in this report. While this is similar to previous reports, this year the estimation was calculated by allocating the total *gross cost* of the Department to each *outcome*. Prior reports only reported net costs at the goal level. Gross cost includes imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. An example of imputed costs is post-employment benefits. These costs, however, exclude any Treasury accounts that do not contribute to the cost of the agency, such as the Exchange Stabilization Fund and the Federal Financing Bank.

We define this as the Department's performance cost. Performance cost will be less than the total gross cost reported on the Statement of Net Cost in this report.

Performance cost was used rather than net cost because it more accurately represents the total cost to achieve a result or outcome. For instance, while the net cost to manufacture coins and notes for non-appropriated bureaus such the U.S. Mint and the Bureau of Engraving and Printing is zero because it is essentially self-funded, the real cost of operating these organizations is over $2 billion once all imputed costs, depreciation, losses and other expenses are included. Taking this approach across the entire department, the Treasury Department's performance cost in fiscal year 2007 was approximately $17.9 billion as compared to a net cost of $12 billion.

Performance costs were allocated based on the relationship between a budget activity and an outcome. In some cases there was a one-to-one relationship between a budget activity and an outcome, and in others multiple outcomes were involved. While allocating costs on a budgetary basis does not equate to activity-based costing, it does provide some insight as to what the true operational costs are, and provides the agency with the opportunity to begin asking questions that relate cost to performance for the outcomes it is trying to achieve. And, since both cost and performance is known at the budget activity level, we can come closer to understanding cost on a performance measure basis.

How this Report is organized

MESSAGE FROM THE SECRETARY

The Secretary's message broadly describes the Department's mission, accomplishments and challenges, and includes an assessment of whether financial and performance data in the report is reliable and complete. The Secretary's message sets the tone for conveying the Department's value to the American public.

MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER

The Assistant Secretary's message describes the progress and challenges about the Treasury Department's financial management, including integration of budget and performance information on the Department's management controls program under Federal Manager's Financial Integrity Act (FMFIA), and financial management systems under the Federal Financial Management Improvement Act of 1996. This message includes a statement of assurance as required by FMFIA indicating whether management controls are in place and financial system conform to government-wide standards.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Discussion and Analysis section provides an overview of this report. It includes a summary of the most important performance results and challenges for fiscal year 2007; a brief analysis of financial performance; a description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda.

The following three sections can be found only in the full version of the Performance and Accountability Report.

PERFORMANCE SECTION

This section contains the annual program performance information required by the Government Performance and Results Act of 1993 (GPRA) and, combined with the Appendices, includes all of the required elements of an annual program performance report as specified in OMB Circular A-11, Preparation, Submission, and Executing of the Budget.

FINANCIAL SECTION

This section contains the Treasury Department's financial statements and related Independent Auditors' Report, and other information pertaining to financial management.

APPENDICES

This section contains more detailed information on the Department's performance results, including information on program evaluations, revisions to indicators or targets, and organizational structure, in-depth information on the Improper Payments Information Act, Management Challenges and Responses, and information on the completeness and reliability of data.

Our Mission

Serve the American people and strengthen national security by managing the U. S. Government's finances effectively, promoting economic growth and stability, and ensuring the safety, soundness and security of U.S. and international financial systems.

Our Organization

Most know the Treasury Department has something to do with money, but few understand the scope of its functions or how it affects their daily lives.

The Department of the Treasury is the steward of the public purse. It takes in money, pays bills, and when appropriate, borrows and invests. On a typical day, the Treasury Department's cash transactions average nearly $60 billion.

The most visible evidence of the Department's work is currency – the nation's coins and notes. The *Bureau of Engraving and Printing* (BEP) produces notes and the *United States Mint* manufactures coins, both for circulation and as collectibles. In addition, the United States Mint makes bullion coins for investment and secures the nation's gold and silver reserves.

One of the most important functions the Department of the Treasury performs is tax collection, which funds the federal government's operations on behalf of the American people. The *Internal Revenue Service* (IRS) collects taxes and is the Department's largest bureau, accounting for about 90 percent of its employees. The *Alcohol and Tobacco Tax and Trade Bureau* (TTB) collects excise taxes on alcohol, tobacco and firearms, and ensures that alcoholic beverages are properly produced, labeled, advertised, and marketed.

At some point nearly every American will receive a federal disbursement, such as an income tax refund or Social Security payment, through the *Financial Management Service* (FMS). The FMS also operates the federal government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt.

When the total operating cost of the federal government exceeds available funds, the *Bureau of the Public Debt* (BPD) borrows money by selling Treasury securities to the public, institutional investors, and authorized government agencies.

Many Americans have bank accounts. The Treasury Department's *Office of the Comptroller of the Currency* (OCC) and *Office of Thrift Supervision* (OTS) charter, regulate, examine, and supervise national banks and savings institutions to maintain their safety and soundness, and ensure fair access and treatment of customers. The *Community Development Financial Institutions Fund* (CDFI) expands the capacity of financial institutions to provide credit, capital, and financial services to underserved communities which spur economic development and create jobs.

The *Office of the Treasurer of the United States* advises the Secretary on currency matters and communicates changes in currency design to the public. The Treasurer also promotes improved financial literacy for

Americans by providing education about the basics of cash and credit management so that informed decisions can be made about their personal and family budgets.

The *Office of Terrorism and Financial Intelligence* (TFI) and the *Financial Crimes Enforcement Network* (FinCEN) enhance national security and combat terrorist financing and their support organizations, weapons of mass destruction (WMD) proliferators, drug traffickers, money launderers, and other financial criminals.

The *Inspector General* (IG) conducts independent audits, investigations, and reviews to help ensure that the Treasury Department accomplishes its mission, improves its programs and operations, promotes economy, efficiency, and effectiveness, and prevents and detects fraud, waste, and abuse.

The *Treasury Inspector General for Tax Administration* (TIGTA) provides audit and investigative services to promote economy, efficiency, and effectiveness in the administration of the internal revenue laws.

The Department's headquarters offices develop policies related to financial regulation, entitlements, taxation, and terrorist financing. They also maintain accountability through internal controls, and provide guidance in legal, public, and congressional matters. These offices provide data, analysis, and recommendations that assist the Secretary of the Treasury, Congress and the President, and other federal agencies in financial and economic decision-making for the nation.

Through these combined efforts the Treasury Department stays accountable to its most important stakeholders, the American people.

2007 Leadership Changes

In fiscal year 2007, there were several key leadership changes at the Department of the Treasury. In August 2007, **David H. McCormick**, sworn in as the Under Secretary for International Affairs, replaced Tim Adams as the principal advisor to the Secretary of the Treasury on international economic issues. Before assuming this role, Mr. McCormick was the Deputy National Security Advisor to the President for International Economic Affairs and responsible for coordinating U.S. international economic policy, foreign assistance, and humanitarian affairs. Prior to his role at the White House, Mr. McCormick served as the Under Secretary of Commerce for Export Administration with global policy and law enforcement responsibilities for high technology trade and controls.

Phillip Swagel, the Assistant Secretary for Economic Policy, was sworn in on December 11, 2006, to advise the Secretary on all aspects of economic policy, including current and prospective macroeconomic developments, and the development and analysis of the Administration's economic initiatives. Prior to this, Mr. Swagel served as the Chief of Staff for the White House Council of Economic Advisers for three years.

On December 12, 2006, **Eric Solomon** was sworn in as Assistant Secretary for Tax Policy. Prior to this position, Mr. Solomon held several positions within the Department, including serving as the Assistant Chief Counsel for the Internal Revenue Service. He was also a partner at Ernst & Young, LLP and Drinker Biddle & Reath, and practiced law at Cadwalader, Wickersham & Taft, LLP.

On December 18, 2006, after serving as a Senior Advisor to the Secretary of the Treasury, **Anthony W. Ryan** was sworn in as Assistant Secretary for Financial Markets. In this role, he serves as the Senior Advisor to the Secretary, Deputy Secretary, and Under Secretary on broad matters of federal, state, and local finance, financial markets, and federal government credit policies, lending and privatization. Prior to joining the Treasury Department, he spent 20 years in the financial services industry, most recently as a partner of Grantham, Mayo, Van Otterloo and Co, LLC.

Kenneth Carfine, after serving almost four years as the Deputy Assistant Secretary for Fiscal Operations and Policy, was appointed Fiscal Assistant Secretary on March 15, 2007, replacing Donald Hammond. Mr. Carfine provides oversight to the FMS and the BPD, and serves as the Treasury liaison to the Federal Reserve System. He began his career at the Treasury Department with the Financial Management Service in 1973.

On June 28, 2007, after serving as the Deputy Assistant Secretary for Financial Institutions, **David G. Nason** replaced Emil Henry as the Assistant Secretary. Mr. Nason serves as a Senior Advisor to the Secretary, the Deputy Secretary, and the Under Secretary for Domestic Finance on all matters relating to financial institutions, government sponsored enterprises, financial education initiatives, and the CDFI Fund, ensuring the resilience of the financial services sector. He also serves as a key advisor to the Secretary of the Treasury in his capacity as Chair of the President's Working Group on Financial Markets. Prior to his contributions at the Treasury Department, Mr. Nason served as counsel to Commissioner Paul S. Atkins at the Securities & Exchange Commission, and was an attorney at Covington & Burling in Washington, D.C., where he focused on securities offerings, mergers and acquisitions, and federal tax planning. Mr. Nason also served as a law clerk to the Honorable Marvin J. Garbis of the U.S. District Court for District of Maryland.

Peter B. McCarthy was sworn in on August 3, 2007, succeeding Sandra Pack as the Assistant Secretary for Management and Chief Financial Officer. Mr. McCarthy serves as the principal policy advisor to the Secretary and Deputy Secretary of the Treasury on the management of the annual planning and budget process, and on matters involving the internal management of the Department. Mr. McCarthy comes to the Treasury Department with over 30 years experience in the banking industry, including 18 years in expatriate assignments, most recently serving as Bank One's senior officer in London. From 2002 to 2006, Mr. McCarthy served as the Deputy Managing Director of the Institute of International Finance, a global, non-profit association of financial institutions.

Directory of Key Officials and Senior Management

Secretary of the Treasury	Henry M. Paulson, Jr.
Deputy Secretary of the Treasury	Robert M. Kimmett

Departmental Offices	
Chief of Staff	Jim Wilkinson
Executive Secretary	Taiya Smith
U.S. Treasurer	Anna Cabral
General Counsel	Robert Hoyt
Public Affairs:	
Asst Secretary & Director of Policy Planning	Michele Davis
Legislative Affairs:	
Asst Secretary	Kevin Fromer
Economic Policy:	
Asst Secretary	Phillip Swagel
International Affairs:	
Under Secretary	David McCormick
Asst Secretary	Clay Lowery
Domestic Finance:	
Under Secretary	Robert Steel
Asst Secretary Fiscal	Kenneth Carfine
Asst Secretary Fin Inst	David Nason
Asst Secretary Fin Markets	Anthony Ryan
Comm Dev Fin Inst Fund	Kim Reed
Tax Policy:	
Asst Secretary	Eric Solomon
Terrorist Finance and Intelligence:	
Under Secretary	Stuart Levey
Asst Secretary Terr Fin	Patrick O'Brien
Asst Secretary Intel Ana	Janice Gardner
Director, OFAC	Adam Szubin
Asst Secretary Mgmt/CFO	Peter McCarthy

Inspectors General	
Acting IG	Dennis Schindel
TIGTA IG	J. Russell George

Bureau of Engraving and Printing	
Director	Larry Felix

U.S. Mint	
Director	Edmund Moy

Financial Crimes Enforcement Network	
Director	James Freis

Internal Revenue Service	
Acting Commissioner	Linda Stiff

Financial Management Services	
Commissioner	Kenneth Papaj

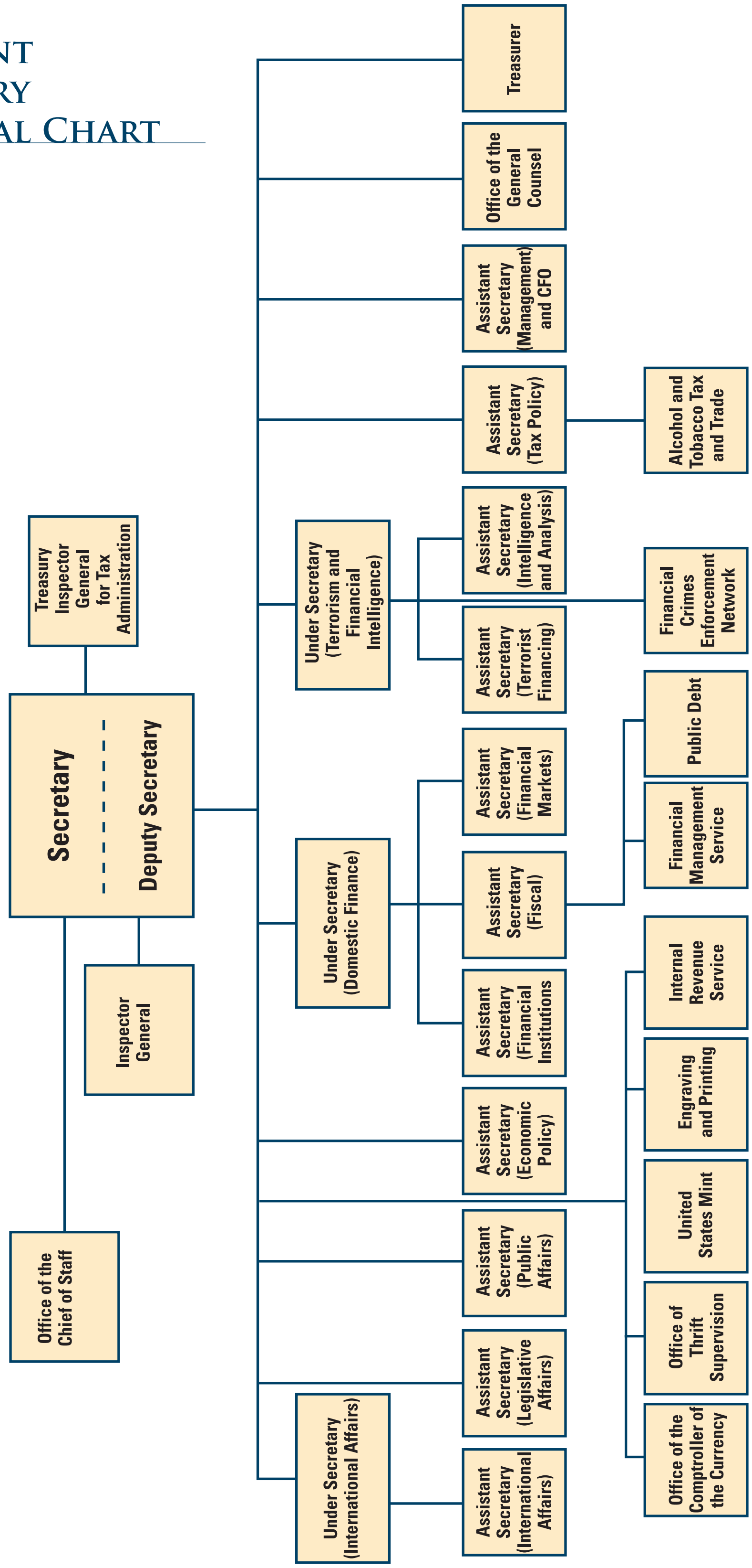
Bureau of the Public Debt	
Commissioner	Van Zeck

Office of the Comp of the Currency	
Comptroller	John Dugan

Office of Thrift Supervision	
Director	John Reich

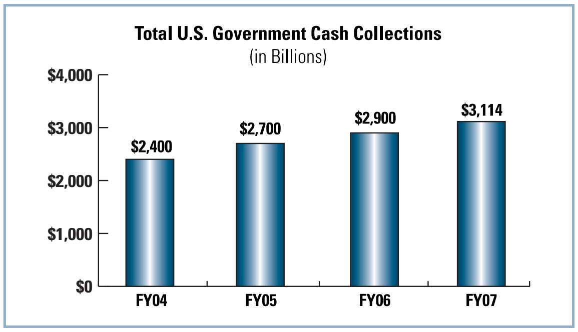
Alcohol and Tobacco Tax and Trade	
Administrator	John Manfreda

The Department of the Treasury Organizational Chart



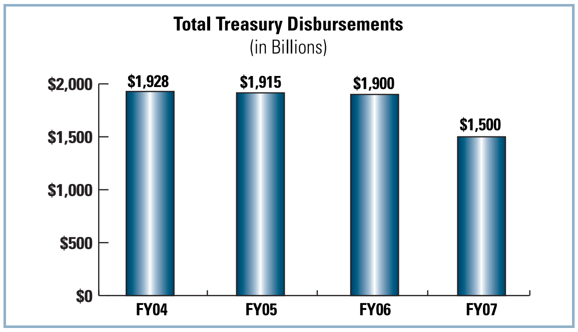
Operational Highlights

Collected



- U.S. Government Receipts : $3.11 trillion
- Delinquent Debt Collected : $3.7 6 billion
- Collected through the Electronic Federal Tax Payment System: $2.46 trillion
- Enforcement revenue collected from all sources was at a rec ord level of: $59.2 billion

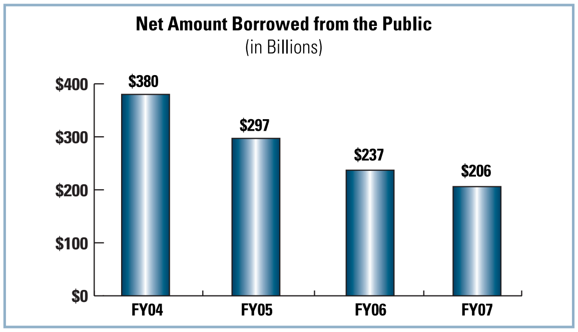
Disbursed



- Total Treasury Disbursements: $1.5* trillion
- Volume of electronic disbursements made through Treasury's Regional Finance Centers: 764 million
- Volume of check payments made through Treasury's Regional Finance Centers: 215 million

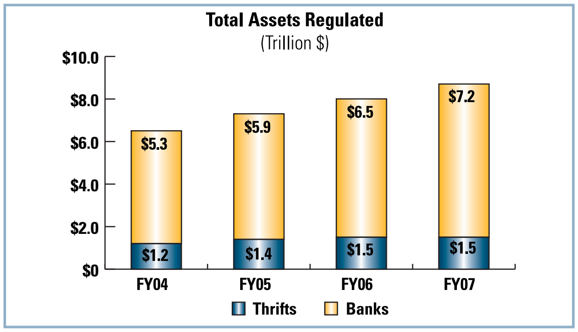
* Treasury Disbursements only

Borrowed



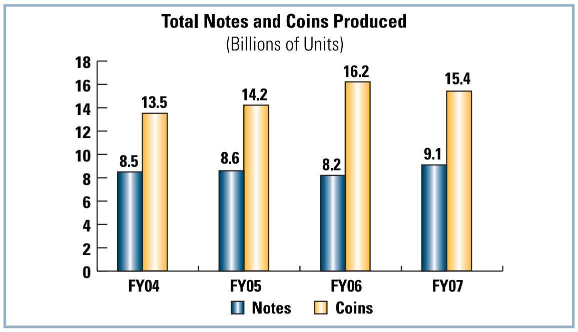
- Net Amount Borrowed from the Public: $206 billion
- Marketable Treasury Securities issued: $4.4 trillion
- Non-Marketable Treasury Securities issued to the public and government accounts: $34 trillion
- Number of Savings Bonds Issued : 28 million
- Interest Paid by Treasury (including interest credited to Trust Fund): $430 billion

Regulated



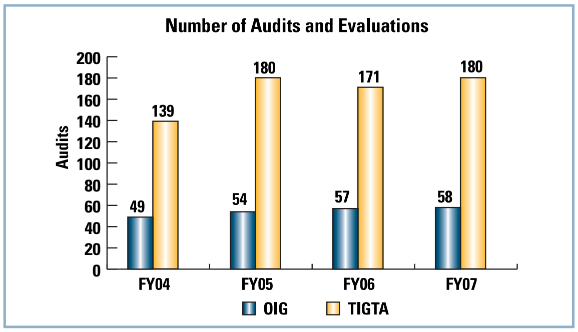
- Number of National Banks Regulated: 1755
- Number of Federal Branches Regulated: 49
- Number of thrifts and Savings Associations Regulated: 836

Manufactured



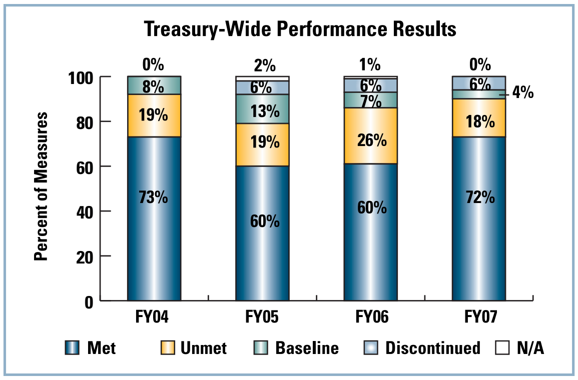
- Produced 9.1 billion currency notes
- Produced 15.4 billion coins

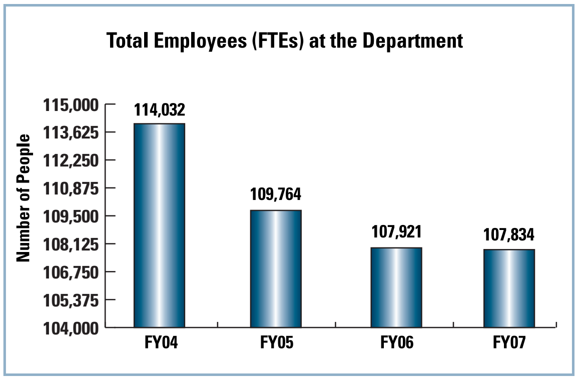
Assured

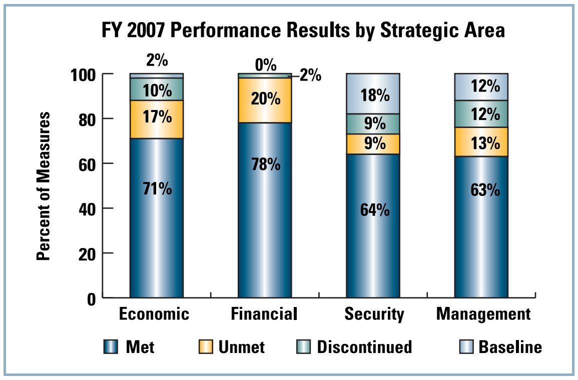


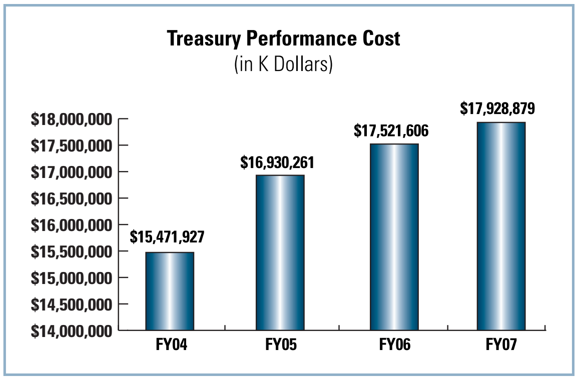
- Performed 244 audits and evaluations through the efforts of the Inspectors' General

Performance Highlights





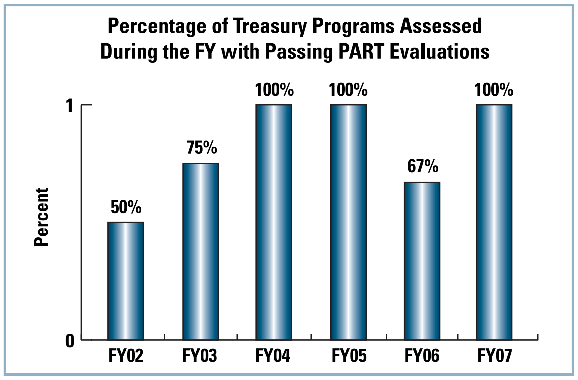




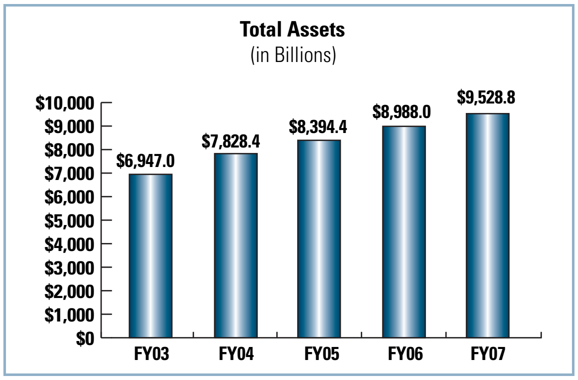
President's Management Agenda

Initiative	Status FY 2004	Status FY 2005	Status FY 2006	Status FY 2007	FY 2007 Progress Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G	G	G
Competitive Sourcing	Y	G	G	Y	Y	R	Y	Y
Financial Performance	R	R	R	Y	G	G	G	G
E-Government	R	R	Y	Y	R	G	G	Y
Performance Improvement	N/A	Y	Y	Y	G	G	G	G
Improper Payments	N/A	R	R	R	Y	Y	Y	Y
Credit Management	N/A	N/A	N/A	Y	N/A	G	G	G

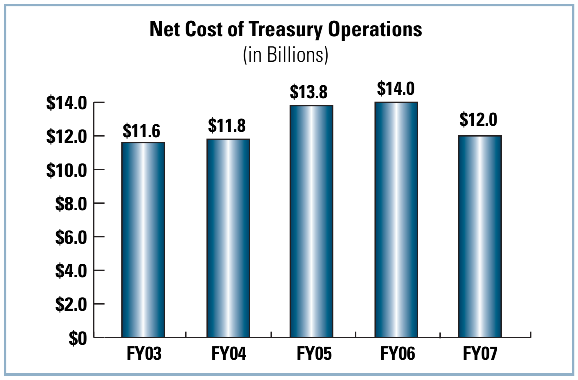
G Green for Success Y Yellow for Mixed Results R Red for Unsatisfactory



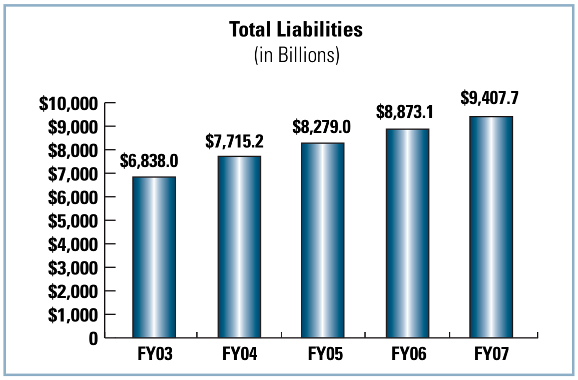
Financial Highlights



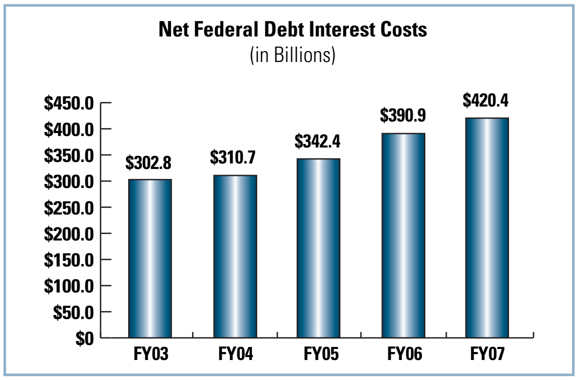
The increase of $540.8 billion in total assets in fiscal year 2007 is largely due to the increase in future funds required from the General Fund of the U.S. Government to pay for the federal debt owed to the public and other Federal agencies.



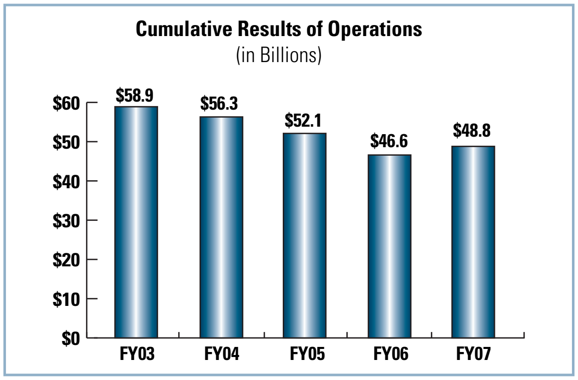
The decrease of total net cost of operations from $14.0 billion in fiscal year 2006 to $12.0 billion in fiscal year 2007 is largely due to the increase in revenue in the economic program and the decrease in cost for the financial program.



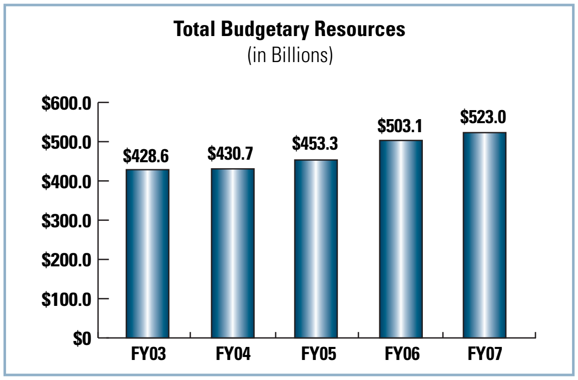
Total liabilities increased by $534.6 billion from fiscal year 2006 to fiscal year 2007. The majority of the increase is due to borrowings from other federal agencies and debt issued to the public.



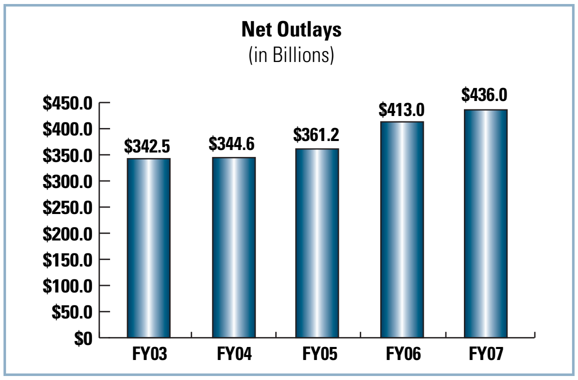
The increase of $29.5 billion in net interest paid on the federal debt is due to the increase in the debt and higher interest rates. Total federal debt and interest payable increased by $511.8 billion in fiscal year 2007.



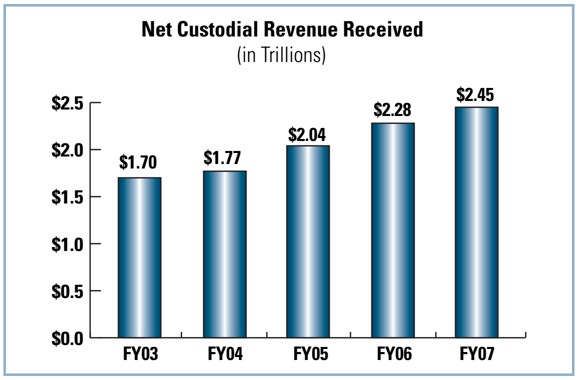
The net increase of $2.2 billion in cumulative results of operations was largely due to an increase in the earnings of the Exchange Stabilization Fund from exchange rate fluctuations between the U.S. dollar and foreign currencies.



The majority of the increase in total budgetary resources for fiscal year 2007 was due to the increase in funding to pay for the interest on the federal debt.



The majority of the $23.1 billion increase in net outlays was due to the increase in interest payments on the federal debt.



Total custodial revenue collected on behalf of the U.S. Government increased by $167.3 billion. The majority of the increase is attributed to the rise in individual and corporate income taxes due to increased economic activity.

Note: On March 1, 2003, several Treasury law enforcement bureaus were divested to either the Department of Homeland Security or Department of Justice. Fiscal year 2003 data includes these bureaus from October 1, 2002 to February 28, 2003.

Management Discussion & Analysis

Executive Summary

The Department of the Treasury shoulders a great responsibility for the American people. While the Department performs a critical role in U.S. and global economies, it continually evolves to meet the ever changing needs of the nation. The Treasury Department provides cash management for the federal government, currency and coin production, administration of the tax code, oversight of the financial sector, and plays an integral role combating the financing of terrorism, the proliferation of weapons of mass destruction, and other threats to our national security.

In fiscal year 2007, the Department of the Treasury released its Strategic Plan for Fiscal Years 2007-2012. This plan was developed collaboratively with employees and senior management, and was tested and refined against a changing global environment. Additionally, the Department went beyond linking performance to the budget, and established an Integrated Management System to monitor continuous improvement and make changes as necessary. The Strategic Framework shown on the following page illustrates the four strategic priorities in which the Department operates, and provides the foundation for this report. These four areas are:

The Financial Focus: Managing the government's finances effectively includes collecting money due to the U.S. Government by maximizing voluntary compliance with tax laws and regulations, making payments, and financing the federal government by continually improving financial management processes. The Department oversees, accounts for, and reports on government collections and expenditures, and is responsible for collecting delinquent debt owed the government. The Treasury Department forecasts receipts and payments, determines borrowing needs, and executes the borrowing strategy to meet the financial demands of the federal government at the lowest possible cost over time.

The Economic Focus: The Treasury Department performs policy and operational roles in promoting prosperous U.S. and world economies, raising living standards, and protecting domestic and international economic and financial systems. As the principal economic advisor to the President, the Secretary of the Treasury utilizes the policy expertise of the Department to address national and global economic and financial challenges.

The Security Focus: The sponsorship of terrorism and the potential acquisition of weapons of mass destruction by rogue regimes and non-state entities represent a grave threat to U.S. national security and all free and open societies. The Treasury Department implements targeted financial measures and other forms of sanctions against terrorists and their support networks, with the goal of stopping the flow of money to terrorist groups, state sponsors of terrorism, proliferators of weapons of mass destruction (WMD), drug traffickers, money launderers, and regimes that constitute a threat to the United States. The Department leads the U.S. Government's multi-faceted effort to keep the world's financial systems accessible to legitimate users, while excluding those who wish to exploit these systems for illegal purposes through law enforcement and appropriate financial regulatory initiatives.

The Management Focus: Management's primary role and responsibility in the Department is to create the conditions that allow all programs and activities to perform efficiently and effectively. The Treasury Department continues to develop integrated plans where policies and operations align to produce maximum value for the American people.

The Treasury Department's Strategic Framework

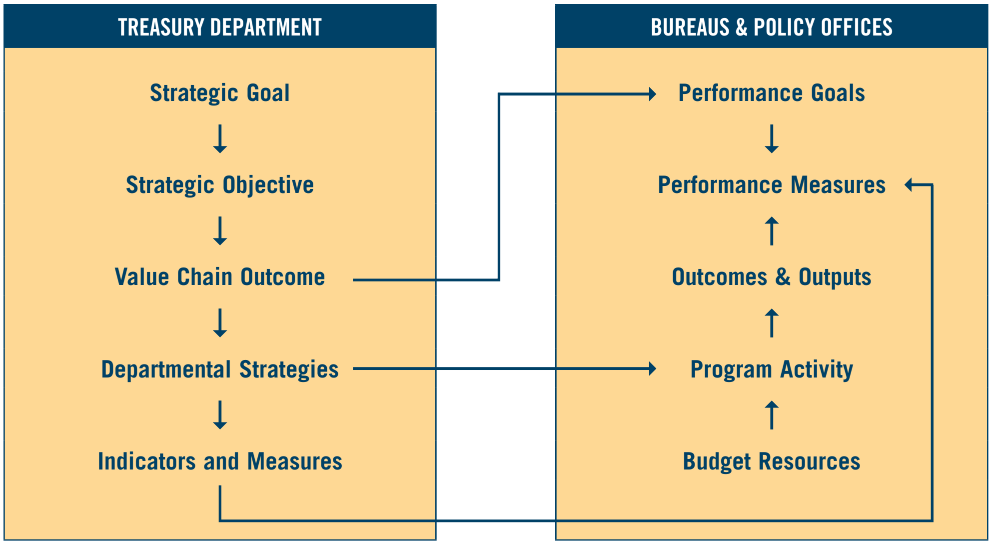
The Treasury Department's strategic framework is a summary of goals, objectives, and outcomes. This framework provides the basis for performance planning and continuous improvement.

	Strategic Goals	Strategic Objectives	Value Chains**	Strategic Outcomes
Financial	Effectively Managed U.S. Government Finances	Cash resources are available to operate the government	Collect Disburse Borrow Invest Account	• Revenue collected when due through a fair and uniform application of the law at the lowest possible cost • Timely and accurate payments at the lowest possible cost • Government financing at the lowest possible cost over time • Effective cash management • Accurate, timely, useful, transparent and accessible financial information
Economic	U.S. and World Economies Perform at Full Economic Potential	Improved economic opportunity, mobility and security with robust, real, sustainable economic growth at home and abroad	Strengthen Regulate	• Strong U.S. economic competitiveness • Free trade and investment • Decreased gap in global standard of living • Competitive capital markets • Prevented or mitigated financial and economic crises
		Trust and confidence in U.S. currency worldwide	Manufacture	• Commerce enabled through safe, secure U.S. notes and coins
Security	Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	Pre-empted and neutralized threats to the international financial system and enhanced U.S. national security	Secure	• Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, narcotics trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks • Safer and more transparent U.S. and international financial systems
Management	Management and Organizational Excellence	Enabled and effective Treasury Department	Manage	• A citizen-centered, results-oriented and strategically aligned organization • Exceptional accountability and transparency

** Value Chains – Programs grouped by a common purpose.

The Strategic-Operational Relationship

The relationship between the Department's strategic goals and its annual program performance goals are depicted in the chart below.



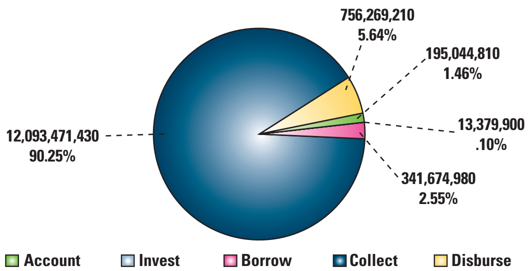
The Treasury Department's **strategic goals** are stated as long-term outcomes which will assist the organization in achieving its mission. **Strategic objectives** are broad-based outcome statements for a group of value chains. **Value chains** are programs grouped by a common purpose. **Strategic** or **value chain outcomes** are important results for each of the Department's major functions. Departmental **strategies** are agency-wide methods used to achieve value chain outcomes and guide program activities.

To achieve **performance goals**, program resources must be properly managed to generate desired **outcomes and output**. Departmental **indicators and measures** are used to guide the development of long-term and annual performance targets associated with performance goals, which are essential components of the annual performance budget.

The IRS Helps Taxpayers Avoid Phishing Schemes

Phishing is an attempt to criminally and fraudulently acquire sensitive information by masquerading as a trustworthy entity in an electronic communication. Taxpayers should be aware that the IRS does not send unsolicited e-mail. The IRS never asks taxpayers for PIN numbers or passwords for credit card, bank, or other financial accounts. Recipients of questionable e-mail, that appears to come from the IRS, should not open any attachments or click on any links contained in the e-mail; instead the e-mail should be forwarded to phishing@irs.gov

Cost to Achieve "Effectively Managed U.S. Government Finances" - $13.3 Billion



Foreclosure Tax Relief Available

The IRS unveiled a special new section on their website for people who have lost their homes due to foreclosure. The section includes a worksheet designed to help borrowers determine whether any of the foreclosure-related relief provisions apply to them. In some cases, eligible taxpayers may qualify to settle their tax debt for less than the full amount due using an offer-in-compromise. The IRS urges struggling homeowners to consider their options carefully before giving up their homes through foreclosure.

Strategic Goal
Effectively Managed U.S. Government's Finances

The Treasury Department manages the nation's finances by collecting money due to the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Sound fiscal management enables continual operation of essential government services and allows the Department to meet its financial obligations while minimizing borrowing costs. Accurate projections of the U.S. Government's cash requirements ensure that funds are available to cover federal payments on a daily basis. The ability of the Department of the Treasury to manage the nation's finances with integrity is paramount to maintaining financial stability and enabling economic growth.

The Treasury Department estimated the total cost in trying to achieve this strategic goal, in fiscal year 2007, was $13.3 billion. For information and estimated costs to achieve each outcome, refer to those sections.

Strategic Outcome
Revenue collected when due through a fair and uniform application of the law

Collecting federal taxes and other revenue is integral to the Department of the Treasury's strategic goal of effectively managing the federal government's finances. The Department allocates 90 percent of its resources to this activity.

Increasing voluntary compliance with the tax laws reduces the cost of tax administration, increases revenue, lessens the need to borrow, and ultimately lowers the cost of government. To reduce the tax gap the Department must execute its comprehensive, integrated, multi-year strategy. The tax gap is the difference between what taxpayers should pay and what they actually pay. The IRS maximizes the level of voluntary compliance through effective enforcement of tax laws and taxpayer service, which is essential to addressing the tax gap. Although the Department of the Treasury relies on those with financial obligations to the government to voluntarily comply with the law, it is prepared to take appropriate action when they do not. Non-compliance is not always deliberate and may be the result of various causes. However, some non-compliance is intentional, such as the misuse of offshore transactions and tax shelters. The Department is sensitive to taxpayer rights and will maintain an appropriate balance between enforcement activity and the burden of compliance on taxpayers.

The IRS delivered a successful 2007 filing season, addressing new challenges associated with the implementation of the Telephone Excise Tax Refund, the split refund capability, and new legislation related to the Tax Relief and Health Care Act of 2006. In the filing season, the IRS processed more than 139.7 million individual returns and issued over 105.5 million refunds totaling $244 billion. Additionally, 57.1 percent of individual returns were electronically filed, an increase of 5 percentage points over 2006; 19.1 percent of business returns were electronically filed, an increase of 15 percent over 2006; 22.5 million returns were filed on home computers, an increase of 11 percent over 2006; 57.2 million returns were e-filed by tax professionals, an increase of 10 percent over 2006; and over 4.1 million taxpayers used the free services offered by the Free File Alliance.

In fiscal year 2007, the IRS continued to improve its enforcement results; revenue from all enforcement sources reached $59.2 billion, an increase of 22 percent over fiscal year 2006.
In addition, the IRS Examination and Collection Programs targeted contributors to the tax gap by increasing the number of audits of high-income taxpayers by 29 percent, individual taxpayers by 8 percent, and small business and corporations by 17 and 3 percent respectively; and the closure of collection cases increased by 12 percent.

During fiscal year 2007, the IRS Criminal Investigations continued to investigate significant tax, money laundering, and other financial activities that adversely affect tax administration. The IRS took steps to combat fraudulent and financial crime schemes identified through improved case development efforts and partnerships with other law enforcement agencies. These activities resulted in the completion of 4,269 criminal investigations; an acceptance rate of 94.6 percent of cases sent for prosecution to the Department of Justice and an acceptance rate of 90.2 percent for U.S. Attorney's cases, and a total of 2,155 convictions.

The TTB administers the collection of federal taxes on tobacco, alcohol, and firearms and ammunitions from more than 8,000 organizations; 200 of these account for 98 percent of all excise tax collections annually. In fiscal year 2007, the TTB partnered with industry, states, and other federal agencies to develop alternative

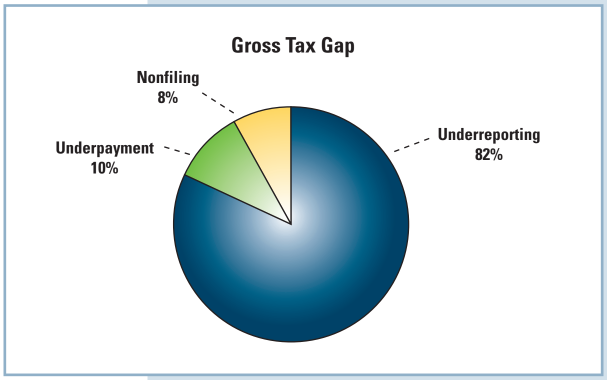
The Tax Gap

The tax gap represents the amount of noncompliance with tax laws. The most recent IRS estimate of the gross tax gap, completed in 2006, was $345 billion for tax year 2001.

The net tax gap is currently estimated as follows:

Net Tax Gap	
Gross Tax Gap	$345 billion
Enforced and Other Late Payments	$55 billion
Net Tax Gap	**$290 billion**

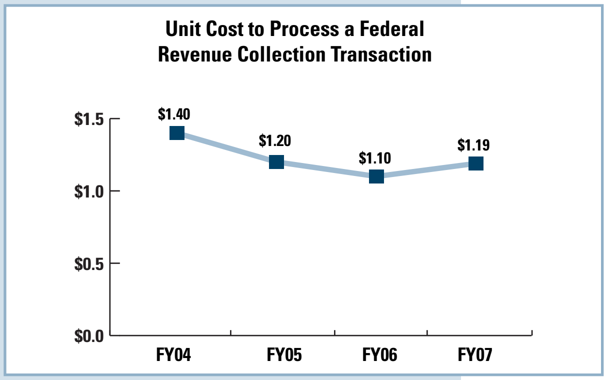
The components of the tax gap are:

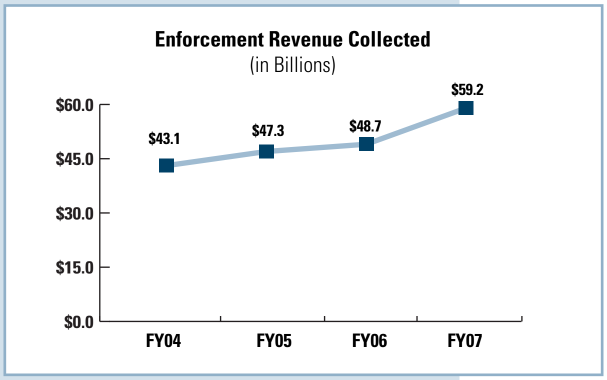


In August 2007, the IRS released the report, "Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance," a follow-up to Treasury's "Comprehensive Strategy for Reducing the Tax Gap" issued in September 2006. The report presents the current tax gap activities and the steps taken to improve compliance. The report:

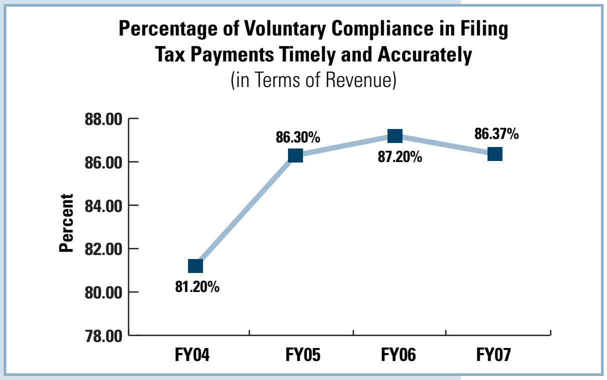
- Details information on steps being taken to reduce opportunities for tax evasion, leverage technology, and support legislative proposals that will improve compliance
- Presents an outreach approach to ensure all taxpayers understand their tax obligations
- Recognizes the importance of having a multi-year research program to help the IRS under-stand both the scope of and reasons for noncompliance

This report, combined with legislative changes and tax simplification, will guide the IRS's efforts to reduce the tax gap.





In fiscal year 2007, revenue from all enforcement sources reached $59.2 billion, an increase of 21.5 percent enforcement revenue over fiscal year 2006. IRS Examination and Collection Programs targeted contributors to the tax gap; the IRS increased their audits of high-income taxpayers by 29 percent.



methods of promoting voluntary tax compliance, audited "major" and "at-risk" taxpayers to ensure the correct amount of taxes were paid, accounted accurately for assessed and collected revenue, created alternative electronic filing methods and reduced taxpayer paperwork burden, ensured consistent tax administration, and prevented tax evasion and identified other criminal conduct in regulated industries, including the diversion and smuggling of taxable commodities.

In addition, the TTB analyzed 312 tobacco product samples to ensure compliance with tax and classification regulations, 2,259 beverage alcohol samples for product integrity, pre-import analysis, and the 5010-tax credit determination, and proposed new regulatory guidance for cigar and cigarette tax classification, which will provide the industry with clear classification criteria for tobacco products and reduce the risks of misclassification. In fiscal year 2007, the TTB collected $14.7 billion in excise taxes, interest, and other revenues, and voluntary compliance, by industry members, was 75 percent of taxpayers filing payments on or before the scheduled due date.

The FMS manages the collection of federal revenue for individual and corporate income tax deposits, and recovers delinquent government and child support debt by providing centralized debt collection, oversight, and operational services to Federal Program Agencies (FPA) and states. In fiscal year 2007, the FMS collected a record $3.1 trillion through a network of more than 9,000 financial institutions with 79 percent of the dollars collected electronically; an increase of 6 percent for total revenue collected over fiscal year 2006. In addition, a record $3.76 billion was collected in delinquent debt; consisting of $1.7 billion in past due child support, $1.47 billion in federal non-tax debt, $243 million in state tax offsets, and $343 million in tax levies.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "revenue collected when due through a fair and uniform application of the law" was $12 billion. The performance of this outcome is assessed through 43 performance measures, and in fiscal year 2007, the Department met 72 percent of their performance targets.

Strategic Outcome
Timely and accurate payments at the lowest possible cost

The Treasury Department plays an important role in society and the economy as it issues government payments such as Social Security benefits, tax refunds, and veterans' benefits to the correct recipient at the proper time.

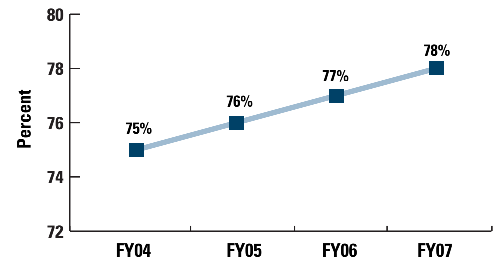
The FMS provides critical services to millions of U.S. taxpayers and other customers. As the government's financial manager, the FMS oversees a daily cash flow of nearly $60 billion, disbursing 85 percent of the federal government's payments or nearly one billion payments to over 100 million people, valued at nearly $1.5 trillion. In addition, the FMS develops and implements federal payment policy and procedures, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer. They also continue to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "timely and accurate payments at the lowest possible cost" was $756.2 million. The performance of this outcome is assessed through 3 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets.

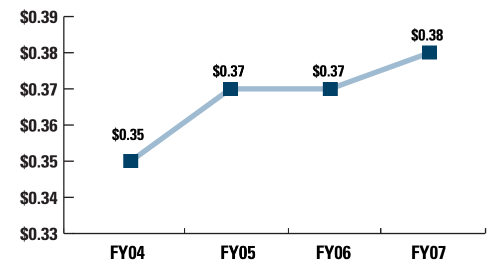
Strategic Outcome
Government financing at the lowest possible cost over time

The Department determines and executes the federal borrowing strategy to meet the monetary needs of the government at the lowest possible cost. Each year, the Treasury Department borrows and accounts for the trillions of dollars necessary for the government to function. Moreover, as the government's money manager, the Department provides centralized payment, collection, and reporting services. The federal government finances its expenditures in excess of tax receipts through the sale of debt obligations at various maturities. The Treasury Department's activities minimize the interest paid on the national debt over time and enhance market liquidity.

Percentage of Treasury Payments and Associated Information Made Electronically

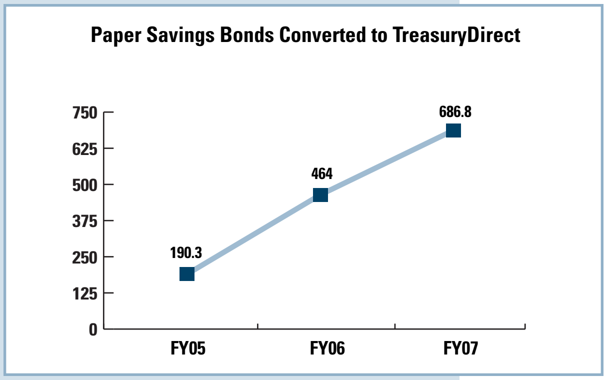


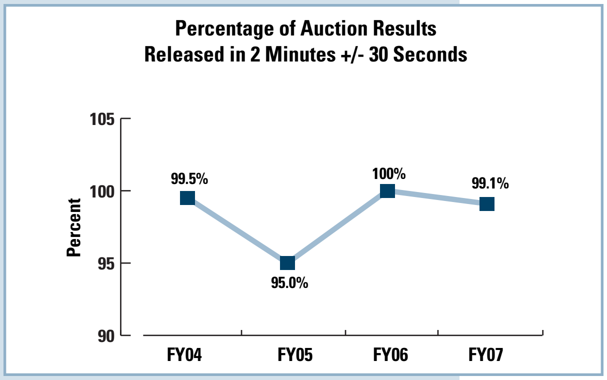
Unit Cost for Federal Government Payments



TreasuryDirect

TreasuryDirect, an electronic system allowing customers the ability to purchase securities and other products directly from the Treasury Department, added a second factor to customer authentication, by introducing Access Cards to retail investing customers. Each credit card-sized Access Card contains a randomly generated matrix of numbers and letters. To access TreasuryDirect, the investor enters an account number and password (first authentication factor) followed by a series of characters from system-selected points on the Access Card grid (second authentication factor). To test the new process, the Bureau of the Public Debt mailed 1,500 Access Cards to a pilot group of investors. In August 2007, the BPD began rolling out the cards to all TreasuryDirect customers; completed roll-out is expected to be by the end of calendar year 2008. Implementation of the two-factor authentication is consistent with requirements placed on private-sector financial service providers in response to the increasingly common and sophisticated fraud and identity theft schemes associated with online financial transactions.





Effective Cash Management

The Treasury Tax and Loan, Term Investment Option (TIO) and Repurchase Agreement (Repo) Actions summarize any withdrawals, investments, or no actions required to maintain the Federal Reserve Account balance, the U.S. Treasury's checking account at a specified amount. Specifically, the TIO is an investment opportunity offered to Treasury Tax and Loan participants. The Department frequently auctions excess operating funds to participants for a fixed term and rate determined through a competitive bidding process. The Repo Program is an investment opportunity offered to Treasury Tax and Loan depositaries and is designed to supplement existing investment alternatives available through the Treasury's Investment Program. The Treasury Department invests excess operating cash through reverse repurchase transactions, or repos.

The BPD conducts the Department's debt financing operations by issuing and servicing Treasury securities. Debt is held by individuals, corporations, federal agencies, and state, local, and foreign governments. In fiscal year 2007, the BPD conducted more than 200 auctions and issued more than $4 trillion in marketable Treasury bills, notes, bonds, and Treasury Inflation-Protected Securities. The Department also provided retail investment services to 50 million retail customers holding $278 billion in Treasury securities.

One of the hallmarks of the U.S. Treasury marketplace is transparency. The Department is able to expeditiously release detailed auction information, provide immediate feedback to bidders, and publish preliminary results of the offering amount awarded to non-competitive tenders 15 minutes before auction close, resulting in more market certainty around Treasury securities auctions. In fiscal year 2007, the BPD consistently met its performance goal of releasing securities auction results within two minutes, plus or minus 30 seconds. By minimizing the time bidders are exposed to the risk of adverse market movements, auction participants are likely to bid more aggressively, thereby allowing the federal government to borrow at more favorable rates.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "government financing at the lowest possible cost" was $341.6 million. The performance of this outcome is assessed through 7 performance measures, and in fiscal year 2007, the Department met 100 percent of them.

Strategic Outcome
Effective cash management

The Treasury Department forecasts receipts and payments accurately to ensure sufficient funds, minimize excess borrowing, and when necessary, invest excess cash balances.

The Department of the Treasury's Office of Fiscal Projections (OFP) ensures that funds are available on a daily basis to cover federal payments, maximize investment earnings, and minimize borrowing costs. The accuracy of forecasting receipts, outlays, and debt have a direct and material impact on the cost of borrowing and return on investments. This means that forecast reliability assists Department officials in avoiding excess borrowing, cover anticipated cash needs, and enable them to make effective investment decisions. The Treasury Department measures the difference between actual and projected receipts to optimize cash management. In fiscal year 2007, the OFP continued to improve its receipt forecasts; this year, the variance was 2.1 percent, as compared to 3.9 percent in fiscal year 2006.

Over the past several years, the Fiscal Service, which includes the Department's Office of Fiscal Assistant Secretary, BPD, and FMS, explored new and innovative ways to invest excess cash, such as auctioning excess cash at competitive market rates. During fiscal year 2007, the Department successfully completed a pilot program to invest cash balances in reverse repurchase transactions. The Treasury Department invested $6.7 trillion in overnight and short-term investments through the Term Investment Option Program and the Repurchase Program. By reinvesting excess cash through the Term Investment Option and Repurchase Programs, the Department earned an additional $33 million; these programs earn market rates of interest, whereas, investments in the legacy Treasury Tax and Loan System earn interest at an administered rate established approximately 30 years ago.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "effective cash management" was $13.3 million. The performance of this outcome is assessed through one performance measure, and in fiscal year 2007, the Department met 100 percent of their performance targets.

Strategic Outcome

Accurate, timely, useful, transparent, and accessible financial information

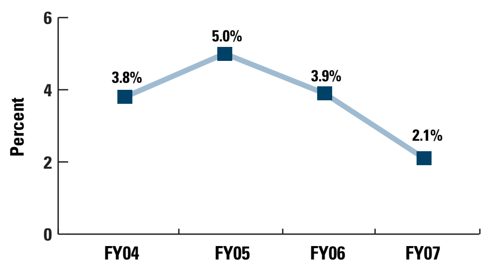
The Department of the Treasury produces government-wide financial information and reports, contributing to the improved quality of the nation's financial decision-making.

The FMS's Government-wide Accounting and Reporting Program maintains the federal government's books, and accounts for its monetary assets and liabilities by operating, and overseeing its accounting and reporting system. For the third consecutive year, the FMS released the *Financial Report of the United States Government*, 75 days after the close of the fiscal year. The report presents a picture of government-wide finances and is critical to a fully informed budget process.

In addition, the FMS continues to improve its policies, procedures, information systems, and internal controls used to prepare

The Office of Fiscal Projections is responsible for projecting daily collections and disbursements up to nine months in advance, making daily cash management decisions, recommending the amount and timing of borrowing from the public based on securities, and determining the funds needed to make payments.

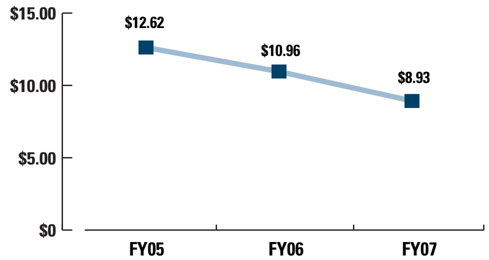
Variance Between Estimated and Actual Receipts



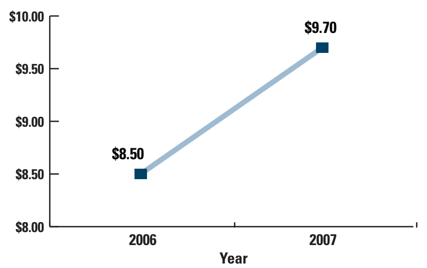
Native Initiative Awardees Surpass Growth Expectations

The CDFI Fund's Native Initiatives are designed to overcome barriers preventing access to credit, capital, and financial services in Native American Communities. Through these initiatives, the CDFI Fund provides monetary awards and training aimed at increasing the number and capacity of existing or new CDFI's serving Native Communities. In fiscal year 2007, the CDFI Fund issued $3.6 million in Native Initiative Awards to 19 CDFIs, resulting in a growth of 35 percent of native CDFI Awardees' assets; in fiscal year 2006, $4.3 million was awarded to 23 CDFIs.

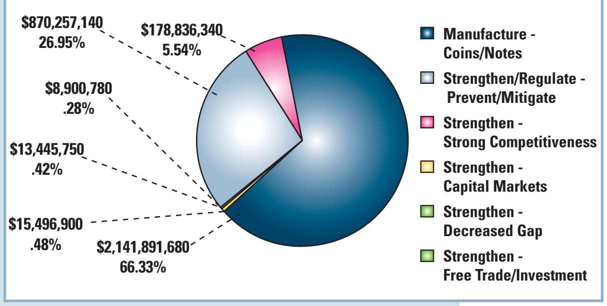
Cost Per Summary Debt Accounting Transaction



Unit Cost to Manage $1 Million of Cash Flow



Cost to Achieve "U.S.and World Economies Perform at Full Economic Potential" - $3.2 Billion



the government-wide consolidated financial statements. During a 2006 audit, the Government Accountability Office (GAO) made recommendations to the FMS regarding their internal controls; with continued effort, the FMS has implemented 74 of the 143 recommendations, and continues to resolve issues within their authority.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "accurate, timely, useful, transparent, and accessible financial information" was $195 million. The performance of this outcome is assessed through 5 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets.

Strategic Goal
U.S. and World Economies Perform at Full Economic Potential

The Department of the Treasury, with other agencies and organizations, works to stimulate economic growth and raise living standards in the United States and abroad.

To achieve conditions that enable economies to perform at full economic potential, the Treasury Department encourages economic growth through the development and implementation of policies that effectively regulate banking and financial markets, create pro-growth tax policies, and advocate free trade.

Economic growth stimulates economic opportunity, mobility, and security for Americans and others around the world. Promoting the development of new markets in the U.S. ensures that all Americans benefit from economic growth. The expansion of underdeveloped economies abroad opens markets, enhances regional stability, reduces the spread of disease, creates opportunities for profitable trade, and demonstrates democracy in action. The Department of the Treasury leads these efforts on behalf of the American people.

The Treasury Department estimated the total gross cost in trying to achieve this strategic goal, in fiscal year 2007, was $3.2 billion. For information and estimated costs to achieve each outcome, refer to those sections.

Strategic Outcome
Strong U.S. economic competitiveness

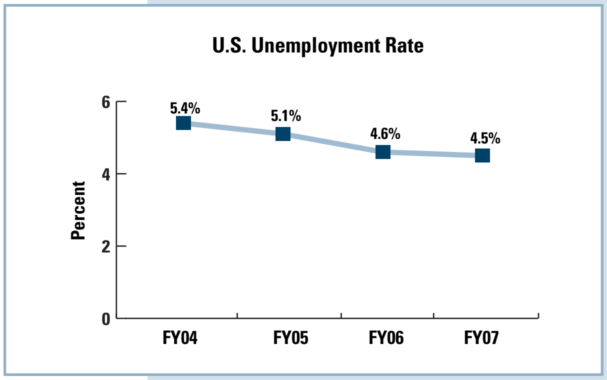
Strong economic competitiveness is critical to robust economic growth worldwide, continued investment in the United States, and job creation. The Treasury Department's contribution to the facilitation of a prosperous financial infrastructure, a balanced macro economy, market efficiency, technological readiness, and innovation are essential for keeping a sharp competitive edge.

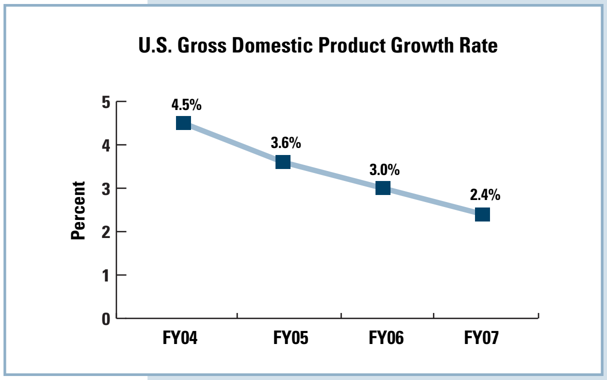
The Department of the Treasury's Office of Economic Policy assists in the development of policies to stimulate economic growth and job creation in the U.S. and abroad. While drawing a direct connection between the Department's actions and economic indicators is difficult, policymakers aid in creating an environment conducive to strong economic growth and a healthy labor market.

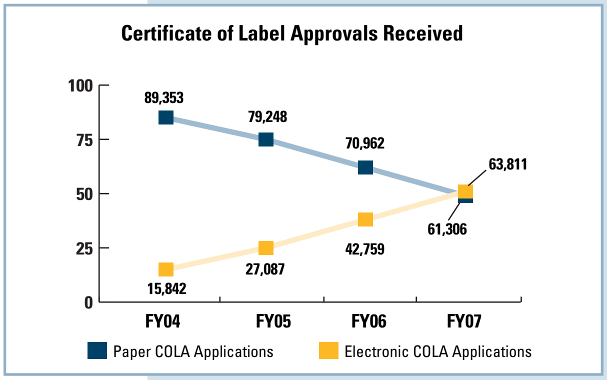
For fiscal year 2007, real Gross Domestic Product (GDP), the broadest measure of the economy's performance, expanded by an estimated 2.4 percent. Real GDP growth fell short of the Administration's estimate of the economy's potential growth rate of 3.1 percent. Even so, the economy created 1.6 million jobs and the unemployment rate averaged a low 4.5 percent. A healthy, growing economy and strong labor market create economic opportunity.

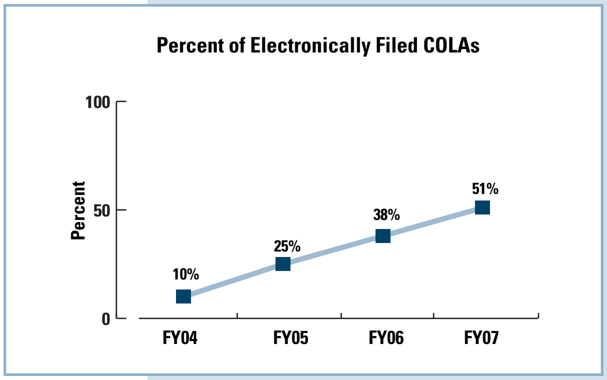
The TTB uses business regulation to protect alcohol consumers from fraud and deception. Before alcoholic beverages can be introduced into interstate commerce a Certificate of Label Approval (COLA) or an exemption must be obtained by the importers and bottlers from the TTB. In fiscal year 2007, the TTB approved 98,000 of the 125,117 COLA applications received; the remaining 27,117 or 22 percent were either rejected, returned for correction, withdrawn, expired, or surrendered.

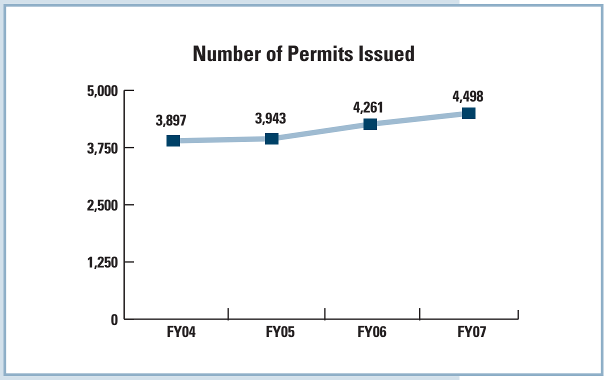
The TTB's International Trade Program helps keep the U.S. economy strong, by facilitating import and export trade in alcohol and tobacco products, while balancing consumer protection standards. In fiscal year 2007, the international labeling agreement was completed, thereby facilitating trade in wine among the World Wine Trade Group. In addition, this program ensures the tequila exports, valued at $400 million per year, continue from Mexico to the United States without interruption.











The TTB provides technical support to other federal agencies in the administration of U.S. alcohol laws, regulations, and policies. In fiscal year 2007, U.S. exports of distilled spirits to China reached a record $3.4 million, nearly four times the $760,000 exported during previous years. This growth was a result of breaking down trade barriers.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "strong U.S. economic competitiveness" was $178.8 million. The performance of this outcome is assessed through 16 performance measures, and in fiscal year 2007, the Department met 50 percent of their performance targets. Measuring policy office activities is difficult and quantitative measures do not adequately capture these; therefore, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with the relevant stakeholders.

Strategic Outcome
Competitive capital markets

U.S. capital markets make a vital contribution to the nation's wealth and prosperity by directing investments toward innovation, promoting economic growth, and ensuring that the allocation of resources are directed toward the most efficient use. For the American economy to continue to be the model of strength, flexibility, and resiliency, it must grow and remain competitive.

The Treasury Department strives to preserve the integrity of the U.S. capital market which is essential to maintaining competitiveness, however, there is a growing concern that it is losing market share to foreign competitors. Recently there has been a diminishing presence of foreign Initial Public Offerings in the U.S. market, which may be in response to the costs of implementing U.S. accounting standards, higher underwriting costs, and the shift to their domestic capital markets. In an effort to encourage a responsible and measured approach, the Department initiated a review of the issues affecting the competitiveness of the U.S. capital markets, and is engaging in an ongoing initiative to strengthen them.

Capital markets give U.S. citizens the confidence to invest, earn higher returns on savings, and reduce the cost of borrowing. The challenge facing U.S. regulators today is preserving the public interest while preventing excessive regulatory burden on financial

Competitive Capital Markets

The U.S. capital markets are the most efficient and transparent in the world. Leading the world in mergers and acquisitions advice, venture capital, private equity, hedge funds, derivatives, securitization skills, and exchange traded funds. With this expertise, U.S. financial institutions have contributed greatly to economic success throughout the world. The Treasury Department's efforts to enhance U.S. market competitiveness include pursuing a modernized regulatory structure, encouraging the development and adoption of industry best practices for asset managers and investors in hedge funds, modernizing the Treasury Department's Cash Management and Debt Management, completing Basel II rulemaking, empowering all investors through financial education, and encouraging international investment.

markets and institutions. In an effort to encourage a responsible and measured approach, the Department initiated a review of the issues affecting the competitiveness of the U.S. capital markets, and engages in an ongoing initiative to strengthen them.

In fiscal year 2007, the Treasury Department launched a study of the regulatory framework for securities, banking, and insurance. A three part plan was also announced to encourage competitive capital markets, and draw on recent trends, such as globalization, to leverage competitiveness and increase the benefit to the economy.

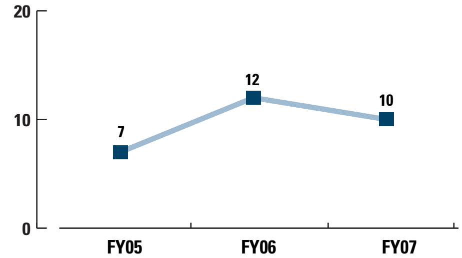
In fiscal year 2007, the Treasury Department's estimated cost to achieve this outcome "competitive capital markets" was $15.4 million. The Treasury Department does not currently have any performance measures under this outcome for its policy offices; it is difficult to measure activities related to competitive capital markets. The use of quantitative measures would not adequately describe these; therefore, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with the relevant stakeholders.

Strategic Outcome
Free trade and investment

Foreign investment in the U.S. strengthens the economy, improves productivity, creates good jobs, spurs healthy competition, and is vital for a robust and sustainable economy. Foreign-owned companies directly provide jobs to over five million workers, and indirectly provide an additional five million jobs, due to foreign-owned subsidiaries procuring about 80 percent of their inputs from the U.S. markets. In fiscal year 2007, these companies produced about six percent of the U.S. output, provided 10 percent of U.S. total capital investment, 13 percent of the research and development, and 20 percent of exports.

The Treasury Department participates in the negotiation and the implementation of international agreements to remove trade and investment barriers, stimulate domestic and global growth, and allow for increased employment opportunities for Americans. The U.S. seeks strong commitments from its trading partners to ensure those markets are open to U.S. exporters and investors. Once implemented, these agreements serve as a core element for a trading partner's economic infrastructure, enhancing international economic and financial stability. The Treasury Department par-

Number of FTA and BIT Negotiations Underway or Completed



In fiscal year 2007, the Supreme Court set precedent in the Watters v. Wachovia Bank, N.A case that reaffirmed the longstanding principle that state laws do not apply to national banks when they diminish the national banks' federally authorized powers of conducting the business of banking. Wachovia Bank, a national bank, conducts its real estate lending business through Wachovia Mortgage Corporation, a wholly owned, state-chartered entity, licensed as an operating subsidiary by the OCC. The question in dispute was whether the bank's mortgage lending activities remain outside the governance of state licensing and auditing agencies when those activities are conducted. Wachovia's mortgage business, whether conducted by the bank itself or through the bank's operating subsidiary, is subject to the OCC's superintendence, and not to the licensing, reporting, and visitorial regimes of the several states in which the subsidiary operates.

CAFTA-DR

The Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) includes seven signatories:

1. United States (2006)
2. El Salvador (2006)
3. Guatemala (2006)
4. Honduras (2006)
5. Nicaragua (2006)
6. Dominican Republic (2007)
7. Costa Rica (2007)

The U.S. Congress approved the CAFTA-DR in July 2005 and the President signed the implementation legislation on August 2, 2005. Costa Rica was the last country to approve the agreement, resulting in a national referendum being passed on October 8, 2007. U.S. exports to the CAFTA-DR countries increased by 16 percent, based on the most recent data available.

The Paris Club

The first meeting of the Paris Club, a voluntary informal organization, was in 1956 when Argentina agreed to meet its public creditors in Paris, France. The objective of the Paris Club is to find manageable solutions for debtor nations that have payment difficulties. Club creditors agree to provide a country with debt relief under certain conditions. The Paris Club has reached 400 agreements regarding 84 debtor countries since its inception. The total amount of debt covered $505 billion since 1983.

ticipates actively in multilateral Doha Development Round negotiations of the World Trade Organization (WTO), U.S.-initiated bilateral and regional Free Trade Agreements (FTAs), and Bilateral Investment Treaties (BITs). In fiscal year 2007, 10 trade and investment negotiations were either concluded or underway; an increase of approximately 43 percent over the performance target.

In fiscal year 2007, the U.S. concluded FTA negotiations with Korea, the world's tenth largest economy, with a GDP of nearly $1 trillion. Once approved by Congress and fully implemented, the Korea FTA will end tariffs on more than $78 billion of trade between the United States and Korea. With Costa Rica's approval, the Central American-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) has been approved by all partner countries. Once this agreement is executed, this FTA will end most tariffs on more than $32 billion of two-way trade between the U.S. and the CAFTA-DR countries. In addition, the Panama FTA was signed in June 2007. This agreement will provide new opportunities to U.S. workers, manufacturers, and service providers, as well as expand markets for U.S. farmers and ranchers; another building block in the Department's efforts to create a Western Hemisphere free trade area.

The Department of the Treasury supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. By negotiating agreements, the Treasury Department drastically reduced the subsidies that other governments can provide when financing national exports. The volume of this financing activity is approximately $70 billion annually. These agreements open markets and level the playing field for U.S. exporters, and save U.S. taxpayers about $800 million each year. Cumulative budget savings from these agreements are estimated to be over $12 billion.

In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "free trade and investment" was $8.9 million. The performance of this outcome is currently assessed through one measure, and in fiscal year 2007, the Department met its target 100 percent. Measuring policy office activities is difficult and quantitative measures do not adequately capture these, therefore, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with the relevant stakeholders.

Strategic Outcome
Prevented or mitigated financial and economic crises

It is essential to prevent financial and economic crises, and diminish its impact. By promoting sound pro-growth policies, the Department of the Treasury aids in the retention of the benefits of economic progress, reducing poverty, maintaining political stability, and avoiding expensive intervention.

In fiscal year 2007, the Department's Office of International Debt Policy (IDD) worked to implement major initiatives that are providing massive debt reduction to heavily indebted poor countries committed to economic reform and poverty reduction. Through the Heavily Indebted Poor Countries (HIPC) initiative, the Multilateral Debt Relief Initiative (MDRI), and the 2007 agreement for additional debt relief from the Inter-American Development Bank, more than $86 billion has been agreed to in debt relief for 22 countries. Additionally, in an effort to prevent renewed debt problems, the IDD worked to achieve greater use of the debt sustainability framework for low-income countries, and increased assistance on grant terms rather than loans.

In fiscal year 2007, the Department of the Treasury promoted sustainable economic growth, and supported the global war on terror by advancing debt reduction for Iraq and Afghanistan. The IDD spearheaded Afghanistan's entry into the HIPC initiative, to reduce its debts by over 92 percent, more than $11 billion. In addition, the IDD continued to provide support for Iraq's efforts to obtain debt relief from additional creditors, implementing the 2004 Paris Club, which was designed to bring Iraq's debts down to a manageable level. These steps bolster economic development in Afghanistan and reduce its dependence on the U.S. and international community.

During fiscal year 2007, the U.S. negotiated debt swap agreements with Botswana and Costa Rica, under the Tropical Forest Conservation Act of 1998; over time those agreements will generate more than $34 million for tropical forest conservation.

The Department of the Treasury, through the OCC and OTS, is the primary regulator and supervisor of national banks, savings associations, and savings and loan holding companies. Effective supervision of national banks and thrifts ensures a safe and sound financial system that complies with laws and regulations, and provides fair access and treatment of customers. To ensure fair access and fair treatment of bank customers, national banks and thrifts are evaluated on their compliance with consumer protection laws and regulations. In fiscal year 2007, 97 percent of national banks and savings associations earned the highest consumer compliance ratings of 1 or 2, meeting their performance target. The Treasury Department, through the OCC

Basel Accord

The Committee was formed in response to the messy liquidation of a Frankfurt bank in 1974. In June 1974, a number of banks had released Deutschmarks to the Bank Herstatt in Frankfurt in exchange for dollar payments deliverable in New York. Due to the time zone differences, there was a lag in the dollar payment to the counter-party banks, and during the gap, and before the dollar payments could be effected in New York, the Bank Herstatt was liquidated by German regulators.

This incident prompted the G-10 nations to form the Basel Committee on Banking Supervision, under the auspices of the Bank of International Settlements.

Basel I refers to a round of deliberations by domestic and international central bankers, and the published set of minimal capital requirements for banks. Basel I, which is now widely viewed as outdated, is being replaced by a more comprehensive set of guidelines.

Basel I norms envisages capital adequacy for market exposure.

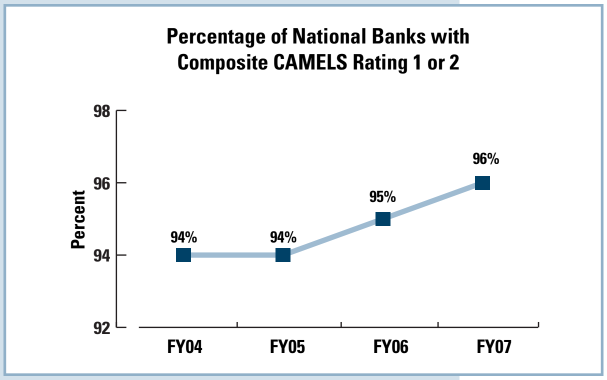
Basel II is aimed at producing uniformity in the way banks and banking regulators approach risk management across national borders.

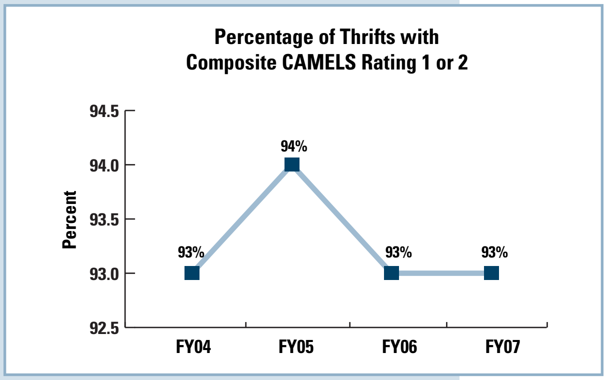
Basel II was driven largely by concerns about arbitrage issues that develop when regulatory capital requirements diverge from accurate economic capital calculations.

Basel II, which provides for more comprehensive measures and minimum standard for capital adequacy, seeks to align regulatory capital requirements more closely to risk and risk management practices. The Basel II framework has three pillars – which are:

- Minimum capital requirement
- Supervisory review
- Market discipline

Basel II establishes minimum capital requirement for credit and operational risk. In addition, Basel II provides an international standard to help protect the international financial system from problems that might arise should a major bank or series of banks collapse.





CAMELS is an interagency bank and thrift-rating system used by U.S. supervisory authorities to rate financial institutions. The rating is based on six factors, which make up the acronym, Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk. Banks are assigned a rating on a scale of one to five, with one being the best. A composite rating of "1" or "2" generally is considered to be a high-quality or satisfactory institution, while banks with a rating of "3", " 4", or " 5" are considered to be less-than-satisfactory. This system allows supervisory authorities to identify the banks that are in need of attention.

and OTS, works to streamline licensing and supervisory procedures, and keep regulations current, clearly written and supportive of an effective process promoting competitive financial services, and consistent with safety and soundness.

The OCC and the OTS continued to work with the FRB and FDIC to implement the Basel II framework for large, internationally active bank and thrift institutions. Basel II enhances or modernizes Basel I capital rules for institutions not governed by the rules of Basel II. Federal banking agencies are proposing revisions that would apply to non-Basel II banking organizations.

Adequate capital absorbs losses, promotes public confidence, and provides protection to depositors and the FDIC insurance funds. It also provides a financial cushion that allows a thrift institution to continue operating during periods of loss or other adverse conditions. As of June 2007, the OTS supervised 836 thrift institutions with assets totaling $1.5 trillion, and 472 holding company enterprises with U.S. domiciled consolidated assets of approximately $8.5 trillion; 93 percent of the regulated thrifts achieved an overall composite CAMELS rating of 1 or 2, with 99 percent well-capitalized. The OCC supervised 1,755 institutions with national bank charters and 49 federal branches with assets totaling approximately $7.2 trillion. Relative to their risk, 99 percent of all national banks were well-capitalized. The OCC examiners concluded that 96 percent of national banks earned the highest composite ratings of 1 or 2 under the standard method of evaluating a bank's operations.

During fiscal year 2007, the Department of the Treasury, Department of Housing and Urban Development (HUD), and others in the Administration carefully focused on evaluating the challenges faced by individuals in the subprime market. The Treasury Department and HUD took several actions to provide assistance to homeowners, including the pursuit of legislation modernizing the Federal Housing Administration. Due to the threat of increased foreclosures, temporary changes were proposed to the federal tax code provision that currently considers cancelled mortgage debt on primary residences as taxable income.

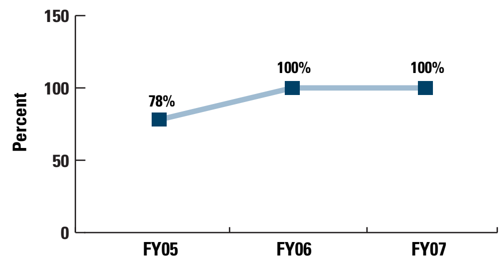
The OCC and the OTS worked with other federal banking regulators to issue guidance on subprime mortgage lending and non-traditional mortgage products. This guidance articulates consumer protection standards to ensure borrowers obtain loans they can afford to repay. Additionally, the agencies worked with the

Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators to encourage individual states to adopt the guidelines for mortgage brokers under their supervision. The agencies also encouraged financial institutions to work with residential borrowers that are unable to meet their contractual home loan obligations.

Financing the ownership of homes has been a focus of thrift institutions throughout their history. Thrifts currently hold over $1 trillion in housing-related loans and securities. In addition, the thrift charter is used extensively by some thrifts to make small business, consumer retail, and commercial real estate loans.

In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "prevented or mitigated financial and economic crises" was $870.2 million. The performance of this outcome is assessed through 11 performance measures, and in fiscal year 2007, the Department met 100 percent of its performance targets. Measuring policy office activities is difficult and quantitative measures do not adequately capture these, therefore, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with the relevant stakeholders.

Improved IMF Effectiveness and Quality Through Periodic Review of IMF Programs



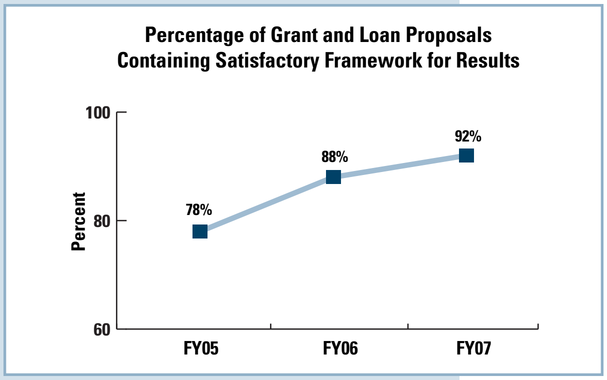
Strategic Outcome
Decreased gap in global standard of living

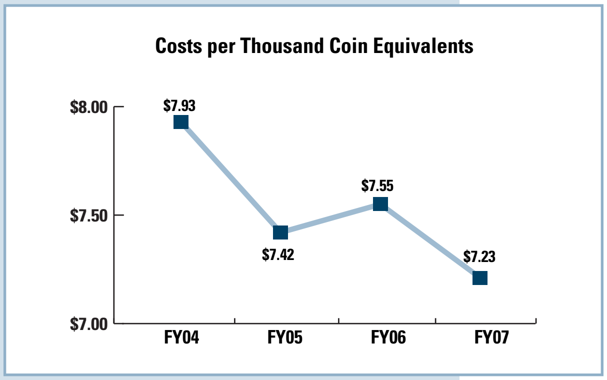
Sustained strong economic growth creates opportunities, improves quality of life, and reduces poverty.

The Department's Office of Multilateral Development Banks (MDBs) advances the United States' development agenda of promoting economic growth, and reducing poverty through its oversight and participation in global and regional MDBs. To decrease the gap in global standards of living, the Department initiated a number of reforms to increase the effectiveness of the development assistance provided by the MDBs.

The Multilateral Debt Relief Initiative (MDRI), a landmark effort agreed to in 2005, will cancel 100 percent of debt owed to the World Bank's International Development Association, the African Development Fund, and the International Monetary Fund (IMF) by the world's poorest and most heavily indebted countries. In fiscal year 2007, through U.S. efforts, a similar landmark debt relief initiative, the Fund for Special Operations at the Inter-American

To qualify for the MDRI, countries must complete the HIPC initiative, or with respect to the IMF have a per capita income below US$380 and outstanding debt to the IMF. In addition to these standards the IMF Executive Board added that eligible countries must be current on their obligations to the Fund, and demonstrate satisfactory performance in macroeconomic policies, implementation of a poverty reduction strategy, and public expenditure management. At the close of fiscal year 2007, twenty-two countries had completed the HIPC initiative and received MDRI debt relief from the MDBs and IMF. Two non-HIPC countries were eligible and benefited from the MDRI relief from the IMF.





Development Bank, was approved. With the support of this initiative, the MDBs have increased new resources to debt-vulnerable countries in the form of grants - not loans - which is integral to ending the lend-and-forgive cycle. For two consecutive years, nearly $2.7 billion in grant funding has been provided to the poorest and most debt vulnerable countries by the concessional arms of the World Bank, the African Development Bank, and the Asian Development Bank. With the adoption of debt sustainability frameworks at the MDBs, assistance to the poorest and most debt distressed countries will be solely through grants.

In July 2007, the U.S. Treasury Department and the International Finance Corporation (IFC) launched the Latin America and Caribbean (LAC) Infrastructure Development Program of the Americas to help drive private sector investment in this region. The $17.5 million program, managed by the IFC, aids in identifying sustainable infrastructure projects suitable for private participation, makes information publicly available, provides advisory support, and organizes the public tendering process. The program also assists in improving regulatory frameworks on private sector participation in LAC countries. In its first four years, the program is estimated to mobilize as much as $1 billion in new investments and $400 million in fiscal savings for local governments.

In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "decreased gap in the global standard living" was $13.4 million. The performance of this outcome is assessed through one measure, and in fiscal year 2007, the Department met its performance target 100 percent. Measuring policy office activities is difficult and quantitative measures do not adequately capture these, therefore, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with the relevant stakeholders.

Strategic Outcome
Commerce enabled through safe, secure U.S. notes and coins

Trust and confidence are vital to the continued global acceptance of U.S. currency, and to protect the global user from counterfeiting schemes, U.S. currency is redesigned and manufactured. The Department reliably provides safe, secure, cost-efficient, high quality U.S. notes, security documents, and coins that are readily accepted by all currency users and customers, which facilitates seamless and stable commerce. In addition, the Department of the Treasury secures the nation's gold and silver reserves.

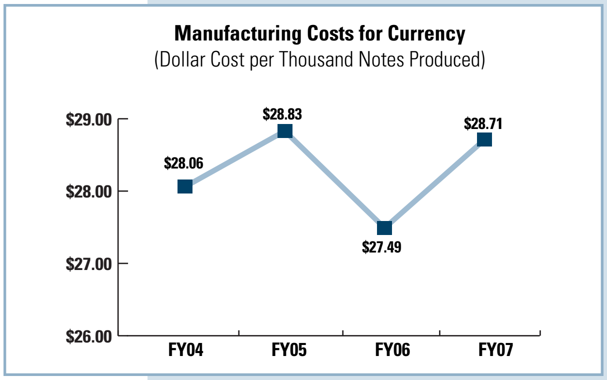
The Bureau of Engraving and Printing (BEP) designs next generation currency to guard against counterfeiting, and manufactures the nation's paper currency. In fiscal year 2007, the BEP maintained its position as a world-class securities printer providing its customers with superior products through excellence in manufacturing and technological innovation. The BEP continued to produce U.S. currency at the highest quality while incorporating state-of-the-art counterfeit-deterrent features. In fiscal year 2007, the BEP delivered 9.1 billion paper currency notes, meeting the Federal Reserve's exacting quality standards of 100 percent defect free, while under running their budget by $32 million.

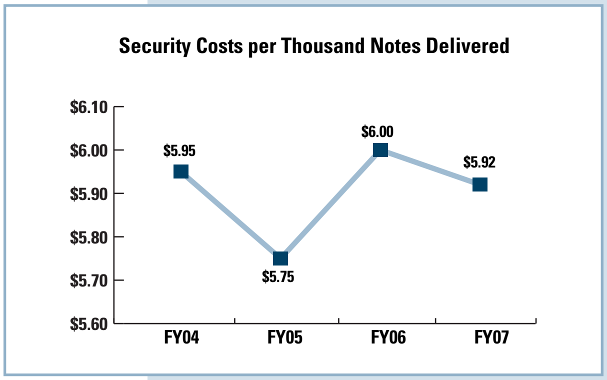
In fiscal year 2007, the BEP met its performance target for costs per 1,000 notes produced. Manufacturing costs increased from $27.49, in 2006, to $28.71, in 2007, due to changes in the production program and the production of higher cost denominations, but were still below target. Security costs were favorable at $5.92 per thousand notes produced against a performance target of $6.00 per thousand notes delivered.

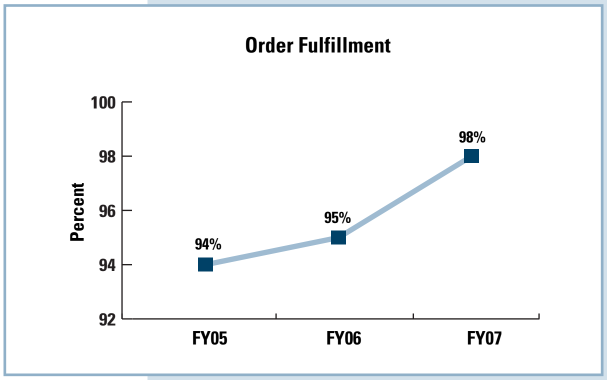
The United States Mint manufactures circulating coinage and popular numismatic products. In fiscal year 2007, the Mint successfully launched the first three circulating Presidential $1 coins. The Presidential $1 Coin Act of 2005, created this educational program to honor the presidents, in chronological order by term in office, with four different designs being released each year. In addition, the Mint issued the first three First Spouse gold coins honoring the spouses of each of the presidents.

Rising metal prices continue to have an impact on production cost. For the second consecutive year, the penny and the nickel cost more to produce than their face value; the Department is exploring alternative materials in an effort to overcome production challenges.

In fiscal year 2007, the Mint had revenue and other financing sources of $2,635 billion for circulating and numismatic coin products, an increase of 13 percent over fiscal year 2006. As a result of operations, $825 million was returned to the Treasury General Fund, as compared to $750 million in fiscal year 2006, an increase of 10 percent. This increase in operating results was due primarily to the introduction of the Presidential $1 Coins.







In fiscal year 2007, the Treasury Department's estimated costs in trying to achieve the outcome "commerce enabled through safe, secure U.S. notes and coins" was $2.1 billion. The performance of this outcome is assessed through 9 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets.

Strategic Goal
Prevented Terrorism and Promoted the Nation's Security through Strengthened International Financial Systems

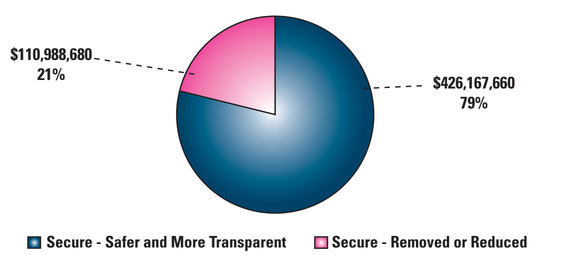
While promoting financial and economic growth at home and abroad, the Treasury Department performs an important, unique, and growing role in protecting national security. Illicit actors – such as terrorists, drug traffickers, and proliferators of weapons of mass destruction -depend on financial and support networks. Terrorists use financial systems to move money for training and indoctrinating operatives, bribing officials, procuring false documents, and carrying out attacks. Weapons proliferators access the financial sector to pay for the components and services needed to build weapons. Drug cartels funnel money through fraudulent businesses and front companies to cloak their trafficking activities. Rogue regimes turn to gray markets and illicit activity to raise funds and purchase arms.

The Department's sanctions, regulatory law enforcement, and intelligence authorities, provide powerful tools for the United States to apply pressure against threats to national security.

The Department of the Treasury leverages its unique authorities to safeguard the security of the U.S. and international financial and economic systems. These authorities defend against threats by detecting and excluding those who would use these systems for illegal purposes or compromise U.S. national security interest, while keeping them free and open to legitimate users.

The Treasury Department estimated the total gross cost in trying to achieve this strategic goal, in fiscal year 2007, was $537 million. For information and estimated costs to achieve each outcome, refer to those sections.

Cost to Achieve "Prevented Terrorism and Promoted the Nation's Security through Strengthened International Financial Systems" - $537 Million



The Treasury Department Intelligence Operations Center has become a fully-functional 24 hour/ 7 days-a-week operation, providing timely, relevant, and accurate intelligence to support:

- Treasury's participation in the NSC policymaking process
- Policymaker's engagement with counterparts abroad, including normalizing the sharing of economic and financial intelligence
- Identification and dissemination of high-priority intelligence to senior Treasury decision-makers

Strategic Outcome

Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their financial and other support networks

The financial and other support networks of terrorists, weapons proliferators, drug traffickers, rogue regimes, and other criminals are degraded, impairing the ability of individuals and organizations to carry out criminal activities or attacks against the United States and its allies and interests worldwide.

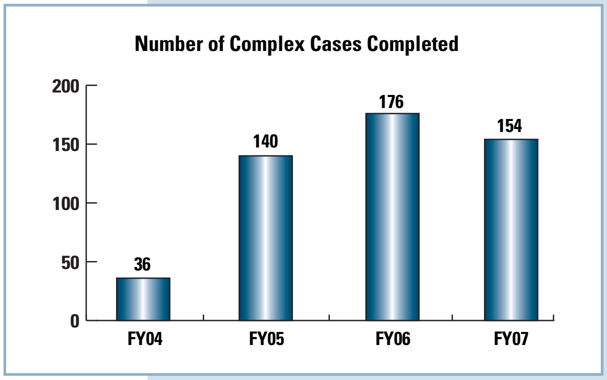
Since 2001 and the inception of an Executive Order, 483 individuals and entities were designated by the U.S. Government as terrorists, their financiers, or facilitators. One designation included three Libyan individuals, members of both al-Qa'ida and the Libyan Islamic Fighting Group, for executing various activities from recruitment, to military training, to procurement of explosive components.

In fiscal year 2007, the Department in cooperation with the State Department, continued to target proliferators of WMD and their supporters, freezing their U.S. assets, and prohibiting U.S. individuals from doing business with them. The Department designated Bank Sepah, the fifth-largest Iranian state-owned financial institution, for providing extensive financial services to Iranian entities responsible for developing missiles capable of carrying WMD. Bank Sepah's isolation has potentially made it more difficult for Iran to facilitate some of its missile proliferation-related activities.

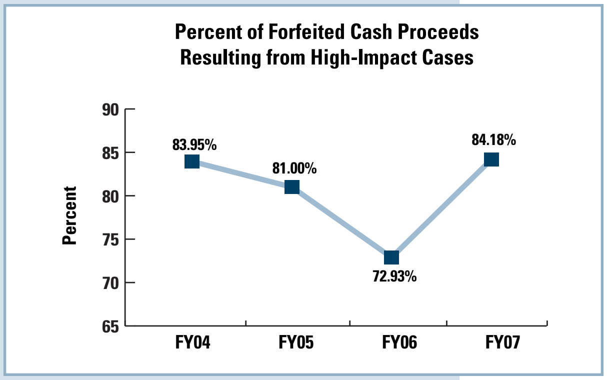
In fiscal year 2007, the Treasury Department took other actions combat Iran's abuse of the international financial system to support terrorism by revoking Bank Saderat's ability to engage in U-turn transactions, prohibiting Saderat from accessing U.S. financial system directly or indirectly.

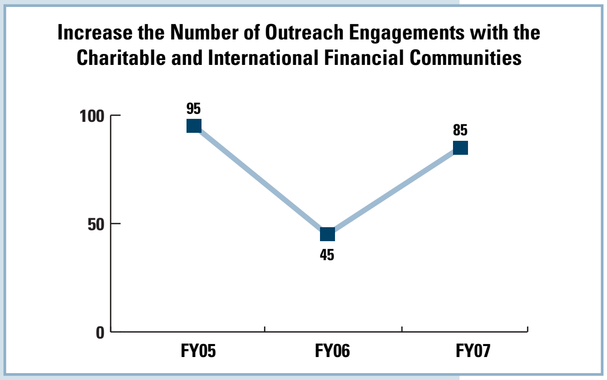
The OFAC's Specially Designated Narcotics Traffickers Program continued to see significant activity in fiscal year 2007, targeting additional leaders of Colombia's North Valle cartel and their financial networks, including 30 individuals in Colombia, and 42 front companies. In fiscal year 2007, the OFAC targeted Medellin-based narcotics trafficker Fabio Enrique Ochoa Vasco for designation, along with his extensive criminal and financial network of 65 individuals and 45 companies. In addition, after targeting two

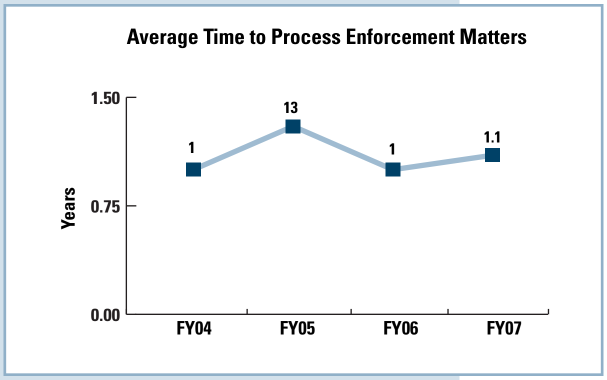
The Department of the Treasury participated in the U.S. Government interagency working group that published the 2007 National Money Laundering Strategy. This strategy built on a solid foundation of successful initiatives and programs introduced in previous strategies. As globalization opens borders to travel and trade, and global payments and clearing systems evolve, new money laundering opportunities are created and exploited, the strategy addressed these emerging money laundering trends.



TFFC spearheads a Muslim-American outreach initiative, which included planning the U.S. Treasury Department's annual iftaar dinner, a traditional meal to break the daily fast during the Muslim holy month of Ramadan. The dinner is held to honor Muslim-Americans and to thank them for their contributions to the U.S. economy and community as a whole. Through this initiative and other outreach programs, the Department is constructively engaging Muslims in order to create a better environment for partnerships on a range of Treasury issues with the Muslim-American community.







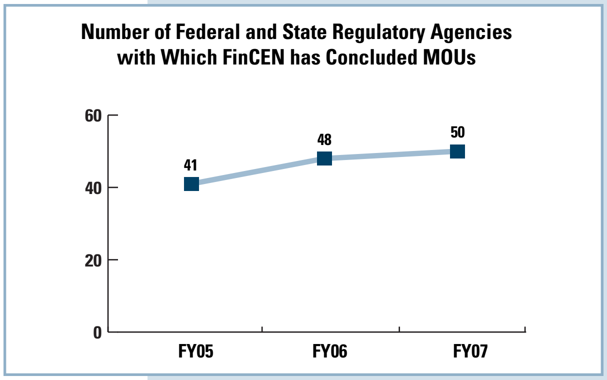
leaders of Colombia's Cali Cartel, Miguel and Gilberto Rodriguez Orejuela, their front man, Fernando Gutierrez Cancino, pled guilty to money laundering charges, and agreed to forfeit his right, title, and interest in all business entities. These entities are part of the 246 front companies that were designated over the past 11 years, and under at least 12 OFAC actions targeting Colombian drug cartels.

The TFI engages in outreach and education to advance the Department's unique security mission. The Terrorist Financing and Financial Crimes (TFFC) initiated a series of private sector Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) dialogues, linking the U.S. banking sector with those from the Middle East/North Africa and Latin American regions. These dialogues raise awareness of terrorist financing and money laundering risks, facilitate a better understanding of effective practices and programs to combat the risks, and strengthen implementation of effective AML/CFT controls.

In fiscal year 2007, the TFFC, in collaboration with interagency and regional partners, successfully supported and organized the second U.S.-Middle East/North Africa Private Sector Dialogue on AML/CFT. Discussions between bankers and financial and regulatory authorities involved a range of challenges associated with the development and implementation of effective AML/CFT jurisdictional and institutional measures. The Treasury Department continues to further engage and encourage the private sector and other relevant regional organizations to expand dialogue, through the internet, virtual working groups, and best practices papers.

The Private Sector Dialogue outreach to the international financial community complements the TFI's other work, addressing vulnerabilities in the international financial system, by providing a vehicle to explain money laundering and terrorist financing concerns, assess and facilitate AML/CFT progress and implementation, and receive feedback on its effectiveness, from regional participants in the international financial system.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "removed or reduced threats to national security" was $426.1 million. The performance of this outcome is assessed through 4 performance measures, and in fiscal year 2007, the Department met 100 percent of their performance targets. Measuring policy office activities is difficult and quantitative measures do not adequately capture these, therefore, the Department will consider various types of measures for this important work, such as traction and impact, and will review these with the relevant stakeholders.

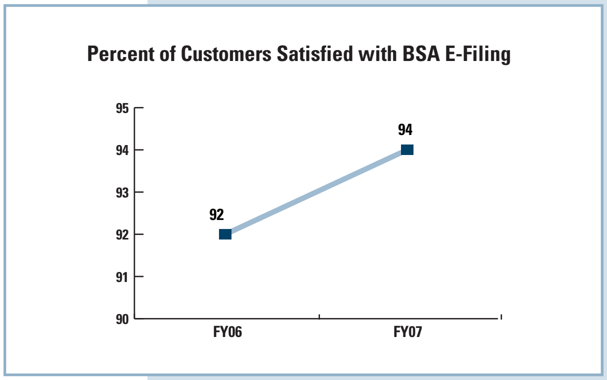


Strategic Outcome

Safer and more transparent U.S. and international financial systems

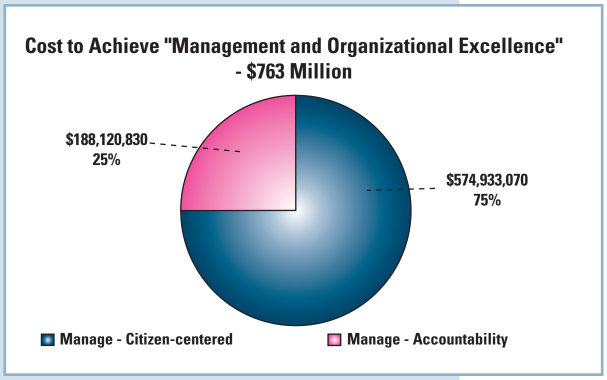
Confidence in the integrity of the U.S. and international financial systems fosters economic growth, and improves national security. Transparency in the financial sector denies terrorists, drug traffickers, WMD proliferators, and other criminals the ability to conceal their illicit activities. The U.S. national security is enhanced when financial systems are safeguarded from criminal abuse.

To improve the consistency of the application of BSA rules regulating financial institutions, the FinCEN's regulatory policy efforts focus on efficient and effective administration of the BSA. This is achieved through briefings to increase understanding of how the BSA's regulatory requirements generate information for law enforcement. The FinCEN requires that financial institutions create policies, procedures, and systems to make the financial system transparent and protect it from becoming a conduit for financial crime. In fiscal year 2007, the FinCEN published amended BSA regulations, including special measures against Banco Delta Asia, and its subsidiaries, casino recordkeeping and reporting requirements, and guidance for certain foreign accounts under the anti-money laundering program/special due diligence rules.

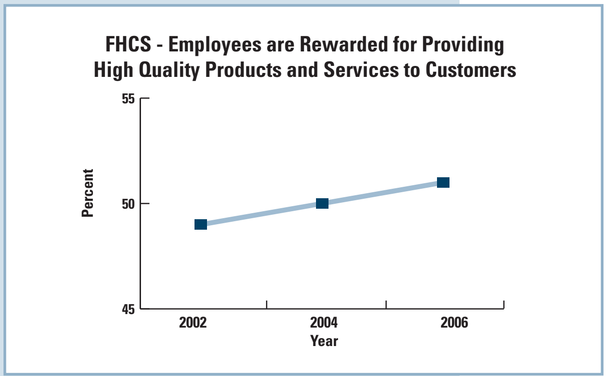


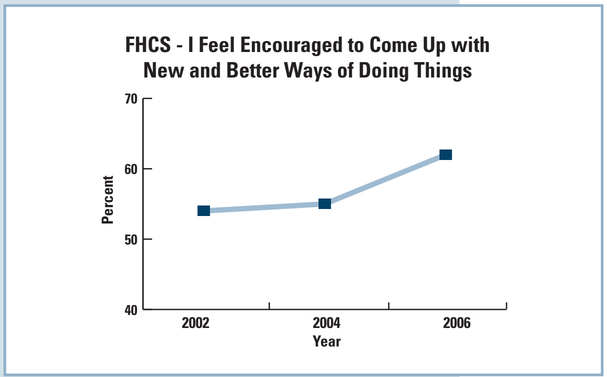
In addition, the FinCEN published guidance to improve consistency in the interpretation and application of BSA regulations, and advance the understanding of regulatory expectations, including a report on the risk of money laundering related to the Shell companies and information on compliance requirements for reporting suspicious transaction reporting at mutual funds.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "safer and more transparent U.S. and international financial systems" was $110.9 million. The performance of this outcome is assessed through 6 performance measures, and in fiscal year 2007, the Department met 83 percent of their performance targets.



Results of Selected Questions from Federal Human Capital Survey





Strategic Goal Management and Organizational Excellence

The Department of the Treasury strives to maintain public trust and confidence in U.S. and international economic and financial systems, through exemplary leadership, best-in-class processes, and a culture of excellence, integrity, and teamwork. The Treasury Department realizes its strategic goals by building a strong institution that is citizen-centered, results-oriented, and efficient, while actively promoting innovation. The Department works to implement initiatives and programs that benefit the American people.

Management's responsibility is to create conditions that enable program goals to be accomplished and achieve organizational excellence. The Department continues to integrate policies and operational activities to produce optimal value for the American public.

The Treasury Department estimated the total gross cost in trying to achieve this strategic goal, in fiscal year 2007, was $763 million. For information and estimated costs to achieve each outcome, refer to those sections.

Strategic Outcome

A citizen-centered, results-oriented and strategically aligned organization

The Treasury Department ensures that taxpayers receive the most efficient and effective use of their tax dollars by building a strong institution that is dedicated to serving the public interest and focused on delivering results.

In September 2007, the Department of the Treasury released its Strategic Plan for Fiscal Years 2007-2012. To develop the plan, the Department worked collaboratively with employees and senior management alike. After the goals and objectives were developed, the Treasury Department took an opportunity to refine and test these against a changing global environment. The Department of the Treasury went beyond linking performance to the budget, and established an Integrated Management System to monitor continuous improvement and make changes as necessary.

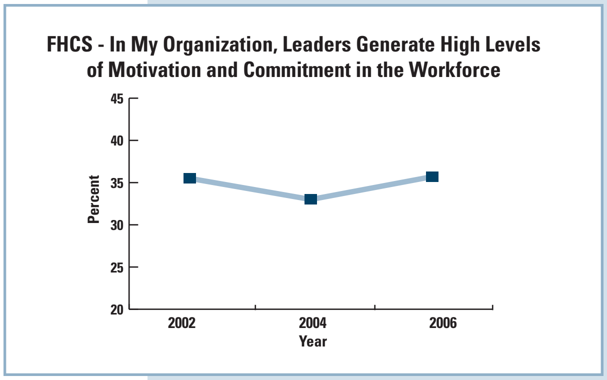
Typical strategic planning uses a forecast of the future, based on the realities of today. This type of planning tends to be eventdriven, and narrowly focused. The Department supplemented this approach by assessing the potential effect a wide range of factors could have on its organization. The Treasury Department's goal is to manage future uncertainty and act effectively in the face of future ambiguity. Understanding the future in a context of a broad set of possibilities, the Department tested the robustness of its mission and made some important changes to provide the Treasury Department and its stakeholders institutional longevity.

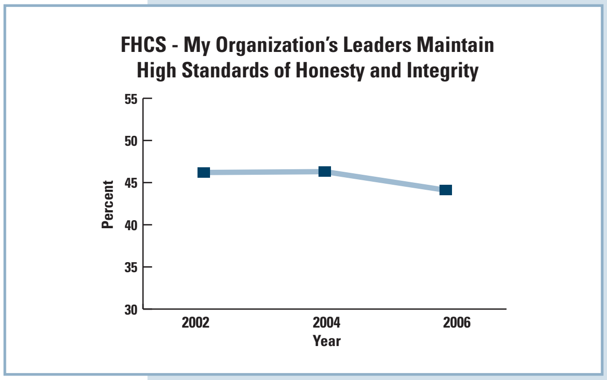
Through an established strategic framework, the Department will use performance planning and budgeting to determine funding that will achieve intended results. Performance measures with long-term and annual targets will be used and funding will be tied to the level of performance that needs to be achieved. As part of the management process, a number of options can be executed to improve value for stakeholders.

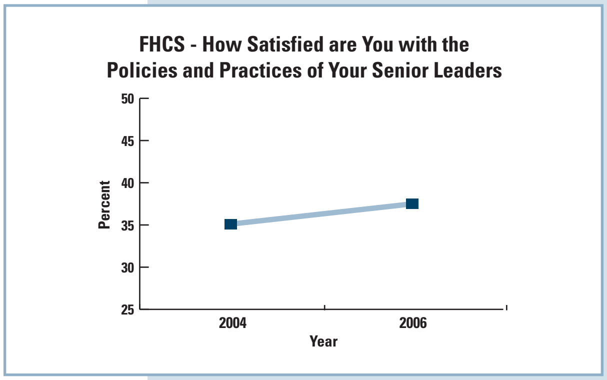
With the new strategic plan, the Treasury Department will track progress on outcomes, and the cost to achieve them. As part of the Department's continuous improvement strategy, comparisons of actual performance to desired targets and applicable benchmarks will be performed. Management will add value by continually striving to make changes that produce the most effective results and increased value for the American taxpayer.

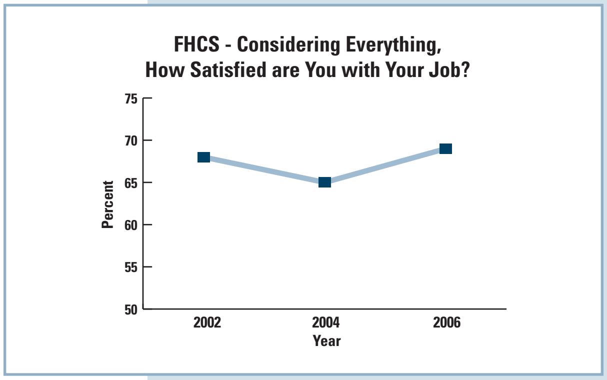
President's Management Agenda (PMA): The Department of the Treasury is enabled through the principles of the PMA. The PMA is designed to improve management practices across the federal government and transform it into a results-oriented, efficient, and citizen-centered enterprise. Executing the PMA involves lowering the cost of doing business through competition, strengthening the Department's workforce, improving financial performance, increasing the use of information technology and e-government capabilities, and integrating budget decisions with performance data.

In fiscal year 2007, the Department continued to be successful in the Human Capital initiative; for the Performance Improvement, Competitive Sourcing, Financial Performance, and E-Government initiatives each had mixed results during the year; while the Improper Payments initiative remained unchanged. In its first year as a PMA initiative, the Credit Management initiative was rated with mixed results.









President's Management Agenda

Initiative	Status FY 2004	Status FY 2005	Status FY 2006	Status FY 2007	FY 2007 Progress Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G	G	G
Competitive Sourcing	Y	G	G	Y	Y	R	Y	Y
Financial Performance	R	R	R	Y	G	G	G	G
E-Government	R	R	Y	Y	R	G	G	Y
Performance Improvement	N/A	Y	Y	Y	G	G	G	G
Improper Payments	N/A	R	R	R	Y	Y	Y	Y
Credit Management	N/A	N/A	N/A	Y	N/A	G	G	G

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

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "a citizen-centered, results-oriented and strategically aligned organization" was $574.9 million. The performance of this outcome is assessed through 8 performance measures, and in fiscal year 2007, the Department met 63 percent of their performance targets.

Strategic Outcome

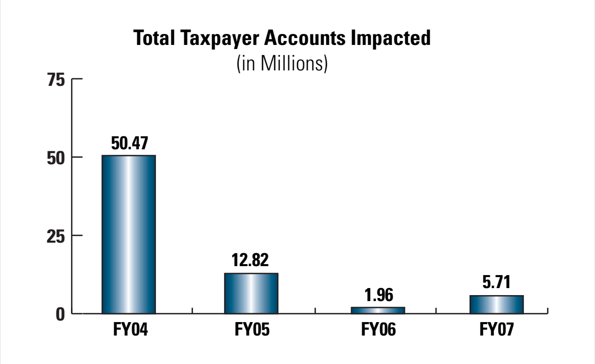
Exceptional accountability and transparency

Operations improve as a result of using clear and understandable reporting, proper internal controls, meaningful performance measures, continuous assessment to achieve desired outcomes, and effective management.

Good management begins with accountability and responsibility for the people, property, and money that the Department manages. Internal control is a key tool to fulfill the Treasury Department's obligations to the American people. It serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. The Treasury Department continues to strengthen and improve the execution of its mission through the application of sound internal controls over financial reporting.

In fiscal year 2007, testing and assessments were completed Department-wide. No new material weaknesses were found through the assessment of financial reporting under A-123, Appendix A; however, the IRS continues to address issues related to the revenue accounting system, one of its material weaknesses.

The OIG auditors conduct financial, performance, and information technology audits within the Treasury Department.



The chart above includes areas of taxpayer burden, rights and entitlements, increased revenue, protected revenue, the protection of resources, and the reliability of information.

The TIGTA issued audit reports producing financial accomplishments of $3.5 billion and potentially impacting over five million taxpayer accounts.

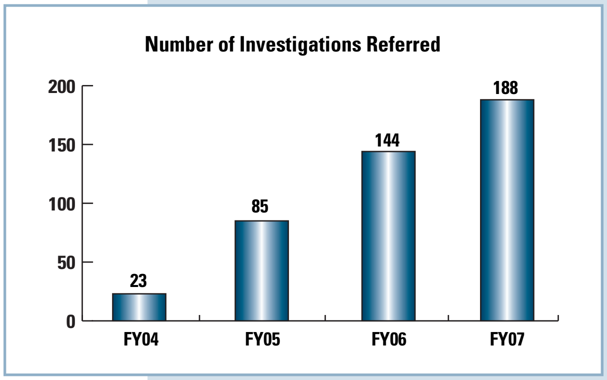
These audits are intended to save taxpayer dollars, improve the Department's effectiveness and efficiency, and help prevent waste and detect fraud and abuse in Department programs and operations. During fiscal year 2007, the OIG completed 64 audit products and referred 188 cases for criminal, civil, or administrative action.

The TIGTA's audit and investigative services promote and protect the fair administration of the internal revenue laws, and their oversight is essential to the efficiency and equity of the federal tax administration system. In addition, the TIGTA's offices assist in maintaining taxpayers' confidence in the federal tax system by ensuring that the IRS is managed fairly and effectively, and violators of the public's trust are detected and appropriately sanctioned.

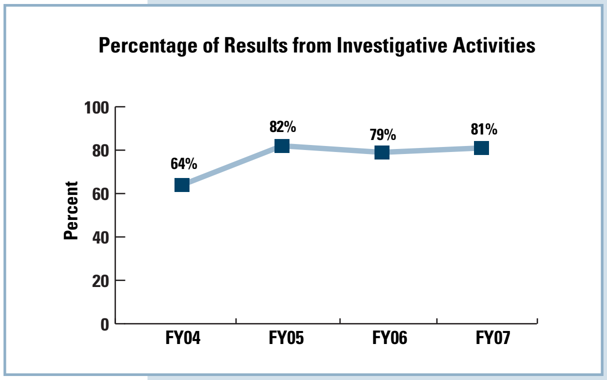
In fiscal year 2007, the TIGTA issued 180 audit reports; one specifically addressing whether the proper amounts of Social Security and Medicare taxes are being collected for tips and wages reported on Social Security and Medicare Tax on Unreported Tip Income Form. It is estimated that an additional $108 million in Social Security and Medicare taxes each year could be assessed.

The IRS's ability to deliver taxpayer service, enforce tax laws effectively, and collect the proper amount of taxes can be undermined by employee misconduct; over 50 percent of current investigations involve alleged employee misconduct. The TIGTA's investigations of employee misconduct include extortion, theft, taxpayer abuse, false statements, financial fraud, and unauthorized access to confidential taxpayer records. In fiscal year 2007, approximately 81 percent of the 3,597 closed investigations generated positive results, including 1,663 cases of employee misconduct referred for action and 206 cases accepted for criminal prosecution. In addition, the TIGTA opened 521 new unauthorized access cases and closed 621 cases, 594 of which resulted in personnel action against IRS employees.

In fiscal year 2007, the Treasury Department's estimated cost in trying to achieve the outcome "exceptional accountability and transparency" was $188.1 million. The performance of this outcome is assessed through 7 performance measures, and in fiscal year 2007, the Department met 100 percent of them.



This chart reflects the OIG's efforts on number of investigations referred. The increase over the last three years was due to the case referral methodology change, and one-time referrals that were included in the counts for fiscal years 2006 and 2007.



Performance Scorecard

The following scorecard indicates the fiscal year 2007 results for a selection of key Treasury Department measures. For a complete list of official performance measures refer to Appendix A.

Performance Measure	FY 2007 Planned	FY 2007 Actual	Target Met?	FY 2008 Planned
Financial				
Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)	74.0%	75.0%	Y	75.0%
Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of revenue)	86.0%	86.4%	Y	87.0%
Percentage of total tax receipts collected electronically	98.0%	98.0%	Y	98.0%
Percentage collected electronically of total dollar amount of Federal Government Receipts	80.0%	79.0%	N	80.0%
Unit cost to process a federal revenue collection transaction	$1.33	Est $1.19	Y	$1.30
Amount of delinquent debt collected per $1 spent	$36.50	Est $42.09	Y	$36.75
Amount of delinquent debt collected through all available tools (in Billion $)	$3.20	$3.76	Y	$3.30
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral	94.0%	100.0%	Y	95.0%
Percentage of Government-wide accounting reports issued accurately	100.0%	100.0%	Y	100.0%
Percentage of Government-wide accounting reports issued timely	100.0%	100.0%	Y	100.0%
Cost per summary debt accounting transaction	$10.98	Est $8.93	Y	$10.88
Variance between estimated and actual receipts	5.0%	2.1%	Y	5.0%
Cost per debt financing operation	$228,409	Est $216,801	Y	$249,679
Percent of auction results released in 2 minutes +/- 30 seconds	95.0%	99.1%	Y	95.0%
Cost per TreasuryDirect assisted transaction	$6.16	Est $6.03	Y	$7.05
Cost per TreasuryDirect online transaction	$2.96	Est $2.79	Y	$2.44
Percentage of retail customer service transactions completed within 12 business days	90.0%	99.4%	Y	90.0%
Percentage of Treasury Payments and associated information made electronically	78.0%	78.0%	Y	79.0%
Percentage of Paper Check and Electronic Funds Transfer Payments made accurately and on-time	100.0%	100.0%	Y	100.0%
Unit Cost for Federal Government Payments	$0.39	Est $0.38	Y	$0.38
Field collection embedded quality	86.0%	84.0%	N	86.0%
Timeliness of critical other tax products to the public	79.6%	84.0%	Y	86.0%
Timeliness of critical filing season tax products to the public	85.2%	83.5%	N	86.0%
Taxpayer self assistance rate	48.6%	49.5%	Y	51.5%
Automated collection system accuracy	91.0%	92.9%	Y	92.0%
Percent individual returns processed electronically	57.0%	57.1%	Y	61.8%
Percent of business returns processed electronically	19.5%	19.1%	N	20.8%
Customer accuracy – Accounts (Phones)	93.3%	93.4%	Y	93.5%
Customer accuracy - Tax law phones	91.0%	91.2%	Y	91.0%

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Performance Measure	FY 2007 Planned	FY 2007 Actual	Target Met?	FY 2008 Planned
Customer contacts per staff year	7,702	7,648	N	8,000
Customer Service Representative (CSR) Level of Service	82.0%	82.1%	Y	82.0%
Refund timeliness - Individual (paper)	99.2%	99.1%	N	99.2%
Examination coverage-Individual	1.0%	1.0%	Y	1.0%
Examination coverage-Business	8.2%	7.2%	N	6.8%
Field exam embedded quality	87.0%	85.9%	N	87.0%
Examination quality - (LMSB) Industry	88.0%	87.0%	N	90.0%
Examination quality – (LMSB) Coordinated industry	97.0%	96.0%	N	97.0%
Office exam embedded quality	89.0%	89.4%	Y	89.4%
Automated Underreporter Efficiency	1,932	1,956	Y	1,808
Automated Underreporter Coverage	2.5%	2.5%	Y	2.7%
Examination efficiency – Individual	136	137	Y	136
Collection efficiency – units	1,723	1,828	Y	1,751
Collection coverage – units	54.0%	54.0%	Y	54.0%
Economic				
Improve International Monetary Fund (IMF) effectiveness and quality through periodic reviews of IMF programs	90.0%	100%	Y	90.0%
Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5)	40.0%	52.0%	Y	40.0%
Percentage of national banks that are categorized as well-capitalized	95.0%	99.0%	Y	95.0%
Percent of thrifts with composite CAMELS ratings of 1 or 2	90.0%	93.0%	Y	90.0%
Percent of thrifts that are well-capitalized	95.0%	99.0%	Y	95.0%
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement	90.0%	92.0%	Y	90.0%
Number of new Free Trade Agreement negotiations and Bilateral Investment Treaty negotiations underway or completed	7	10	Y	Discontinued
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI Program Awardees and New Markets Tax Credit (NMTC) Allocatees	34,009	35,022	Y	28,676
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance. (in millions)	$861.00	$778.00	N	$643.00
Administrative costs per Financial Assistance applications processed	$6,920	Est $7,180	N	$6,920
Percent of Electronically filed Certificate of Label Applications	47.0%	51.0%	Y	48.0%
Unit Cost to process a Wine Certificate of Label Approval	Baseline	$34.00	Y	$34.00
Manufacturing costs for currency (dollar cost per thousand notes produced)	$32.50	$28.71	Y	$33.00
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements	99.9%	100.0%	Y	99.9%
Cost per 1,000 coin equivalents	$7.27	$7.23	Y	$7.15
Order fulfillment	96.0%	98.0%	Y	96.0%
Currency shipment discrepancies per million notes	0.01%	0.01%	Y	0.01%
Percentage of national banks with composite CAMELS rating 1 or 2	90.0%	96.0%	Y	90.0%

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Performance Measure	FY 2007 Planned	FY 2007 Actual	Target Met?	FY 2008 Planned
Security				
Average time to process enforcement matters (Years)	1.0	1.1	N	1.0
Number of federal and state regulatory agencies with which FinCEN has concluded memoranda of understanding information sharing agreements	50	50	Y	52
Percentage of customers finding FinCEN's analytic reports highly valuable	Baseline	82.0%	Y	79.0%
Percentage of customers satisfied with the BSA Direct E-filing	90.0%	94.0%	Y	90.0%
Management				
Number of open material weakness (significant management problems identified by GAO, the IGs and/or the Bureaus) (President's Management Agenda) Targeted for Closure in FY 2007	1	0	N	1
Complete investigations of EEO complaints within 180 days	50.0%	51.6%	Y	50.0%
Operating Expenses as a Percentage of Revenue – Consolidated/Integrated Administrative Management	12.0%	4.3%	Y	12.0%
Operating Expenses as Percent of Revenue – Financial Management Support Services	12.0%	15.1%	N	12.0%
Percent of statutory audits completed by the required date	100.0%	100.0%	Y	100.0%
Percentage of audit products delivered when promised to stakeholders	Baseline	68.0%	Y	60.0%
Percentage of recommendations made that have been implemented	Baseline	90.0%	Y	80.0%
Percentage of results from investigative activities	73.0%	81.0%	Y	76.0%

KEY: Some measures have estimates for their actual fiscal year data – due to information not available at the time of publication of this document.

Scorecard Shortfalls

The information below explains the shortfalls for key performance measures shown above that did not achieve the target level of performance. The Appendix A shows the full suite of performance measures, data, and shortfalls.

In fiscal year 2007, the FinCEN experienced a slight increase in the average processing time of cases by 21 days; this increase in processing time resulted in just missing the target of 1.0 years average time to process cases. The additional time taken for processing was the result of joint investigations with other enforcement agencies. In the future, the FinCEN will consider the appropriate amount of time needed for joint enforcement actions when establishing their target for this performance measure.

The IRS was within one percent of meeting its performance target for the measure "Refund Timeliness-Individual." Delays that caused this shortfall were attributed to the increase in the number of Individual Taxpayer Identification Number applications, verification of required documentation that is often submitted in foreign languages, and the Individual Taxpayer Identification Number system caused instabilities by malfunctioning during peak processing season.

For fiscal year 2007, the actual data for the performance measure "Field Examination Embedded Quality" was 85.9 percent, missing its target by 1.1 percentage points. The target predicted a 10 percent improvement factor for weak quality attributes, however this did not occur. After not meeting its target, the IRS planned actions to improve its quality score by studying the consistency between the Embedded Quality Review and the National Quality Review Systems' processes.

For fiscal year 2007, the FMS set its target at 80 percent for the performance measure "Percentage collected electronically of total dollar amount of federal government receipts." Results indicated that the FMS missed the target by one percent; this due to the large number of the paper 1040 form tax remitters. Most online tax preparation sites charge fees for filing the 1040 forms electronically, discouraging e-filing. The FMS will continue to work with the appropriate entities to reduce associated costs and encourage electronic filing.

The IRS missed its fiscal year 2007 target of 8.2 by one percentage point for the performance measure "Examination Coverage – Business Corporations." Key factors contributing to this shortfall included the implementation of currency and cycle time initiatives. An increase in time spent on the Compliance Assurance Program to address issues in a pre-filing environment resulted in fewer numbers of closed returns from a comparable coordinated industry case examination; the roll-out of the Issue Management System consumed more agent time than planned.

Summary of Management Challenges and High-Risk Areas

The Department of the Treasury's Inspectors General and the Government Accountability Office has identified the most significant, high-risk challenges facing the Department. While these challenges do not necessarily indicate deficiencies in performance, progress has been made in fiscal year 2007; they represent inherent risks that must be monitored continuously. The Treasury Department is committed to addressing these challenges in fiscal year 2008. Below are the management challenges identified by the IGs.

- Corporate Management
- Management of Capital Investment
- Information Security
- Linking Resources to Results
- Anti-Money laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
    - Business and Individual
    - Tax-Exempt Entities
- Security of the Internal Revenue Service
- Providing Quality Taxpayer Service Operations
- Complexity of the Tax Law
- Human Capital
- Erroneous and Improper Payments
- Taxpayer Protection and Rights
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Using Performance and Financial Information for Program and Budget Decision

Although it is critical for the Department to address all of these challenges, a selected few are discussed below, noting the actions taken during fiscal year 2007. (For the comprehensive response to the full list, refer to Appendix D).

Information Security: In fiscal year 2007 the Treasury Department launched a privacy awareness training course for all employees highlighting the policies and practices necessary to safeguard and protect citizens' data. Although the Department met its goal of encrypting 100 percent of its laptops during fiscal year 2007, the Treasury Department will continue to work towards properly safeguarding all of its information assets. By fiscal year 2009, the Department plans to achieve 100 percent compliance with Security Configuration installation and the industry standard of 90 percent maintenance.

Linking Resources to Results: In July 2007, the Treasury Department issued its new strategic plan for fiscal years 2007-2012. In this plan, the Department went beyond linking performance to the budget, and established an Integrated Management System to monitor continuous improvement. Performance planning and budgeting will determine funding, which will be tied to the desired level of performance. The Integrated Management System will be implemented during fiscal year 2008.

Treasury recognizes that lacking relevant and reliable cost accounting information, federal managers may not understand and control the full cost of programs. And without a link between performance and cost, agencies are not in a position to establish cost reduction goals and maintain or improve performance results because they do not know how much it costs to deliver outcomes.

In 2008, the Chief Financial Officers Council work group will continue to refine the Departmental managerial cost accounting model, establish key cost accounting goals for all of the Department's components, and develop a plan for future Departmental oversight of cost accounting implementation and use as a management tool.

Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act (BSA) Enforcement: The Department of the Treasury plays a key role in the U.S. Government's efforts to track and cut off the flow of funds to terrorist and other national security threats. The Department initiated a series of private sector Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) dialogues. These dialogues raise awareness of terrorist financing and money laundering risks, facilitate a better understanding of effective practices and programs to combat the risks, and strengthen implementation of effective AML/CFT controls.

The Treasury Department effectively administers and enforces the BSA, an important tool in combating anti-money laundering. The BSA requires that financial institutions report on suspicious activities, keep records, and establish appropriate internal controls to guard against financial crime. As the administrator of the BSA, the Department oversees and coordinates the sharing of financial intelligence and analysis with its stakeholders, and works closely with regulatory partners to take action against violating institutions.

Tax compliance Initiatives: In fiscal year 2007, the IRS continued compliance efforts that promote taxpayer confidence and support the Department's goal to reduce the tax gap. The IRS improved its ability to estimate non-compliance to pinpoint areas where taxpayers are not in compliance with federal tax laws. This year, two reporting compliance studies began; one addresses Subchapter S Corporations, the second is looking at the Tax Year 2006 individual income. When completed, these studies will enable the IRS to better leverage limited enforcement resources and reduce the burden on compliant taxpayers.

Complexity of the Tax Law: In fiscal year 2007, the IRS took steps to reduce taxpayer burden, including the review of existing tax products with the goal to simplify. The IRS also incorporated taxpayer feedback, research, and focus group results to obtain taxpayer information relative to product changes. In an effort to ease the burden associated with the complexity of the tax system and recent revisions to the tax laws, the IRS continued to provide important and current information needed to file tax returns on the IRS.gov website. For individual taxpayers, the IRS designed a "1040 Central" page which contains news releases, fact sheets and tax tips, all designed to keep taxpayers informed of changes. The IRS also developed a three-point plan, that expanded Earned Income Tax Credit (EITC) outreach initiatives, identified ways to simplify and improve the forms, and outlined efforts to improve the IRS.gov website, making it more user friendly for EITC filers.

Erroneous and Improper payments: In fiscal year 2007, the IRS protected about $2.6 billion in revenue through Earned Income Tax Credit (EITC) enforcement efforts which included the examination of almost 500,000 returns claiming EITC, approximately 390,000 document matching reviews, and 400,000 math error process corrections. In addition, the IRS met all the Improper Payment Improvement Act requirements for the EITC, providing a current estimate of erroneous payment amounts, an explanation of the methodology to calculate the amount and an action plan to reduce the number and amount of those payments.

To view the full management response to these management challenges, see the links below:

http://www.treas.gov/offices/management/dcfo/accountability-reports/2007-par/SecResponse-IG.pdf

http://www.treas.gov/offices/management/dcfo/accountability-reports/2007-par/SecResponse-TIGTA.pdf

Analysis of Financial Statements

The following are the condensed financial statements of the Department as of and for the years ended September 30, 2007 and 2006. The complete financial statements and auditors' report are in part III of this report.

Condensed Consolidated Balance Sheets

As of September 30, 2007 and 2006
(In Millions)

ASSETS	2007	2006
Intra-governmental Assets		
Due From the General Fund	$ 9,052,624	$ 8,540,195
Other Intra-governmental Assets	322,255	326,552
Total Intra-governmental Assets	**9,374,879**	**8,866,747**
Cash, Foreign Currency, and Other Monetary Assets	92,330	63,892
Gold and Silver Reserve	11,062	11,062
Investments and Related Interest	10,074	9,325
Tax, Other and Related Interest Receivables, Net	27,559	21,962
Other Assets	12,903	14,990
Total Assets	**$ 9,528,807**	**$ 8,987,978**
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable	$ 3,974,788	$ 3,673,117
Other Intra-governmental Liabilities	343,466	320,817
Total Intra-governmental Liabilities	**4,318,254**	**3,993,934**
Federal Debt and Interest Payable	5,054,250	4,844,074
Other Liabilities	35,204	35,056
Total Liabilities	**9,407,708**	**8,873,064**
NET POSITION		
Unexpended Appropriations	72,317	68,270
Cumulative Results of Operations	48,782	46,644
Total Net Position	**121,099**	**114,914**
Total Liabilities and Net Position	**$ 9,528,807**	**$ 8,987,978**

Condensed Consolidated Statements of Net Cost

For the Years Ended September 30, 2007 and 2006
(In Millions)

	2007	2006
Cost of Treasury Operations:		
Net Financial Program Cost	$ 11,735	$ 12,413
Net Economic Program (Revenue)/Cost	(456)	1,188
Net Security Program Cost *	300	0
Net Management Program Cost	440	428
Total Net Cost of Treasury Operations	**12,019**	**14,029**
Net Federal Costs (primarily interest on the Federal Debt)	429,302	399,806
Net Cost of Treasury Operations, Federal Debt Interest, and Other Federal Costs	**$ 441,321**	**$ 413,835**

** Treasury's Strategic Plan for fiscal years 2007 – 2012 includes a new Security Program. Subcomponent reporting assignments were also realigned with the New Strategic Plan.*

Condensed Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2007

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$ 202	$ 68,068		$ 68,270
Budgetary Financing Sources				
Appropriations Received (Note 18)	390	450,832		451,222
Appropriations Used	(390)	(446,667)		(447,057)
Other	(2)	(116)		(118)
Total Budgetary Financing Sources	(2)	4,049		4,047
Total Unexpended Appropriations	**$ 200**	**$ 72,117**		**$ 72,317**
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	$ 31,614	$ 15,030	$ 0	$ 46,644
Budgetary Financing Sources	708	446,666	(43)	447,331
Other Financing Sources	299	(3,679)	(492)	(3,872)
Total Financing Sources	1,007	442,987	(535)	443,459
Net Cost of Operations	2,764	(444,620)	535	(441,321)
Net Change	3,771	(1,633)	0	2,138
Cumulative Results of Operations	**35,385**	**13,397**	**0**	**48,782**
Net Position - Year End	**$ 35,585**	**$ 85,514**	**$ 0**	**$ 121,099**

Condensed Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2006

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$ 202	$ 62,980		$ 63,182
Budgetary Financing Sources				
Appropriations Received (Note 18)	298	417,468		417,766
Appropriations Used	(298)	(412,116)		(412,414)
Other	0	(264)		(264)
Total Budgetary Financing Sources	0	5,088		5,088
Total Unexpended Appropriations	**202**	**68,068**		**68,270**
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	30,817	21,309	0	52,126
Budgetary Financing Sources	441	412,061	(30)	412,472
Other Financing Sources	4	(3,653)	(470)	(4,119)
Total Financing Sources (Uses)	445	408,408	(500)	408,353
Net Cost of Operations	352	(414,687)	500	(413,835)
Net Change	797	(6,279)	0	(5,482)
Cumulative Results of Operations	**31,614**	**15,030**	**0**	**46,644**
Net Position - Year End	**$ 31,816**	**$ 83,098**	**$ 0**	**$ 114,914**

Condensed Combined Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006

(In Millions)

	2007	2006
Budgetary Resources:		
Unobligated Balance, Brought Forward	$ 57,540	$ 64,670
Recoveries of Prior Year Unpaid Obligations	474	380
Budget Authority	474,974	446,742
Other Budget Authority	(10,008)	(8,701)
Total Budgetary Resources	**$ 522,980**	**$ 503,091**
Status of Budgetary Resources:		
Obligations Incurred	$ 465,530	$ 445,551
Unobligated Balance	46,455	47,093
Unobligated Balance Not Available	10,995	10,447
Total Status of Budgetary Resources	**$ 522,980**	**$ 503,091**
Change in Obligated Balance		
Total Unpaid Obligated Balances, Net	$ 52,448	$ 45,738
Obligations Incurred, Net	465,530	445,551
Gross Outlays	(460,302)	(438,494)
Recoveries of Prior Year Unpaid Obligations, Actual	(474)	(380)
Changes in Uncollected Customer Payments from Federal Sources	191	33
Total Unpaid Obligated Balance, Net, End of Year	**$ 57,393**	**$ 52,448**
Net Outlays		
Gross Outlays	460,302	438,494
Offsetting Collections and Distributed Offsetting Receipts	(24,232)	(25,467)
Net Outlays	**$ 436,070**	**$ 413,027**

Condensed Statements of Custodial Activity

For the Years Ended September 30, 2007 and 2006
(In Millions)

	2007	2006
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Individual and FICA Taxes	$ 2,201,464	$ 2,034,209
Corporate Income Taxes	395,320	380,426
Other Revenues	142,005	146,937
Total Revenue Received	**2,738,789**	**2,561,572**
Less Refunds	(292,684)	(277,778)
Net Revenue Received	**2,446,105**	**2,283,794**
Accrual Adjustment	5,588	554
Total Custodial Revenue	**2,451,693**	**2,284,348**
Disposition of Custodial Revenue:		
Amounts Provided to Fund the Federal Government	2,445,619	2,283,420
Other	6,074	928
Total Disposition of Custodial Revenue	**2,451,693**	**2,284,348**
Net Custodial Revenue Activity	**$ 0**	**$ 0**

Auditors' Report on the Treasury Department's Financial Statements

The Department received an unqualified audit opinion on its fiscal year 2007 financial statements. The auditor reported a material weakness in financial management and other significant deficiencies in: (1) Information Controls and Security Programs Over Financial Systems, and (2) Financial Management Practices at the Department Level.

Summary of Financial Statement Audit

Audit Opinion	UNQUALIFIED				
Restatement	NO				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Practices at the IRS	1	0	0	0	1

Limitations on the Principal Financial Statements

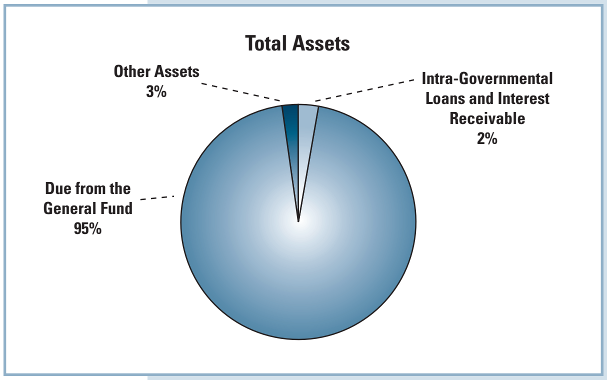
The principal financial statements have been prepared to report the financial position and results of operations of the Department of the Treasury, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department of the Treasury, in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The 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.

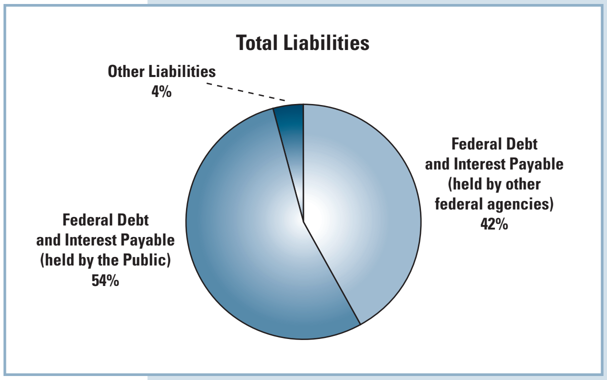
Financial Highlights

The following provides the highlights of Treasury's financial position and results of operations for fiscal year 2007.

Assets. Total assets increased from $9.0 trillion at September 30, 2006 to $9.5 trillion at September 30, 2007. The primary reason for the increase is the rise in the federal debt, which causes a corresponding rise in the "Due from the General Fund of the U.S. Government" account ($9.1 trillion.) This account represents future funds required from the General Fund of the U.S. Government to pay borrowings from the public and other federal agencies.

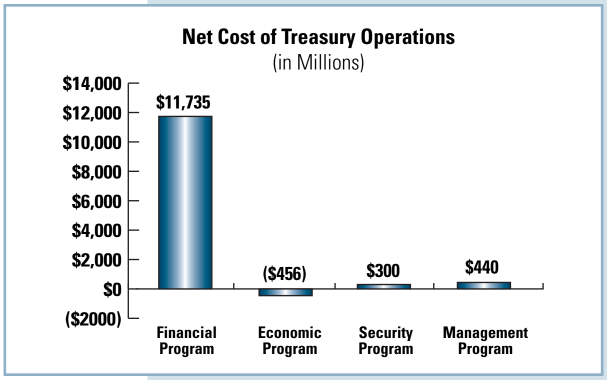


The majority of loans and interest receivable ($236.9 billion) included in "Other Intra-governmental Assets" are the loans issued by the Federal Financing Bank to other federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies. In addition, $175 million loans and interest receivable from non-federal entities include certain loans and credits issued by the United States to various foreign governments. These loans are due and payable in U.S. denominations.

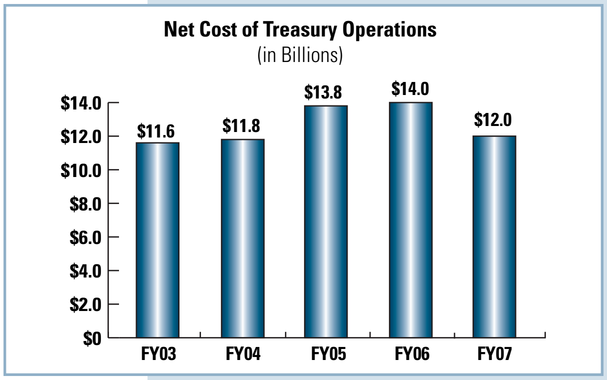


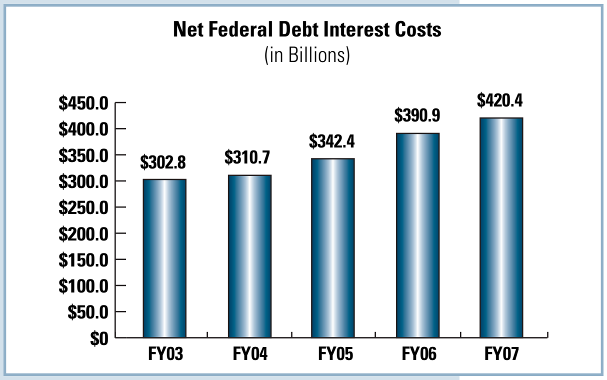
Liabilities. Intra-governmental liabilities totaled $4.3 trillion, and include $4.0 trillion of principal and interest payable to various Federal agencies such as the Social Security Trust Fund. These borrowings do not include debt issued separately by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

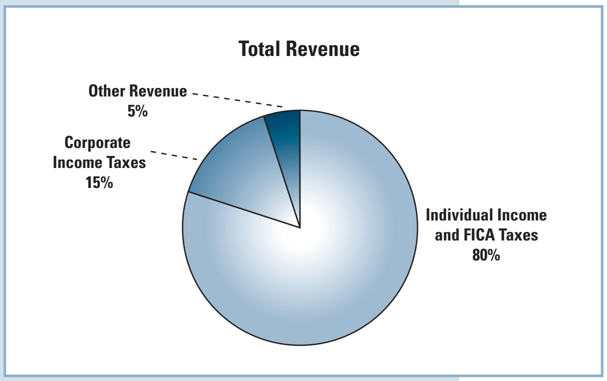
Liabilities also include federal debt held by the public, including interest, of $5.1 trillion; the majority of this debt was issued as Treasury Notes. The increase in total liabilities in FY 2007 over FY 2006 ($534.6 billion and 6.0%), is the result of increases in borrowings from various federal agencies ($293.8 billion), and federal debt held by the public, including interest, ($206.2 billion). Debt held by the public increased primarily because of the need to finance budget deficits.

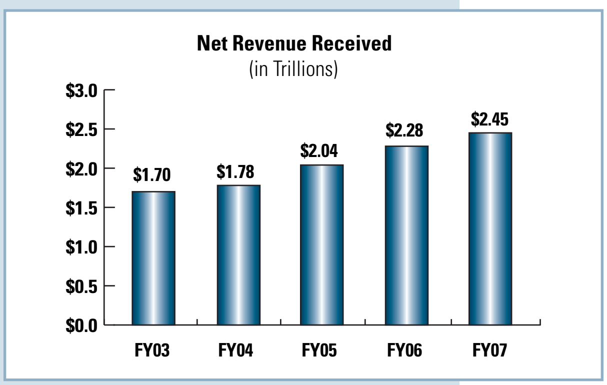


Net Cost of Treasury Operations. The Consolidated Statement of Net Cost presents the Department's gross and net cost for its four strategic missions: financial program, economic program, security program, and management program. The majority of the Net Cost of Treasury Operations is in the financial program. 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. Treasury's Strategic Plan for FY









2007 – FY 2012 includes a new Security program, which resulted in a reclassification between the four programs in FY 2007.

Net Federal Debt Interest Costs. Interest costs have increased significantly ($29.5 billion in FY 2007 and $48.5 billion in FY 2006) over the past two years due to the increase in the federal debt and higher interest rates.

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 94.3 percent of the revenues are from income and social security taxes. Following a 12% ($247.4 billion) increase in FY 2006, net revenue increased by 7.1% ($162.3 billion) in FY 2007, due to a continuing high level of economic activity. The majority of increase in revenue was from the individual income and FICA taxes, which was primarily attributed to the growth in wages and overall taxable income.

Improper Payments Information Act and Recovery Act

Summary of FY 2007 Activities

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. According to OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments (A-123, Appendix C), "significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5% and $10 million of total program funding. A-123, Appendix C also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets.

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 such programs to assist them in meeting the IPIA requirements. Agencies may establish an annual estimate for a high-risk component of a complex program (e.g., a specific program population) with Office of Management and Budget (OMB) approval. Agencies must also perform trend analyses to update the program's baseline error rate in the interim years between detailed program studies. When development of a statistically valid error rate is possible, the reduction targets are revised and become the basis for future trend analyses.

Treasury's Risk Assessment Methodology and Results for FY 2007

Each year, Treasury develops a comprehensive inventory of all funding sources and conducts a risk assessment for improper payments on all of its programs and activities. The risk assessment performed on all of Treasury's programs and activities resulted in low and medium risk susceptibility for improper payments except for the Internal Revenue Service's (IRS) Earned Income Tax Credit (EITC) program. The high-risk status of this program is well-documented and has been deemed a complex program for the purposes of the IPIA.

Earned Income Tax Credit

The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers and, if the credit exceeds the amount of taxes due, provides a lump-sum payment in the form of a refund to those who qualify. The FY 2007 estimate is that a maximum of 28% ($12.3 billion) and a minimum of 23% ($10.4 billion) of the EITC total program payments are overclaims.

Since June 2003, IRS has focused on reducing erroneous EITC overclaims through a five-point initiative designed to:

- 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

Recovery Auditing Act

Background

In accordance with OMB Circular A-123, Appendix C, the Recovery Auditing Act requires agencies issuing in excess of $500 million in contracts to establish and maintain recovery auditing activities and report on the results of those recovery efforts annually. Recovery auditing activities include the use of (1) contract audits, in which an examination of contracts pursuant to the audit and records clause incorporated in the contract is performed, (2) contingency contracts for recovery services in which the contractor is paid a percentage of the recoveries, and (3) internal review and analysis in which payment controls are employed to ensure that contract payments are accurate.

For Recovery Auditing Act compliance, Treasury requires each bureau and office to review their post-payment controls and report on recovery auditing activities, contracts issued, improper payments made, and recoveries achieved. Bureaus and offices may use recovery auditing firms to perform many of the steps in their recovery program and identify candidates for recovery action.

Results for FY 2007

During FY 2007, $5.1 billion in contracts (defined as issued and obligated contracts, modifications, task orders, and delivery orders) were issued. Improper payments in the amount of $843,230 were identified from recovery auditing efforts and, of this amount, $821,667 has been recovered with $21,564 outstanding as accounts receivable on September 30, 2007. Additional detail on Treasury's Recovery Auditing Act Program can be found in Appendix C.

Management Assurances

The Secretary's Letter of Assurance

The Department of the Treasury's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Department of the Treasury has evaluated its management controls, internal controls over financial reporting, and compliance with Federal financial systems standards. As part of the evaluation process, we considered results of extensive testing and assessment across the Department and independent audits.

Treasury provides reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act over operations have been achieved, except for the material weaknesses noted below. In accordance with OMB Circular A-123, Appendix A, we provide qualified assurance that internal control over financial reporting is effective as of June 30, 2007. Treasury is not in substantial compliance with the Federal Financial Management Improvement Act due to the material weakness involving revenue accounting systems; this weakness is a significant reason for our qualified overall assurance level for A-123, Appendix A.

Treasury has six remaining material weaknesses as of September 30, 2007, as follows:

Operations:

Internal Revenue Service

- Systems modernization management and controls
- Overclaims in the Earned Income Tax Credit Program
- Systems security controls

Financial Management Service

- Systems, controls and procedures to prepare the Government-wide financial statements

Departmental Offices

- Systems security

Financial Reporting:

Internal Revenue Service

- Revenue accounting systems

We identified no new material weaknesses in FY 2007, and made progress toward addressing our existing weaknesses. (Refer to Appendix E for detailed information.) We will continue to achieve positive results in FY 2008 by:

- Emphasizing internal control program responsibilities throughout Treasury
- Ensuring senior management attention to management controls
- Developing and implementing capital planning investment control processes
- Focusing on the need to develop and carry out responsible plans for resolving weaknesses

Sincerely,

Henry M. Paulson, Jr.

Material Weaknesses, Audit Follow-up, and Financial Systems

Summary of Management Assurance

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS - Revenue Accounting Systems	0	0	0	0	1	1
Total Material Weaknesses	0	0	0	0	1	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS - Systems Modernization Management and Controls	1	0	0	0	0	1
IRS - Overclaims in the Earned Income Tax Credit Program	1	0	0	0	0	1
IRS - Systems Security Controls	1	0	0	0	0	1
FMS - Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements	1	0	0	0	0	1
DO - Systems Security	1	0	0	0	0	1
Total Material Weaknesses	5	0	0	0	0	5

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS -Accounting for Revenue	1	0	0	0	(1)	0
Total Non-conformances	1	0	0	0	(1)	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	No	No
1. System Requirements	No	No
2. Accounting Standards	No	No
3. USSGL at Transaction Level	No	No

Federal Managers' Financial Integrity Act (FMFIA)

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 deemed "material weaknesses." Treasury can provide reasonable assurance that the objectives of FMFIA have been achieved, except for the remaining material weaknesses noted in the Secretary's Letter of Assurance. Currently, the last identified material weakness is targeted to be closed in FY 2011.

Material weaknesses, both the resolution of existing ones and the prevention of new ones, received special attention during FY 2007. Over the past five years, we have made great progress in reducing the number of material weaknesses Treasury-wide. During FY 2007, we made material weakness resolution a performance requirement for every executive, manager, and supervisor to continue our path of resolving the current material weaknesses and preventing new ones before they occur.

Office of Management and Budget Circular A-123, Appendix A

The Department of the Treasury continues to strengthen and improve the execution of our mission through the application of sound internal controls over financial reporting. In response to Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Controls*, Appendix A, Treasury developed and implemented an extensive testing and assessment methodology that identified and documented internal controls over financial reporting at the transaction level integrated with the Government Accountability Office's Standards for Internal Control. The testing and assessment were completed across all material Treasury bureaus and offices by June 30, 2007. Treasury provides qualified reasonable assurance that internal controls over financial reporting are effective as of June 30, 2007, due in large part to the revenue accounting system weaknesses at the Internal Revenue Service.

Federal Financial Management Improvement Act (FFMIA)

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, 2007, the Treasury Department's financial management systems were not in substantial compliance with FFMIA due to deficiencies with the IRS's financial management systems. The IRS has a remediation plan in place to correct the deficiencies. For each FFMIA recommendation, the remediation plan identifies specific remedies, target dates, responsible officials, and resource estimates required for completion. This plan is reviewed and updated on a quarterly basis. (Refer to Appendix E for detailed information.)

Audit Follow-Up

During FY 2007, 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), the Treasury Inspector General for Tax Administration (TIGTA), the Government Accountability Office, and external auditors.

Treasury management at every level will maintain the momentum on accomplishing Planned Corrective Actions (PCAs) to resolve and implement sound solutions for all audit recommendations. Although we have made great progress, we have considerably more work to do. Specifically, we must provide timely and accurate performance in addressing PCA schedules and implementation and integrate the effects of those actions more fully into our management decision-making processes. We need to identify more precisely what it costs to accomplish our varied missions and develop ways to improve overall performance. This will entail building upon the progress we have made in expanding the communication and coordination among offices variously involved in strategic planning, budget formulation, budget execution, performance management and financial management.

Financial Management Systems Framework

The Department's overall financial management systems framework consists of a Treasury-wide financial data warehouse, supported by a financial reporting tool and separate bureau financial systems. Bureaus submit their monthly financial data to the data warehouse within three business days of the month-end. The Department then produces its monthly financial statements and reports for management analysis. This framework satisfies both the bureaus' diverse financial operational and reporting needs as well as the Department's internal and external reporting requirements. The financial data warehouse is part of the overarching Treasury-wide Financial Analysis and Reporting System (FARS), which also includes applications for bureaus to report the status of their performance measures and the status of their planned audit corrective actions. Treasury has also implemented a budget application which is used by Departmental Offices (DO) in the management of DO's budget expenditures. Additional FARS applications are being planned to improve the Department's financial management and operations. This includes asset management and enhanced reporting functionality.

Treasury's FARS applications operate at a contractor operated hosting facility. In accordance with the guidance contained in the American Institute of Certified Public Accountants' Statement of Auditing Standards (SAS) No. 70, *Service Organizations*, the service provider's independent auditors examined the controls for the dedicated hosting service. In the opinion of the auditors, the description of the controls presents fairly, in all material respects, the relevant aspects of the provider's controls that had been placed in operation as of September 30, 2007. Also, the controls described are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and customer organizations applied the controls contemplated in the design of the provider's controls.

The Department continues to enhance its financial management systems structure. As of September 30, 2007, the number of financial management systems decreased to 64, down from 69 at the end of fiscal year 2006.

The Bureau of Public Debt's Administrative Resource Center (ARC) has been designated by the Office of Management and Budget as a Financial Management Line of Business Shared Service Provider. ARC currently services 28 Federal entities for core financial systems, including twelve Treasury bureaus and reporting entities. Annually, under a contract monitored by the Office of Inspector General, an independent public accountant performs an examination of ARC's accounting processing and general computer controls related to certain services provided to its customer agencies. Treasury will continue to evaluate opportunities to consolidate financial management systems and better utilize existing resources.

ARC also provides systems and service support to eleven Department bureaus in the processing of their travel needs as part of the Department's E-Gov Travel initiative. Of the three remaining bureaus, two are exempt from the Federal Travel Regulations and do not plan to migrate at this time. The IRS, which is not currently cross-serviced by ARC, is working towards a May 2008 E-Gov Travel implementation date.

The Department's FARS applications are also used to support other Federal agencies. Treasury currently hosts two agencies for consolidated financial processing and reporting. In addition, the Department has demonstrated various FARS applications to other agencies. Several Federal agencies have already implemented FARS applications to run in their own systems environment, reducing their capital investment is systems software.

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Treasury On-line	**www.treas.gov**
Alcohol and Tobacco Tax And Trade Bureau	**www.ttb.gov**
Community Development Financial Institutions Fund	**www.treas.gov/cdfi**
Comptroller of the Currency	**www.occ.treas.gov**
Bureau of Engraving & Printing	**www.bep.treas.gov**
Financial Crimes Enforcement Network	**www.treas.gov/fincen**
Financial Management Service	**www.fms.treas.gov**
Internal Revenue Service	**www.irs.gov**
U.S. Mint	**www.usmint.gov**
Bureau of the Public Debt	**www.publicdebt.treas.gov**
Office of Thrift Supervision	**www.ots.treas.gov**