



# Audit Report



OIG-06-007

Audit of the Department of the Treasury's Fiscal Years 2005 and 2004 Financial Statements

November 15, 2005

Office of  
Inspector General

Department of the Treasury



# Contents

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**Memorandum for the Secretary**

**Section I – Independent Auditors’ Report, Management’s Response, and Report Distribution**

**Section II - Department of the Treasury Fiscal Year 2005 Performance & Accountability Report**

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OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

November 15, 2005

**MEMORANDUM FOR SECRETARY SNOW**

**FROM:** Harold Damelin *Harold Damelin*  
Inspector General

**SUBJECT:** Audit of the Department of the Treasury's Financial  
Statements for Fiscal Years 2005 and 2004

**SUMMARY**

I am pleased to transmit the attached report presenting the results of the audits of the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2005 and 2004. These audits are required by the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994.

The Office of Inspector General contracted with the independent certified public accounting firm KPMG LLP for the audits of the FY 2005 and 2004 financial statements. The contract required that these audits be performed in accordance with generally accepted government auditing standards; Office of Management and Budget Bulletin No. 01-02 *Audit Requirements for Federal Financial Statements*; and, the *GAO/PCIE Financial Audit Manual*. Highlights of the FY 2005 audit results follow:

- KPMG issued an unqualified opinion on the Department's financial statements;
- KPMG reported that the four material weaknesses and two other reportable conditions in financial management and reporting, identified by the auditors of the Internal Revenue Service (IRS), collectively represent a material weakness for the Department as a whole;
- KPMG reported that weaknesses in electronic data processing controls at the Financial Management Service, as well as deficiencies in information security programs over financial systems at various bureaus and offices, represent a reportable condition for the Department as a whole; and

- KPMG reported that the Department's financial management systems are not in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996.

We reviewed KPMG's report and related documentation and inquired of its personnel. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for its report dated November 11, 2005 and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

## **DISCUSSION**

The Department's ability to maintain unqualified audit opinions, while meeting the accelerated annual performance and accountability reporting requirements, is a very significant accomplishment. The Department has also made steady progress in eliminating material weaknesses in internal control, and the only bureau that continues to have material weaknesses reported in connection with its annual financial statement audit is the IRS.

The progress made by the Department in recent years in improving financial management has been noteworthy; however, it has also highlighted the most significant remaining obstacle to achieving true financial management excellence – specifically, the continuing, pervasive financial management deficiencies at the IRS. The Department's financial performance status continues to be rated as red, or unsatisfactory, in the Executive Branch Management Scorecard for the President's Management Agenda. This is primarily due to the material weaknesses at the IRS that, for the most part, have existed since financial statement audits were initiated in FY 1992. Furthermore, although the IRS has established a remediation plan, future corrective actions are on hold primarily due to funding constraints.

As discussed in my October 24, 2005 letter to you, *Management and Performance Challenges Facing the Department of the Treasury*, corporate management is one of the primary challenges facing the Department. A key component in meeting this challenge is a strong and assertive Departmental oversight role in working with the IRS to resolve its longstanding financial management problems. Strong corporate leadership is also needed in other areas, to include ensuring consistent, Department-wide implementation of information security requirements, managerial cost accounting, and uniform application of accounting principles.

Your personal support for the Department to meet these management challenges is appreciated and essential. We are committed to working with you and your management team in this effort.

Should you or your staff have questions, you may contact me at (202) 622-1090 or a member of your staff may contact Marla Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: Sandra L. Pack  
Assistant Secretary for Management  
and Chief Financial Officer

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**SECTION I –**

**INDEPENDENT AUDITORS' REPORT,  
MANAGEMENT'S RESPONSE, AND  
REPORT DISTRIBUTION**

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KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Inspector General  
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury (the Department) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position and financing, the combined statements of budgetary resources, and the statements of custodial activity (financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. These financial statements are incorporated in the accompanying *Department of the Treasury Fiscal Year 2005 Performance & Accountability Report (Performance & Accountability Report)*.

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

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

### SUMMARY

As stated in our opinion on the financial statements, based on our audits and the reports of the other auditors, we concluded that the Department's financial statements as of and for the years ended September 30, 2005 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

We, and the other auditors, noted the following matters involving internal control over financial reporting and its operation that we consider to be reportable conditions:

- Financial Management and Reporting at the IRS Needs Improvement (Repeat Condition).
- Electronic Data Processing (EDP) Controls and Information Security Programs Over Financial Systems Should Be Strengthened (Repeat Condition).

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



The results of our tests, and the tests performed by other auditors, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed instances of noncompliance with *Internal Revenue Code* (IRC) Section 6325 and the *Federal Information Security Management Act of 2002* (FISMA) that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. In addition, the Department's financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA) Section 803(a) requirements related to compliance with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

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

## **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position and financing, the combined statements of budgetary resources, and the statements of custodial activity for the years then ended. We did not audit the amounts included in the financial statements related to the gold and silver reserves of the U.S. Government, stated at \$10.9 billion as of September 30, 2005 and 2004. We also did not audit the financial statements of the IRS, a component entity of the Department, which reflects custodial revenues of \$2.3 trillion and \$2.0 trillion, total assets of \$27.0 billion and \$25.6 billion, and net costs of operations of \$11.5 billion and \$10.4 billion as of and for the years ended September 30, 2005 and 2004, respectively. The gold and silver reserves of the U.S. Government and the financial statements of the IRS as of and for the years ended September 30, 2005 and 2004, were audited by other auditors whose reports have been provided to us and our opinion, insofar as it relates to the amounts included for the gold and silver reserves of the U.S. Government and the IRS' financial statements, is based solely on the reports of the other auditors.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, custodial activities, and reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the *Performance & Accountability Report* listed in the accompanying table of contents as Part I – Management's Discussion and Analysis and the Required Supplemental Information and Required Supplemental Stewardship Information sections of Part III – Annual Financial Report, is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America, or by OMB Circular No. A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits, and the audits of the other auditors, were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the *Performance & Accountability Report*



listed in the accompanying table of contents as Part II – Annual Performance Report; as the Other Accompanying Information area in the Required Supplemental Information section and Management Challenges and High Risk section of Part III – Annual Financial Report; and as Appendices, are integral parts of the *Performance & Accountability Report*. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. This information has not been subjected to the same auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

We, and the other auditors, noted certain matters, summarized below, involving internal control over financial reporting and its operation that we consider to be reportable conditions.

### **Material Weakness**

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

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

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

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



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

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

Two other reportable conditions were identified as follows:

- Weaknesses in controls over hard-copy tax receipts and taxpayer data resulting in a risk of theft, loss, or misuse of such funds and information; and
- Weaknesses that preclude IRS from generating detailed property records that reconcile to the financial records.

## **Recommendations**

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

## **Other Reportable Condition**

### *EDP Controls and Information Security Programs Over Financial Systems Should Be Strengthened*

Information controls and security programs require additional improvements. The weaknesses identified are summarized below:

#### ***Financial Management Service (FMS) (Repeat Condition)***

A reportable condition was identified related to the EDP general control environment for computer systems maintained by FMS. Our testing indicated that general control weaknesses still exist that do not effectively prevent (1) unauthorized access to and disclosure of sensitive information, (2) unauthorized changes to systems and application software, or (3) unauthorized access to programs and files that control computer hardware and secure applications. A summary of these weaknesses follows:



- Access Controls – Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. Such controls include logical and physical security controls. Although prior access control findings have been addressed, additional access control weaknesses were identified this year. A comprehensive plan for access controls security, including increased management oversight, is needed to fully address the administration of access controls in order to increase the reliability of computerized data and decrease the risk of destruction or inappropriate disclosure of data.
- Change Controls – Change controls are designed to prevent the introduction of unauthorized changes to application software programs. We found weaknesses in the enforcement of configuration management procedures related to several major applications.
- System Software Controls – System software controls limit and monitor access to the programs and sensitive files that (1) control the computer hardware and (2) secure applications supported by the system. We determined that improvement is needed in the administration of mainframe dataset names and operating system versions.

### ***Departmental Bureaus and Offices***

The Department's Office of Inspector General report titled *Information Technology: Evaluation of Treasury's FISMA Implementation for Fiscal Year 2005* dated October 7, 2005 (2005 FISMA Evaluation Report), which incorporated the results of Treasury's Inspector General for the Tax Administration's evaluation of IRS' systems, identified significant deficiencies throughout the Department. FISMA lays out a framework for required annual information security reviews, reporting, and remediation planning by Federal agencies. It is intended to strengthen information security by requiring agencies to develop, document, and implement agencywide information security programs. The elements required by FISMA, as described below, also constitute an integral part of an effective internal control structure for information systems:

- Periodic testing and evaluation of the effectiveness of information security policies, procedures, and practices;
- Security awareness training for Department personnel, including contractors;
- A process for planning, implementing, evaluating, and documenting remedial action to address information security deficiencies; and
- Plans and procedures to ensure continuity of operations for information systems that support the operations and assets of the Department.

A key reason for the Department's information security weaknesses is that it has not yet fully implemented an agencywide information security program to ensure that controls are effectively established and maintained to meet FISMA requirements. The Department's information and security programs and practices need additional improvements to adequately protect the information systems that support the Department's operations.

### **Recommendations**

Recommendations will be provided to FMS management in a separate letter. The 2005 FISMA Evaluation Report has been provided to the Department's Chief Information Officer.



We recommend that the Department's Chief Information Officer provide effective oversight to ensure that information security requirements over financial systems are implemented completely and timely throughout the Department.

\* \* \* \*

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of the Department in a separate letter dated November 11, 2005.

## COMPLIANCE AND OTHER MATTERS

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

- **Noncompliance with IRC Section 6325** – The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under IRC Section 6325, the IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied or has become legally unenforceable or the Secretary of the Treasury has accepted a bond for the assessed tax. The fiscal year 2005 audit identified instances in which the IRS did not release the applicable Federal tax lien within 30 days of the tax liability being either paid off or abated as required by the IRC (Repeat Condition).
- **Noncompliance with FISMA** – Information security weaknesses continue to exist throughout the Department, as discussed in the Internal Control Over Financial Reporting section above. These deficiencies constitute substantial noncompliance with FISMA.

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

The results of our tests, and the tests performed by the other auditors, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements related to compliance with Federal financial management system requirements (FFMSR), applicable Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level, as described below (Repeat Condition).

Instances of noncompliance with FFMSR are summarized below:

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





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

These instances of noncompliance with Federal accounting standards are summarized below:

- Material weaknesses at the IRS related to controls over unpaid tax assessments and tax revenue and refunds.
- IRS' financial management system cannot routinely accumulate and report the full cost of its activities.

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

- IRS' general ledger system is not supported by adequate audit trails and is not integrated with its supporting records for material balances such as tax revenues and tax refunds.

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

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

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

## **Recommendations**

We recommend that the Assistant Secretary for Management and Chief Financial Officer provide effective oversight to ensure that (1) IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; (2) information security programs are implemented throughout the Department in accordance with FISMA; and (3) IRS implements its remediation plan to address the identified instances of financial management systems noncompliance with the requirements of FFMIA.

## **Management's Response to Internal Control and Compliance Findings**

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



## RESPONSIBILITIES

**Management's Responsibilities.** The *Government Management Reform Act of 1994* (GMRA), *Accountability for Tax Dollars Act*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the Department prepares and submits financial statements in accordance with Part A of OMB Circular No. A-136.

Management is responsible for the financial statements, including:

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

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

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements of the Department based on our audits and the reports of the other auditors. We, and the other auditors, conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but is not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

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

In planning and performing our fiscal year 2005 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to the IRS or to the gold and silver reserves of the U.S. Government, by obtaining an understanding of the Department's



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

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis (Part I) and Annual Performance Report (Part II) sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, exclusive of those related to performance measures presented for the IRS. An understanding of the design of significant internal controls relating to the existence and completeness assertions related to the IRS' performance measures was obtained by the other auditors whose report thereon was provided to us. Our, and the other auditors', procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2005 financial statements are free of material misstatement, we and the other auditors, performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our or the other auditors' audits and, accordingly, we do not express such an opinion.

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



**DISTRIBUTION**

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

KPMG LLP

November 11, 2005



DEPARTMENT OF THE TREASURY  
WASHINGTON

November 11, 2005

ASSISTANT SECRETARY

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

Ladies and Gentlemen:

On behalf of Secretary Snow, I am responding to your draft audit report on the Department of the Treasury's FY 2005 financial statements.

All of our bureaus and program offices can be proud of the Department's success in issuing its Performance and Accountability Report by November 15<sup>th</sup>. Further, I congratulate them for overcoming many obstacles to achieve another unqualified opinion on the Department's financial statements. Without their collective dedicated efforts, our accelerated reporting would not be possible.

These successful results also are due in large part to the high level of professionalism, technical expertise, and commitment demonstrated by KPMG in conducting the audit. I appreciate your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. I am equally appreciative of the equivalent expertise and commitment level demonstrated by the other organizations involved in the audit process – the Office of Inspector General, the Government Accountability Office, and the firms that conducted the audits at several of our bureaus.

The Department made progress in FY 2005 in addressing several financial management and systems deficiencies. We agree that we must continue our efforts to address longstanding weaknesses, which hamper our ability to produce timely, reliable financial information. We now must employ labor-intensive procedures in certain critical areas to compensate for deficiencies in our financial systems in order to achieve an unqualified audit opinion. Until we correct these deficiencies, they will hamper our overall financial management capabilities. In addition, they are a burden on our employees, who must deal with these deficiencies on a daily basis, particularly during the year-end reporting process. We will increase our emphasis on addressing these deficiencies.

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

We appreciate the professional, cooperative relationship we experienced with both KPMG and the Office of Inspector General throughout the audit process.

Sincerely,

Sandra L. Pack  
Assistant Secretary for Management  
and Chief Financial Officer

## Report Distribution

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### **Office of Management and Budget**

Director, Office of Management and Budget

### **United States Senate**

Chairman, Subcommittee on Transportation, Treasury, the  
Judiciary, Housing and Urban Development, and Related  
Agencies, Committee on Appropriations

Ranking Member, Subcommittee on Transportation, Treasury,  
the Judiciary, Housing and Urban Development, and Related  
Agencies, Committee on Appropriations

Chairman, Committee on Homeland Security and Governmental  
Affairs

Ranking Member, Committee on Homeland Security and  
Governmental Affairs

### **United States House of Representatives**

Chairman, Subcommittee on Transportation, Treasury, HUD,  
The Judiciary, District of Columbia, and Independent  
Agencies, Committee on Appropriations

Ranking Minority Member, Subcommittee on Transportation,  
Treasury, HUD, The Judiciary, District of Columbia, and  
Independent Agencies, Committee on Appropriations,  
Committee on Appropriations

Chairman, Committee on Government Reform

Ranking Minority Member, Committee on Government Reform

### **United States General Accounting Office**

Comptroller General of the United States

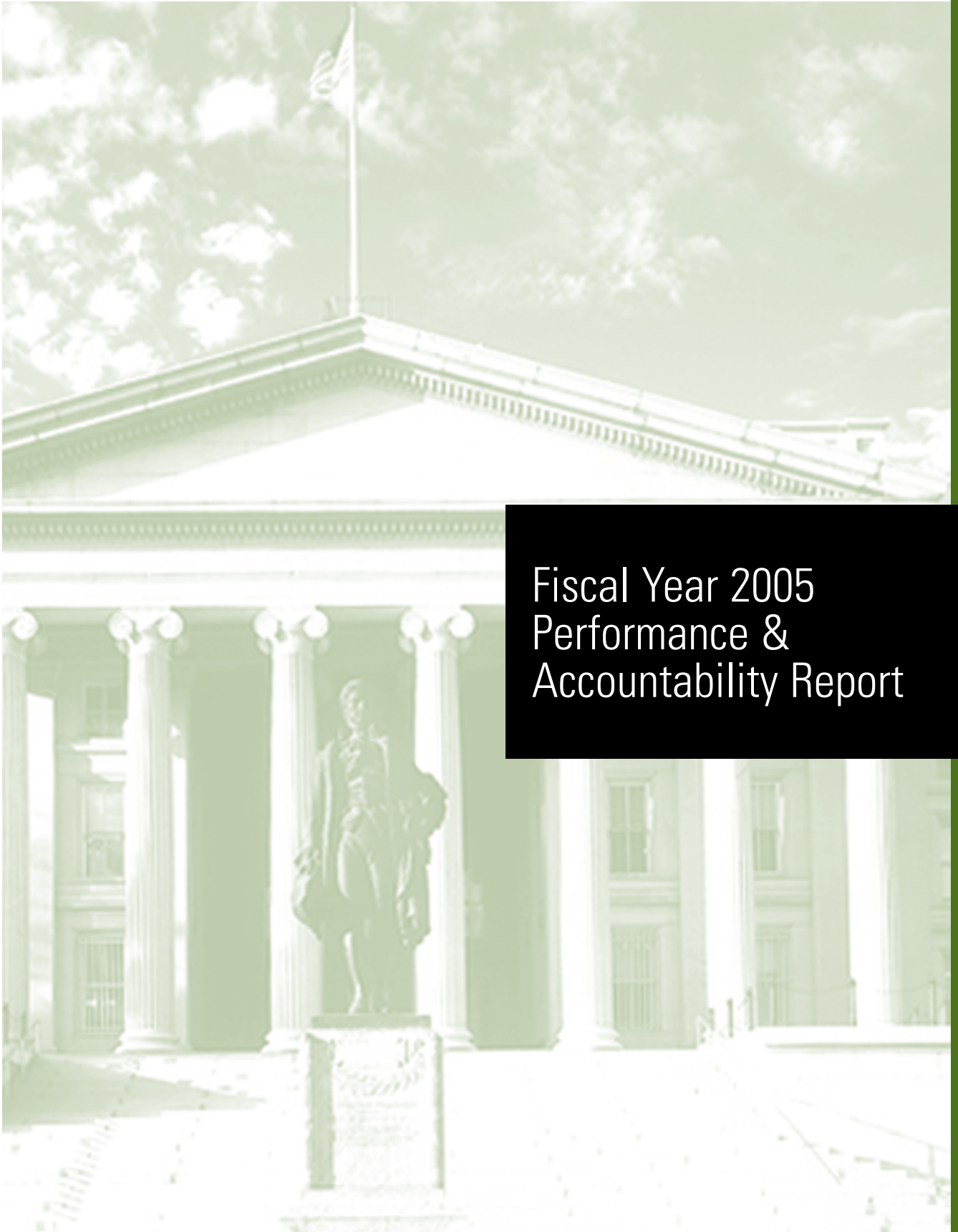
**SECTION II –**

**DEPARTMENT OF THE TREASURY  
FISCAL YEAR 2005 PERFORMANCE  
& ACCOUNTABILITY REPORT**

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*Department of the Treasury*



Fiscal Year 2005  
Performance &  
Accountability Report

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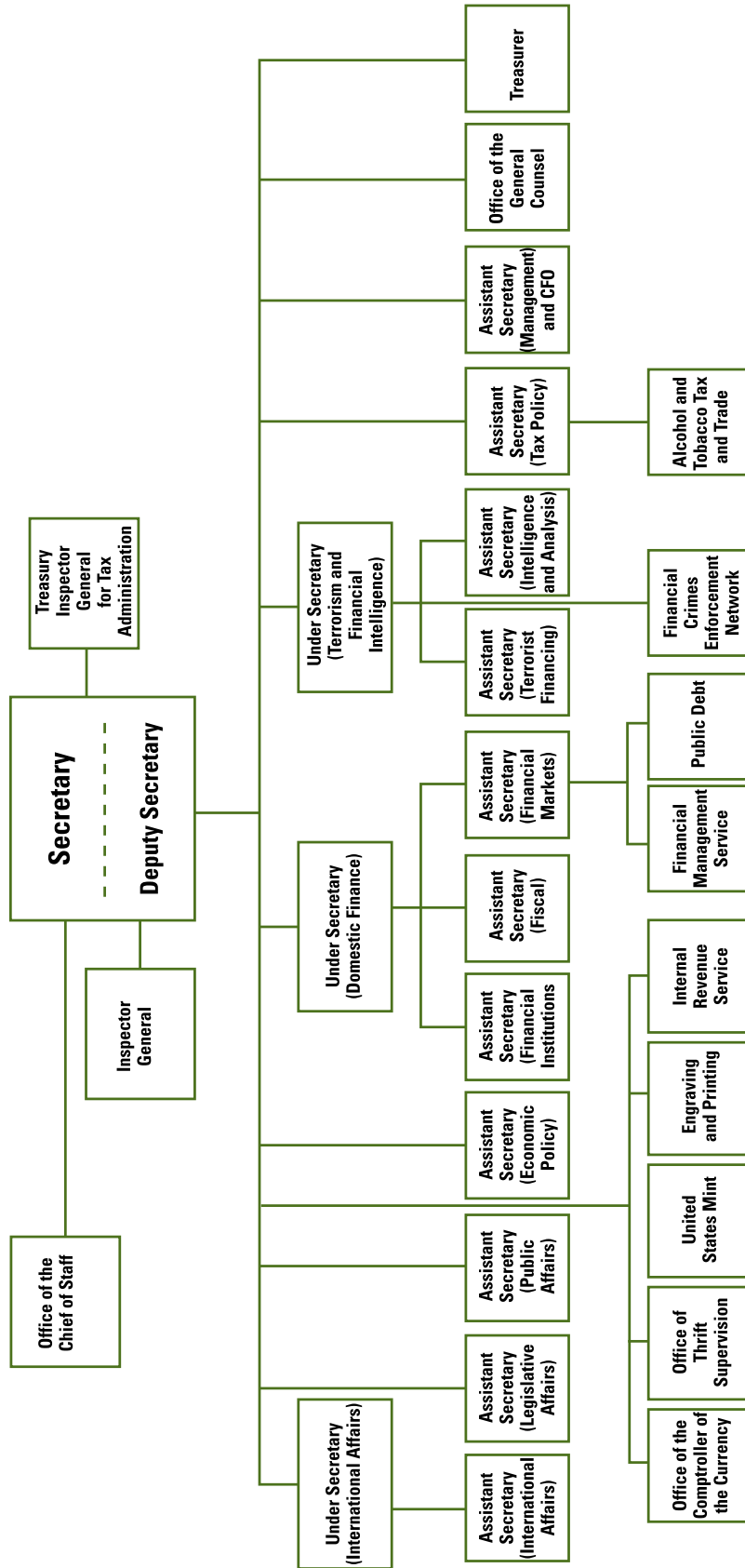
**Mission:** The mission of the Department of the Treasury is to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world.

**History:** On September 2, 1789, the First Congress of the United States created a permanent institution for the management of government finances. The Congress assembled a Department of the Treasury and named the following officers: a Secretary of the Treasury, a Comptroller, an Auditor, a Treasurer, a Register, and an Assistant to the Secretary.

Alexander Hamilton took the oath of office as the first Secretary of the Treasury on September 11, 1789. Hamilton foresaw the development of industry and trade in the United States, and suggested that government revenues be based upon customs duties. His vision also inspired investment in the Bank of the United States, which acted as the government's fiscal agent. Throughout history, the Department of the Treasury has been a dynamic institution of the government's service to the people, expanding to accommodate a growing and ever-changing nation.

**Leadership Changes:** Treasury experienced leadership changes in Fiscal Year (FY) 2005 with the departure of Deputy Secretary Samuel Bodman (now Secretary of Energy), and a handful of other top officials. During the third quarter of 2005, the Administration nominated and the Senate confirmed a new Treasury deputy secretary, two under secretaries, and five assistant secretaries including a newly created position, the assistant secretary for the Office of Intelligence and Analysis, as well as new leadership at the Office of Thrift Supervision, the Office of the Comptroller of the Currency, and the Alcohol and Tobacco Tax and Trade Bureau.

**DEPARTMENT OF THE TREASURY**



## What's New about This Report?

This year Treasury made an effort to revise the Performance and Accountability Report (PAR) based on comments from our stakeholders. The revised report improves accessibility, readability and transparency over last year. Below are some of the key changes made this year.

### Greater Accessibility

- Treasury provides a direct link from the Treasury internet home page to the FY 2005 Performance and Accountability Report

### Improved Readability

- Reduced the size of the report by approximately 120 pages, a 30% reduction, while improving content
- Created a summary PAR document—an overview of important points from the full version

### More Transparent

- Streamlined the number of official performance measures from 299 in the FY 2004 PAR to 126 in the FY 2005 PAR; a 58% reduction
- Provided details about each of Treasury's programs evaluated using the Program Assessment Rating Tool
- Included an expanded narrative on the IRS
- Enhanced the section on Treasury's future plans to improve performance for each official performance measure

### Focused on Treasury's Impact to the American People

- Included highlights of Treasury's operations
- Included pictures and vignettes of important events

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# Contents

## Major Sections

About this Report .....	ix
Message from the Secretary .....	xi
Message from the Assistant Secretary for Management & Chief Financial Officer .....	xiii
Operations Highlights .....	xv
Financial Highlights .....	xvii
<b>Part I: Management’s Discussion and Analysis</b> .....	3
Analysis of Financial Statements .....	10
Improper Payments Information Act and Recovery Act .....	21
Systems, Controls, and Audit Follow-up .....	23
Possible Future Effects of Existing Events and Conditions .....	26
<b>Part II: Annual Performance Report</b> .....	29
Performance Scorecard .....	31
Creating the Conditions for Economic Prosperity .....	33
Financing the U.S. Government and Preserving the Integrity of Financial Systems .....	46
Managing the Department of the Treasury .....	69
<b>Part III: Annual Financial Report</b> .....	79
Inspector General’s Transmittal Letter .....	81
Independent Auditors’ Report on Treasury’s Financial Statements .....	84
Management’s Response .....	95
Financial Statements .....	97
Notes to the Financial Statements .....	106
Required Supplemental Information (Unaudited) .....	143
Management Challenges and High Risks .....	157
<b>Appendices</b> .....	183
Appendix A: Full Report Of Treasury’s FY 2005 Performance Measures .....	185
Appendix B: Completeness and Reliability of Performance Data .....	231
Appendix C: Improper Payments Information Act and Recovery Act .....	233
Appendix D: Material Weaknesses, Audit Follow-up, and Financial Systems .....	243
Appendix E: Organizational Structure .....	251
Appendix F: PART Program Evaluations .....	253
Appendix G: Glossary of Acronyms .....	267

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# About this Report

## Purpose

The Department of the Treasury's Performance and Accountability Report (PAR) for FY 2005 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. Treasury's report is designed around three areas of focus: Creating the Conditions for Prosperity (Economic), Financing the U.S. Government and Preserving the Integrity of Financial Systems (Financial), and Managing Treasury Operations (Management). Each of the three areas of focus has one or more strategic goals with supporting objectives and performance measures that outline Treasury's approach and measured progress.

## How this Report is organized

### MESSAGE FROM THE SECRETARY

The Secretary's message includes an assessment of whether financial and performance data in the report is reliable and complete, and a statement of assurance as required by the Federal Managers' Financial Integrity Act (FMFIA) indicating whether management controls are in place and financial systems conform with government-wide standards. The Secretary's message sets the tone for conveying Treasury's value to the public, and establishes how the department benefits the public.

### MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER

The Assistant Secretary's message describes progress and challenges pertaining to the Department's financial management, including integration of budget and performance, and information on the Department's management controls program under FMFIA and financial management systems under the Federal Financial Management Improvement Act of 1996.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Discussion and Analysis section provides a summary of the entire report. It includes a summary of the most important performance results and challenges for FY 2005; 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. **New this year: Operational Highlights describing core Treasury mission activity with supporting vignettes illustrating benefits to the American public.**

### 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, Preparing, Submitting and Executing the Budget.

Throughout 2005, Treasury worked to simplify and improve the suite of measures reported here. There are 59% fewer performance measures reported relative to last year's report.

### FINANCIAL SECTION

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

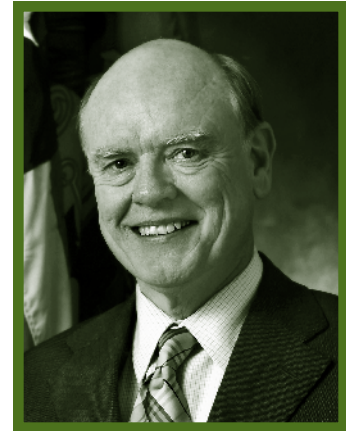
## **APPENDICES**

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

# Message from the Secretary

November 15, 2005

I am pleased to provide the Department of the Treasury's Performance and Accountability Report, presenting information on financial, management and programmatic results for Fiscal Year (FY) 2005. This report is designed to give taxpayers a picture of Treasury operations and to show how their tax dollars are being spent. The results documented here – including successes and shortcomings – will help us steer a course into the future.



In FY 2005, Treasury continued to focus on the Department's core mission as the government's premier economic agency by promoting the conditions necessary for growth and stability in the U.S. and world economies. Treasury continued to manage the government's finances while combating the financial war on terror, regulating banks and savings associations, facilitating trade, and manufacturing the nation's coins and currency. Our international efforts included critical dialogue with the Chinese government on exchange rate flexibility as well as leadership in the G7 on debt relief for heavily indebted poor countries.

The Treasury's response to the aftermath of Hurricanes Katrina and Rita showed the strength of our employees at every level as we worked as a team to help individuals and businesses regain their financial footing after the most financially devastating natural disaster in our country's history.

On the domestic front, the Department increased the use of technology to collect taxes and make payments. This year, more taxes were filed and payments disbursed electronically than ever before through improved services to the taxpayer.

Today, with a growing economy - enabled by a lower tax environment - and tightly controlled spending, we are on the right path to meeting the President's deficit reduction goals. Job creation remains strong, Gross Domestic Product is growing steadily and core inflation is largely contained. Firms are more profitable and household net worth is up. This strong growth has swelled federal tax revenue and contributed to the improved deficit picture for this year. In fact, federal tax revenues for FY 2005 have soared by 14.6% and have contributed to bringing the deficit down to 2.6% of GDP, one full percentage point less than FY 2004 and more than \$100 billion lower than expected.

We continued to implement the initiatives of the President's Management Agenda, and our progress across the PMA has improved this year. We accomplished these results by ensuring that the Treasury organization has the workforce, technology, and business practices to meet our mission for the nation. Treasury was designated a center of excellence in the delivery of financial management services. We also achieved our first "green-green" score in Competitive Sourcing and began implementing cost savings projected to save \$250 million over the next five years.

In FY 2005, Treasury changed the way we measured performance by streamlining our metrics and setting higher standards. Setting a higher bar challenged the organization and as a consequence, Treasury met fewer performance targets this year. However, the improved quality of our measures enhanced our ability to pinpoint weaknesses and promptly address challenges. In the coming year, Treasury will continue to set a high bar, address performance challenges, and ensure that the taxpayers' dollars are spent in the most effective manner.

Treasury has again received an unqualified opinion on its financial statements, which speaks to the accuracy, completeness, and reliability of the financial data in this report. Likewise, the performance data pre-

sented herein are complete and reliable. As described in the “Controls and Assurances” section of this report, Treasury needs to resolve its remaining material weaknesses in order to fully satisfy federal financial systems and control objectives. During FY 2005, we continued to emphasize the need for strong internal controls across the Department, and we will continue addressing our identified control weaknesses in FY 2006.

As we look ahead, Treasury will continue to function as a model for management and service to the American people and will continue to influence the conditions that lead to economic growth, job creation for our citizens, and keep our financial systems strong and secure.

Sincerely,

A handwritten signature in black ink that reads "John W. Snow". The signature is written in a cursive style with a large initial "J" and "S".

John W. Snow

# Message from the Assistant Secretary for Management and Chief Financial Officer



November 15, 2005

The primary mission of the Office of Management is to provide resources and support for the bureaus and offices across the Department in the performance of Treasury's diverse missions: collecting revenue, managing the government's finances, promoting prosperous and stable domestic and world economies, overseeing the nations' banking and thrift industries, fighting the war on terrorism, producing coins and currency, and ensuring the overall integrity of Treasury's operations.

Providing resources and support is accomplished through four essential activities: (1) setting goals; (2) securing needed funding to accomplish those goals; (3) providing timely financial information and guidance as funds are spent; and, (4) reporting to Congress and the public on Treasury's performance and financial results. This Performance and Accountability Report addresses the fourth activity and provides our many constituents with timely information on Treasury's actual versus planned performance, financial condition, and financial results for the year.

As a result of the dedicated efforts of the financial management staff across the Department, Treasury again received an unqualified audit opinion on its consolidated financial statements. This unqualified opinion demonstrates our accountability for the public resources entrusted to us, including over \$8 trillion in assets and liabilities, net costs of \$365 billion, budgetary resources of \$453 billion, and gross revenues of \$2.3 trillion. We accomplished this goal despite having long-standing material weaknesses in financial systems which prevent Treasury from complying fully with Federal financial systems requirements. These material weaknesses, plus others in non-financial areas, result in Treasury's providing only qualified assurance that it is meeting Federal management control objectives. We were able to close one material weakness for FY 2005, and no new weaknesses were identified, leaving us with seven to address. Several of our weaknesses involve complex systems solutions that will require several years to fix and that prevent Treasury from achieving a "green" President's Management Agenda status for financial performance. We will continue to address these weaknesses, with two scheduled for closure in FY 2006.

This report also describes the key management and performance challenges facing the Department, as identified by the Treasury Inspectors General and the Comptroller General of the United States. Treasury is committed to working with the audit community to meet these challenges.

FY 2005 saw many significant financial management accomplishments. We continued to provide timely, accurate financial information to our managers through the 3-Day Close initiative, whereby we close our books in three business days and generate financial statements and budget execution data on the fourth day following the end of each month. The Internal Revenue Service successfully installed a new administrative accounting system without any major accounting or financial reporting issues. The Bureau of Public Debt now is providing accounting system services for thirteen of our reporting components. We are migrating all of our separate travel systems to a new common e-travel system, with nine systems already migrated and the remaining five scheduled to begin migration in FY 2006. Through cross-servicing, consolidation and

streamlining, we reduced the number of financial and “mixed” program/financial systems from ninety-three in FY 2004 to sixty-eight at the end of FY 2005.

Treasury will continue to build on its progress throughout FY 2006 resulting in ever improving support for mission performance.

Sincerely,

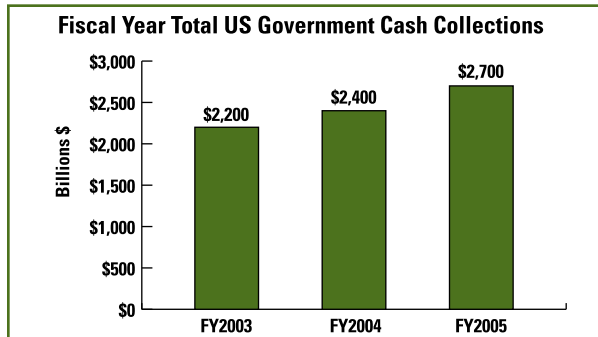
A handwritten signature in cursive script that reads "Sandra L. Pack".

Sandra L. Pack

# Operations Highlights

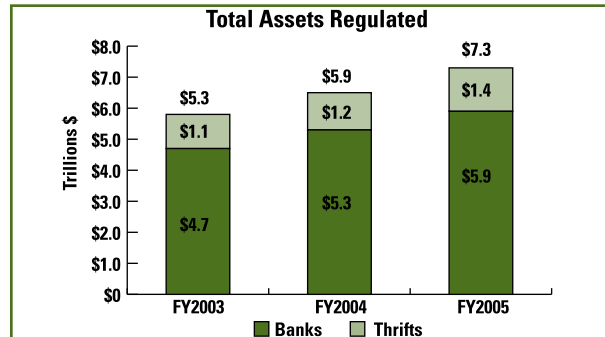
## In FY2005 Treasury...

### Collect



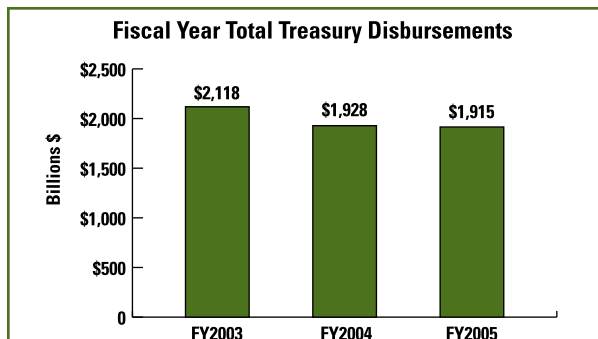
- Collected a total of \$2.7 trillion
- Collected \$47.3 billion through enforcing the tax code
- Collected \$3.24 billion in delinquent debt

### Regulate



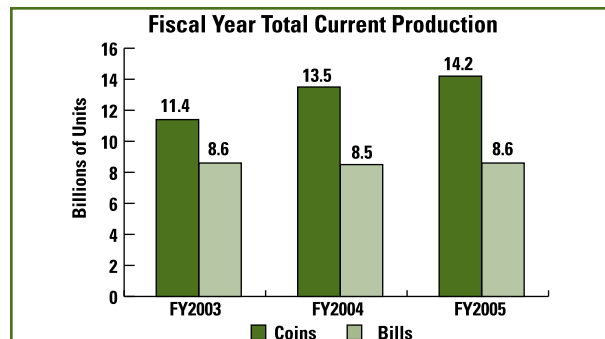
- Regulated \$7.3 trillion in national bank and savings association assets, including 2,854 national banks, federal branches and savings associations

### Disburse



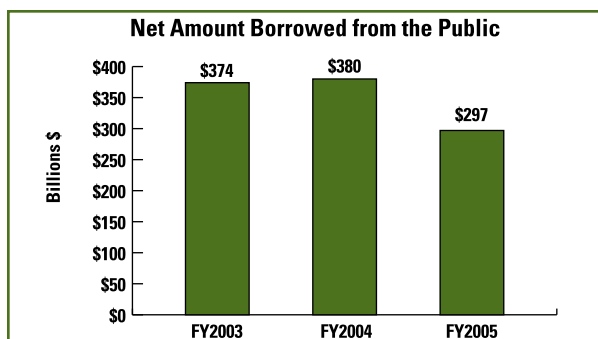
- Disbursed a total of \$1.9 trillion\*
- Issued 725 million electronic bank transfers and 228 million check payments through Treasury's Regional Financial Centers

### Manufacture



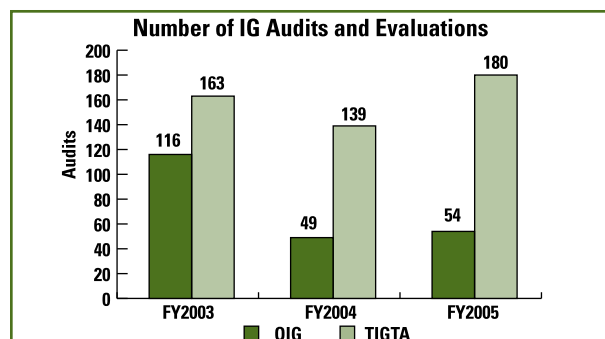
- Produced 8.6 billion currency notes
- Produced 14.2 billion coins

### Borrow



- Borrowed \$297 billion (net)
- Issued \$4.5 trillion in marketable securities
- Issued 34 million savings bonds
- Paid \$352 billion in interest (includes interest credited to Trust Fund)

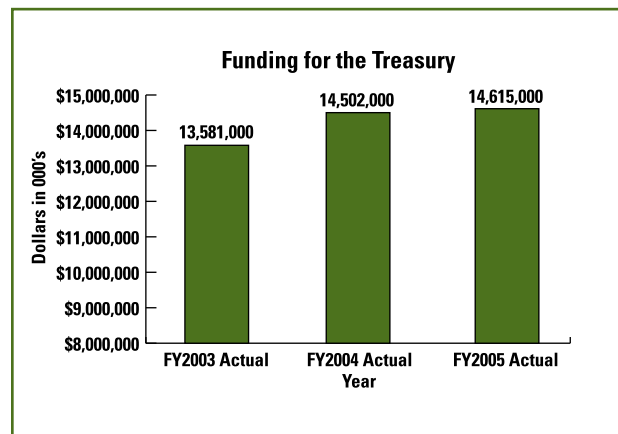
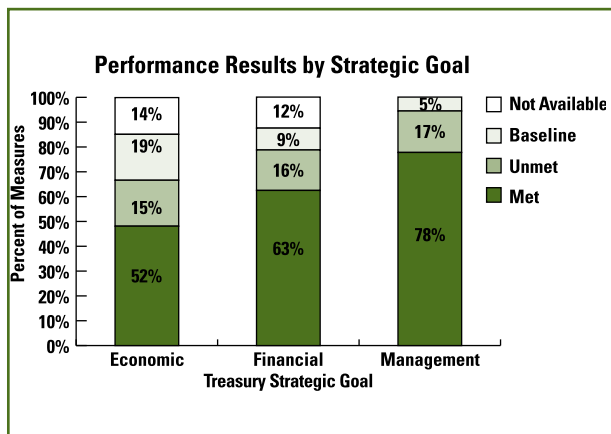
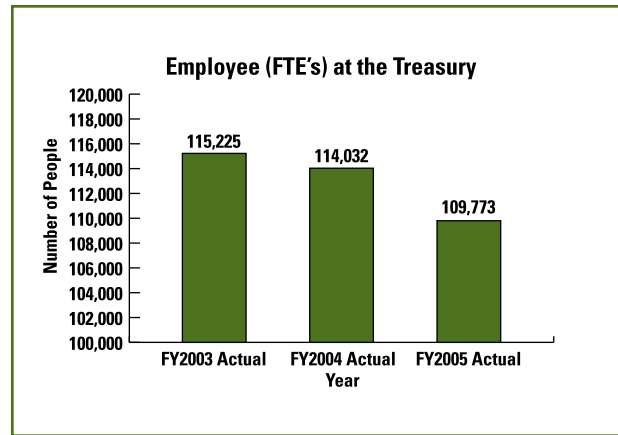
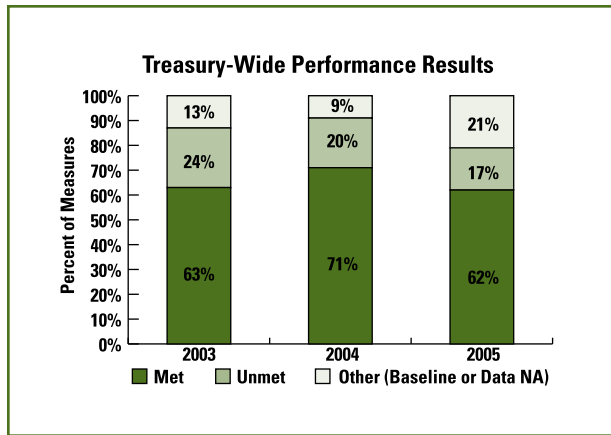
### Assure



- Performed 234 audits and evaluations through the efforts of the Inspectors General

\* Does not include disbursements by other agencies (i.e. Defense). Defense and State disbursed approximately \$489 billion in FY 05.

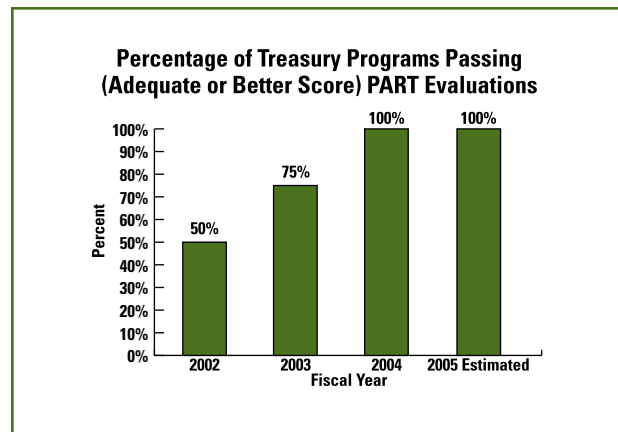
# Performance Highlights



### President's Management Agenda

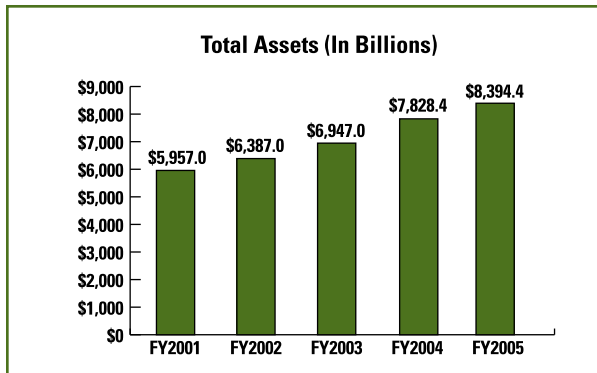
Initiative	Status		FY 2005 Progress			
	FY 2004	FY 2005	Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G
Competitive Sourcing	Y	G	Y	G	G	G
Financial Performance	R	R	Y	R	Y	Y
E-Government	R	R	G	G	Y	G
Budget Performance Integration	Y	Y	G	G	G	G
Improper Payments	N/A	R	N/A	G	Y	Y

● Green for Success   
 ● Yellow for Mixed Results   
 ● Red for Unsatisfactory

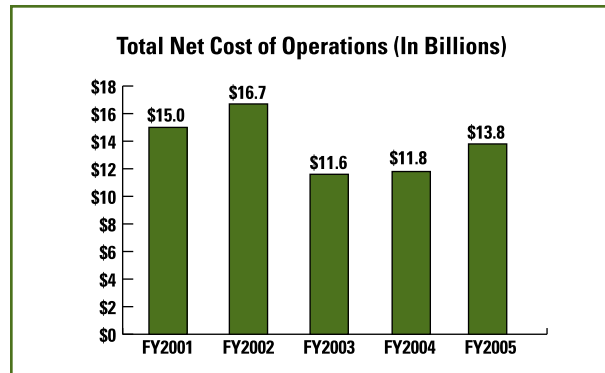




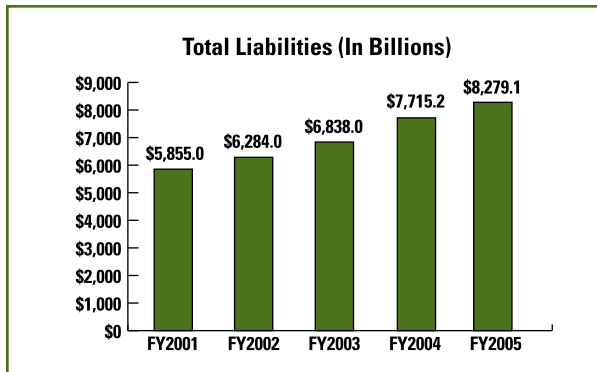
# Financial Highlights



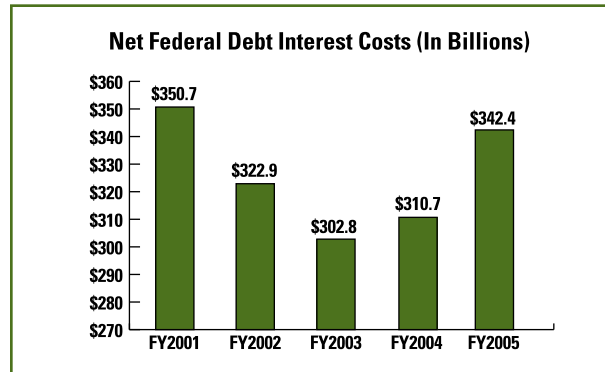
The increase in total assets from \$7.8 trillion in FY 2004 to \$8.4 trillion in FY 2005 is due to the increase in future funds required from the General Fund of the U.S. Government to pay for the federal debt.



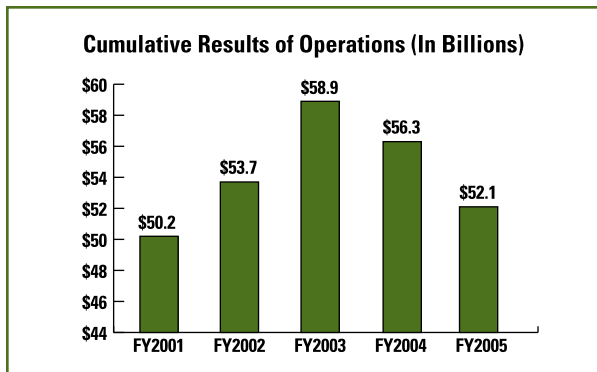
The increase of total net cost of operations from \$11.8 billion in FY 2004 to \$13.8 billion in FY 2005 is in the economic and financial programs and is due to exchange rate fluctuations, reduced interest income, write offs of discontinued projects, and increased payments to financial agents.



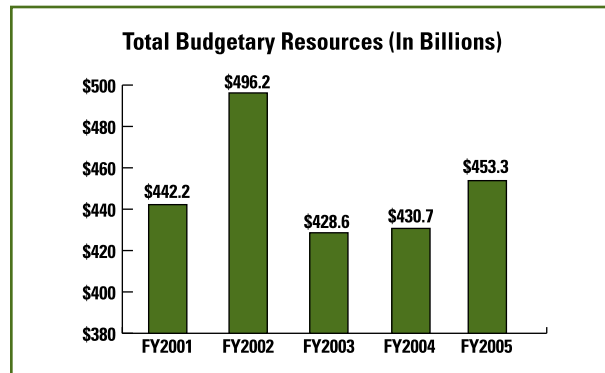
Liabilities increased primarily because borrowing from the public and other agencies to finance government operations increased by \$552 billion.



The net interest paid on the federal debt rose from \$310.7 billion in FY 2004 to \$342.4 billion in FY 2005 due to the increase in the debt and higher interest rates.

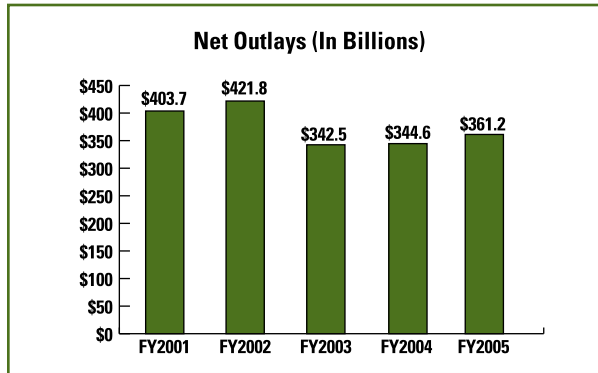


There was a net decrease of \$4.2 billion in the cumulative results of operations because of the net repayment of International Monetary Fund loans and the resultant return of funds to Treasury. There is a corresponding decrease in Treasury's position in the International Monetary Fund.

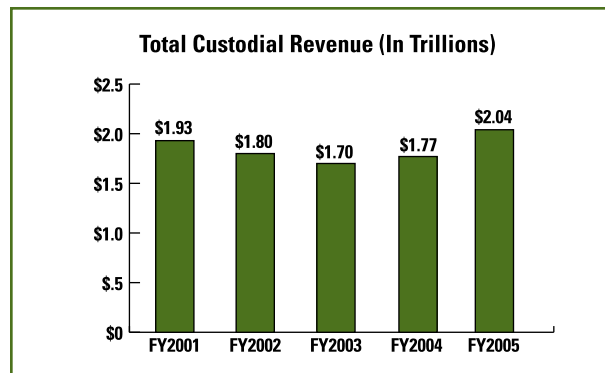


The majority of the increase in total budgetary resources from \$430.7 billion in FY 2004 to \$453.3 billion in FY 2005 was due to the increase in funding to pay for the interest on the federal debt. The sharp increase in the budgetary resources for FY 2002 was the result of a restatement to

reflect a change in accounting principles for the interest on public debt securities directed by the Office of Management and Budget.



The majority of the increase in net outlays from \$344.6 billion in FY 2004 to \$361.2 billion in FY 2005 was related to the increase in interest payments.



Total net custodial revenue collected on behalf of the U.S. Government increased from \$1.77 trillion in FY 2004 to \$2.04 trillion in FY 2005. The majority of the increase is because of the rise in individual and corporate income taxes due to increased economic activity.

Note: Prior to March 1, 2003, Treasury bureaus also included Bureau of Alcohol, Tobacco and Firearms; Federal Law Enforcement Training Center; U.S. Customs Service; and U.S. Secret Service. These bureaus were divested to either the Department of Homeland Security or Department of Justice. FY 2003 and prior years include data for these bureaus.



Part I:  
Management's  
Discussion and Analysis

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# Part I: Management's Discussion and Analysis

Treasury's results-oriented mission impacts every American. Treasury manages the nation's finances and produces America's coins and currency. Treasury leads efforts to strengthen the U.S. and global economy, and stands on the front line in fighting the financial war on terror.

In fiscal year 2005, Treasury had cash collections of \$2.7 trillion; processed more than 900 million payments totaling \$1.915 trillion; secured an important international agreement with China; helped to disrupt and dismantle the financial infrastructure of terrorists; and produced 14.2 billion coins and 8.6 billion paper currency notes.

## Collecting Taxes

Collecting taxes in a fair and consistent manner is a core mission of the Treasury. This year, Treasury collected \$2.267 trillion in federal tax revenue from individual and corporate income taxes, a 12.3% increase over last year.

**Compliance:** Voluntary compliance by the citizenry is an important part of tax collection. Treasury focuses on providing quality service and education to make compliance easier. Treasury continues to expand the availability and use of e-file, with more than 50% of individual taxpayers filing their taxes electronically this past tax season. Taxpayers can find tax forms and answers to questions on the IRS's award-winning website, [www.IRS.gov](http://www.IRS.gov), as well as through its toll-free telephone lines providing live operator assistance. This year, the customer service level for taxpayers calling the IRS was nearly 83%, with taxpayers receiving accurate answers to their tax questions more than 89% of the time.

**Tax Reform:** The President formed a bipartisan advisory panel to study the Federal Internal Revenue Code, and recommend revenue neutral policy options that would simplify and reduce the burden of compliance, as well as promote home ownership, charity, savings, and economic growth and job creation. Treasury supported the panel by providing adminis-

trative, logistical and analytical assistance. The panel delivered its report to the Secretary on November 1, 2005, and Treasury will soon present its recommendations for tax reform to the President.

### e-Filing Simplifies Taxpayer Compliance



The IRS collaborates with industry and the tax professional community to improve electronic service. Through this partnership, the IRS expanded online services, increased e-filing levels and reached more taxpayers. Some large corporations and tax-exempt organizations are now required to file electronically their tax returns. To aid compliance, Treasury is launching "Modernized e-File," an enhancement to the e-File program for business return filings.

## Managing U.S. Government Finances

As the government's financial manager, Treasury oversees a daily cash flow in excess of \$50 billion and distributes 85% of all federal payments. Managing the government's finances includes making payments, collecting taxes and fees, issuing debt and preparing public financial statements.

**Federal Payments:** Treasury issues more than 900 million payments on behalf of the federal government every year. Each federal payment costs, on average, 37 cents to issue. Treasury currently issues nearly 13.3 million paper benefit checks each month, the majority of which are Social Security payments. Treasury spends 75 cents more to print, mail, and process a paper check than to issue an electronic payment. Converting to direct deposit would save taxpayers approximately \$120 million each year.



Treasury's *Go Direct* campaign encourages Americans to use direct deposit for Social Security, Supplemental Security Income and other federal benefit payments.

The program uses advertising, teller training, and events open to the public to communicate the advantages of direct deposit.

**Debt Management:** Treasury manages more than \$7.9 trillion of public debt. The public debt includes marketable securities, savings bonds and other instruments held by state and local governments, federal agencies, foreign governments, corporations and individuals. To improve debt management and offer better customer service, Treasury offers "TreasuryDirect," an electronic, web-based system that electronically issues securities to retail customers and enables investors to manage their accounts online. A major initiative this year encouraged investors to convert paper savings bonds into electronic form making their investments easier to manage and to avoid potential loss or theft of the paper bonds. More than 700 million paper savings bonds are currently outstanding and could eventually be converted to TreasuryDirect.



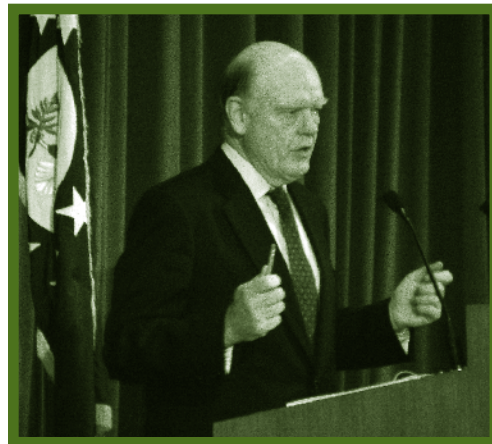
**Office of the  
U.S. Treasurer  
– Promoting  
Financial Education**

U.S. Treasurer, Anna Escobedo Cabral, is a financial education spokesperson

for Treasury. She speaks on the importance of planning for a secure future as well as on the value of reforming Social Security to ensure its solvency for future generations.

## Focusing Internationally

Treasury plays an important role in the global economy, monitoring over 160 economies to ensure stability and transparency in the global marketplace. Treasury works with foreign governments, financial institutions and international organizations to promote free and fair trade practices, identify global financial trends, and expand prosperity in the United States and around the world.



**China:** Treasury's international efforts included continuing dialogue and cooperation with Chinese leaders to achieve the goal of greater Chinese exchange rate flexibility. This involved discussions among senior policy officials, multilateral efforts and a Treasury-led Technical Cooperation Program. This effort helped bring about the decision by the Chinese authorities to abandon their eight-year exchange rate peg and adopt a new exchange rate mechanism, an important first step toward greater flexibility in China's exchange rate. Treasury also broadened the discussion with China to include two issues critical to continuing China's economic success: (1) fostering deeper, more open and more efficient financial markets; and (2) achieving a more balanced and sustainable pattern of growth with greater reliance on domestic demand.

**Debt Relief:** Debt relief is a key to formulating international economic policies that promote economic growth and poverty reduction in developing countries.

Treasury negotiated the international agreement to implement the President's proposal to cancel the debts of 38 heavily indebted poor countries (HIPC). The agreement provides one-hundred percent cancellation of debt obligations owed to the World Bank, African Development Bank, and International Monetary Fund by countries eligible for the HIPC debt relief initiative, ending the destabilizing lend-and-forgive approach to development assistance that impedes growth in low-income countries. The agreement also facilitates debt sustainability and provides additional resources to finance new development assistance.

**Tsunami Relief:** Treasury assisted countries affected by the tsunami of December 2004 by helping to minimize the disaster's impacts on growth and financial markets. Most importantly, Treasury supported a multilateral deferral of debt payments by Indonesia and Sri Lanka, the two countries most affected by the tsunami. This debt deferral enabled Indonesia and Sri Lanka to devote more of their financial resources to relief efforts. In addition, Treasury worked closely with the State Department to coordinate the U.S. response to the tragedy with the responses of other nation's and international organizations.

## Fighting Terrorism and Financial Crime

By cutting off financing to terrorist and criminal organizations, Treasury impedes the ability of these organizations to commit crimes and carry out malicious acts that endanger the United States.

Treasury's anti-terrorist activities include coordinating financial intelligence and analysis, and promoting international relationships that attack the financial underpinnings of national security threats. To coordinate these efforts, Treasury established the Office of Terrorism and Financial Intelligence (TFI) in 2004.

TFI unifies leadership for the functions of:

- The Office of Intelligence and Analysis (OIA)
- The Office of Terrorist Financing and Financial Crimes (TFFC)
- The Financial Crimes Enforcement Network (FinCEN)
- The Office of Foreign Assets Control (OFAC)
- The Treasury Executive Office for Asset Forfeiture (TEOAF)

Treasury's range of activities against national security threats include: (1) coordinating financial intelligence and analysis, (2) promoting international relationships that attack the financial underpinnings of national security threats, (3) improving the transparency and safeguards of financial systems, and (4) targeting and sanctioning supporters of terrorism, proliferators of weapons of mass destruction, narco-traffickers and other threats.

**Designations:** A designation prohibits the movement of money or property by the designated entity through the world's legitimate financial system, effectively cutting the entity off from their financial assets and making it difficult to finance malicious acts against the United States. Since September 11, 2001, the United States has designated over 400 individuals or entities as terrorists or supporters of terrorists.

Designations can be used in isolation, or in concert with other enforcement actions. A notable example is the designation of certain Al Haramain Foundation offices for their support to al Qaeda. Thirteen Al Haramain offices around the world have been designated by OFAC, with U.N. designation actions following. In the most recent action, federal agents executed a search warrant on an Al Haramain office in the United States pursuant to a joint investigation by the IRS-Criminal Investigation Division, the FBI, and the Department of Homeland Security. Concurrently, Treasury's OFAC blocked the assets of the U.S. Al Haramain organization, freezing its accounts and ensuring that no money moved during the investigation.

Enforcement measures, such as designations, resulted in a noticeable deterrent to complicit donors. Intelligence reporting reveals that those previously donating money to terrorist organizations through

charitable fronts are less likely to send money after a designation action, knowing that it may expose them to investigation and possible legal action. This further erodes the financial base of the terrorists.

**Money Laundering:** Treasury’s efforts against money laundering are another critical tool to thwart acts of terrorism. The USA PATRIOT Act and Bank Secrecy Act (BSA), among other provisions, expands the anti-money laundering system to close gaps that could be exploited by terrorists or their financiers. America is safer because of the high levels of cooperation between the public and private financial sectors. TFI analyzes financial information and reports suspicious or illegal financial activity to law enforcement agencies. Much of the anti-money laundering work is accomplished through the Bank Secrecy Act. Treasury’s TFI uses a Treasury system called BSA Direct to track and share data within the enforcement community. The goal of BSA Direct is to accelerate the secure flow of financial information so that enforcement agencies can more readily use the information to prevent, detect, and prosecute financial crime, including terrorist financing.



### BSA Direct Wins Golden Link Award

BSA Direct e-Filing is a system that supports electronic filing of BSA forms from a filing institution to the BSA database through a secure network. In May 2005, the system received the prestigious Golden Link Award from the Armed Forces Communication and Electronics Association. The system was selected for the award as an excellent government technology solution for reducing processing time, and providing controls to improve data accuracy, completeness and security.

## Supervising National Banks and Savings Associations

Treasury, through the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS), maintains the integrity of the financial system of the United States by chartering, regulating, and supervising national banks and savings associations. In FY 2005, OCC and OTS oversaw financial assets held by these financial institutions totaling \$7.3 trillion.

OCC and OTS examiners conduct on-site reviews of financial institutions and provide sustained supervision of their operations. Both OCC and OTS issue rules, legal interpretations, and corporate decisions on the operations of the banking and thrift industries. In FY 2005, 99% of all national banks and thrifts were well capitalized relative to their risks and 94% of them earned the highest composite ratings, defined as a rating of “one or two.”

## Producing Coins and Currency

Producing the nation’s coins and currency for domestic commerce has been a longstanding core mission of the Treasury. In FY 2005, the United States Mint (Mint) produced 14.2 billion coins and the Bureau of Engraving and Printing (BEP) produced 8.6 billion currency notes.

New designs for the nation’s coins and currency were introduced during 2005. The Mint issued five new quarters from the 50 State Quarters® program, marking year six of the popular ten-year program. States honored with a quarter design in calendar year 2005 include California, Minnesota, Oregon, Kansas and West Virginia.

BEP introduced a new \$10 currency note in 2005. The new \$10 note represents the third denomination in a new currency series that incorporates background colors and improved security features designed to thwart counterfeiters. The makeover of



the \$10 note follows the similar re-design of the \$20 note in 2003 and the \$50 note in 2004. A new \$100 note is currently being developed and is planned for introduction to the public in 2007.



**United States Mint Issues a Commemorative Nickel**

In March of 2005, the United States Mint collaborated with a representative from the National Museum of the American Indian on Capitol Hill to display the 2005 American Bison nickels. Coin collectors had their first chance in 67 years to receive a newly designed buffalo nickel. Both sides of the coin featured new designs. The reverse of the nickel featured a sentimental rendition of a bison, similar to a previous issuance, while the obverse design featured a new, contemporary likeness of President Thomas Jefferson. The new nickel commemorated the bicentennials of the Louisiana Purchase and the Lewis and Clark expedition.

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**Improving Management Efficiency and Effectiveness**

Treasury is improving its overall efficiency and effectiveness by implementing the President’s Management Agenda (PMA), and by using the results of the Office of Management and Budget’s (OMB) Program Assessment Rating Tool (PART) evaluations.

**The PMA:** The PMA is designed to improve management practices across the federal government and transform government into a results-oriented, effi-

cient and citizen-centered enterprise. Implementing the PMA involves: (1) lowering the cost of doing business through competition; (2) strengthening Treasury’s workforce; (3) improving financial performance; (4) increasing the use of information technology and e-Government capabilities; and (5) integrating budget decisions with performance data.

The Office of Management and Budget assesses each agency’s status and progress for the PMA initiatives on a quarterly basis. Initiative “status” describes overall success, and “progress” describes ongoing efforts to meet PMA goals.

Initiative	Status		FY 2005 Progress			
	FY 2004	FY 2005	Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G
Competitive Sourcing	Y	G	Y	G	G	G
Financial Performance	R	R	Y	R	Y	Y
E-Government	R	R	G	G	Y	G
Budget Performance Integration	Y	Y	G	G	G	G
Improper Payments	N/A	R	N/A	G	Y	Y

● Green for Success   
 ● Yellow for Mixed Results   
 ● Red for Unsatisfactory

In FY 2005, Treasury achieved a “green-green” score in Competitive Sourcing. This was Treasury’s first “green-green.” Competitive sourcing across Treasury has resulted in projected cost-avoidance of \$250 million over the next five years. The Competitive Sourcing team also earned the President’s Quality Award for management excellence and exemplary performance for efforts on the IRS’s Area Distribution Center competitive sourcing study.

Treasury’s Human Capital and Budget Performance Integration initiatives remained yellow, while E-Government remained red. All three initiatives are targeting green status in FY 2006. More time is needed to achieve an improved score in Financial Performance and Eliminating Improper Payments (both are scored red), an important priority.

**Program Assessment Rating Tool (PART):** OMB's PART is intended to improve program performance. Treasury made a strong commitment to improve its program performance, and PART scores improved 36% compared to last year (final scores pending at the time of publication). Currently, 82% of Treasury's PART evaluations scored "adequate" or better, and Treasury is targeting 90% in FY 2006.

### Summary of Management Challenges and High-Risk Areas

The Treasury's Inspectors General and the Government Accountability Office (GAO) have identified the following areas as being Treasury's most significant challenges and having high-risk:

- Corporate Management
- Management of Capital Investments
- Information Security
- Linking Resources to Results
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Bringing IRS Financial Management Systems into Compliance with FFMIA
- Preparing Reliable Financial Statement for the U.S. Government
- Enforcement of Tax Laws
- Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
- Security of the Internal Revenue Service
- Complexity of the Tax Law
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Improving Service to Taxpayers - Providing Quality Customer Service Operations
- Taxpayer Protection and Rights
- Human Capital

Treasury has taken many positive actions to address these challenges during FY 2005 and will continue

to work with its Inspectors General and the GAO to address them in FY 2006.

### Hurricane Relief Efforts

The size, scope and ferocity of hurricanes Katrina and Rita were unprecedented and the federal response and recovery efforts have been extensive. Treasury's role in the effort has focused on helping individuals and businesses regain their financial footing.

In the days leading up to hurricane Katrina's land-fall, senior Treasury officials convened to facilitate a Treasury response. Treasury sought to ensure timely recovery of the financial sector and alleviate disruption of federal benefit payments. In the days immediately after Hurricane Katrina, 4,100 IRS telephone operators assisted the Federal Emergency Management Agency (FEMA) by answering telephone calls and relaying information for those affected.

**Payments:** Treasury worked to expedite the delivery of benefit and disaster assistance payments to hurricane evacuees, including Social Security and Supplement Security Income payments. Revised processes ensured that benefits would not be canceled even though Social Security checks could not be delivered. Treasury issued 1.2 million electronic payments totaling \$2.6 billion to aid hurricane victims and recovery efforts. And to provide victims with money quickly, Treasury delivered to FEMA more than 11,000 debit cards, preloaded with \$2,000 each for distribution.

**National Banks and Savings Associations:** Hurricane Katrina directly affected 43 national banks and savings associations, including nearly 600 branch locations, with total deposits in excess of \$25.5 billion. Treasury worked to ensure that people and businesses had access to the banking and financial systems immediately after the hurricane. At relief centers across the region, Treasury worked to ensure availability of mobile banking services. Treasury

also worked with financial institutions to streamline check-cashing procedures to ensure benefit checks were honored and to ease temporarily restrictions on cashing out-of-state checks. Treasury also asked banks and savings associations to waive ATM fees, increase daily cash withdrawal limits, and waive credit card late charges. In some instances, Treasury was able to work with banking supervisors and regulators to allow depository institutions to co-locate so that financial institutions whose branches were destroyed by Katrina could serve their customers from another institution's branch location.

**Economic Development:** Treasury implemented changes to the New Markets Tax Credit (NMTC) program in areas affected by Hurricane Katrina, thereby encouraging new investment in the region. Some of these changes included extending application deadlines for applicants directly impacted by the disaster, and giving additional consideration to organizations that commit to target their investments within the disaster region.

**Tax Relief:** Treasury is sensitive to the burden of tax compliance for victims displaced from their homes, employment or financial assets. To ease the tax compliance burden, the IRS took the following actions:

- Extended the upcoming filing deadlines for quarterly tax payments to February 28, 2006 for filing returns and making tax payments or deposits
- Waived the fees and expedited the fulfillment of requests for copies of previously-filed tax returns to enable victims to apply for benefits, or to file amended 2004 tax returns to claim disaster-related losses
- Eased tax rules pertaining to retirement savings in 401(k) and 403(b) plans, and permitted victims to withdraw hardship disbursements or use those assets as collateral for loans
- Suspended low-income housing tax credit rules so that owners of those properties could provide housing to Katrina victims who did not qualify as "low-income." This action greatly expanded the availability of housing for disaster victims and their families

## Conclusion

During FY 2005, Treasury helped advance many of the important international goals of the United States by, among other things, working to stop the flow of funds to terrorists, drug cartels and other criminal groups; improving access to global markets; and reducing third world poverty. Also during FY 2005, Treasury improved domestic fiscal management by working to reform tax policy; upgrading the government's financial management; supervising the nation's banking system; and efficiently producing all of the nation's coins and currency.

Treasury's high-profile activities during FY 2005 also included minimizing the economic damage of devastating international and domestic natural disasters, namely the tsunami of December 2004, and Hurricanes Katrina and Rita. In the coming years, as Treasury continues to improve its efficiency and effectiveness, the Department will remain an important player on the international and domestic stage.

# Analysis of Financial Statements

## Auditors’ Report on Treasury’s Financial Statements

Treasury again received an unqualified audit opinion on its consolidated financial statements: Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Financing, Statements of Custodial Activity, and combining Statements of Budgetary Resources. The auditors’ report contains two reportable conditions concerning weaknesses in financial management and reporting (a material weakness) and electronic data processing controls. The report also addresses two instances of noncompliance with laws and regulations: The release of liens on taxpayers’ property is not always accomplished within statutory time frames, and Treasury’s financial management systems do not substantially comply with Federal systems requirements. The basic financial statement are included in these “Highlights;” the auditors’ report and complete financial statements are included in Part III of the full report.]

## Limitations on the Principal Financial Statements

These statements have been prepared from the accounting records of Treasury in conformity with the accounting principles generally accepted in the United States, and the form and content of entity financial statements specified by OMB Circular A-136, Financial Reporting Requirements, as amended. These principles are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal government by the American Institute of Certified Public Accountants.

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

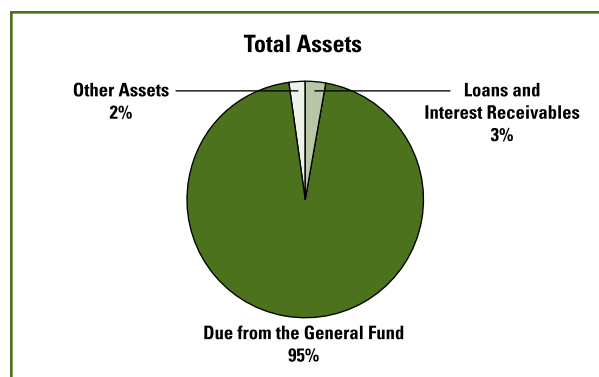
The financial statements should be read with the realization that they are for a component of a sover-

eign 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.

## Analysis of Financial Statements

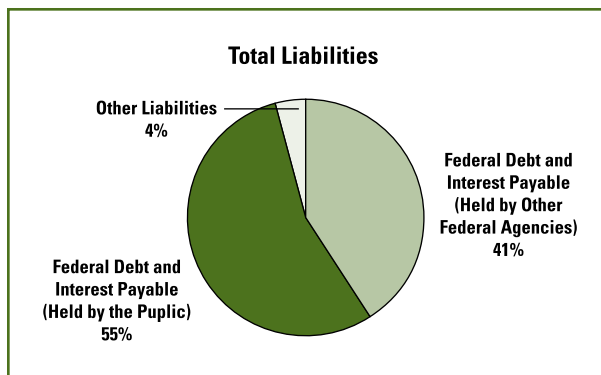
The following provides the highlights of Treasury’s financial position and results of operations in FY 2005. A complete set of financial statements, accompanying notes, and the audit opinion can be found in the complete Performance and Accountability Report for FY 2005.

**Assets.** Total assets increased from \$7.8 trillion at September 30, 2004 to \$8.4 trillion at September 30, 2005. 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. This account represents future funds due from the General Fund of the U.S. Government to pay borrowings from the public and other federal agencies.

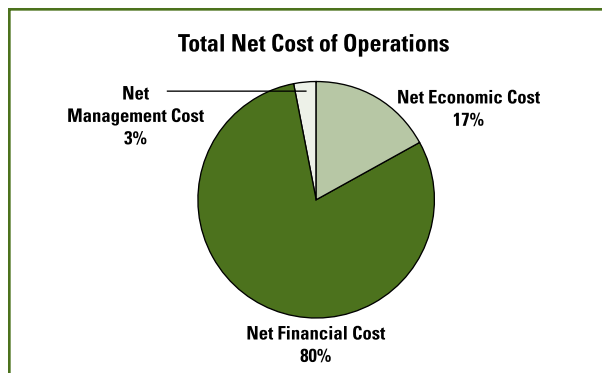


**Liabilities:** Intra-governmental liabilities totaled \$3.6 trillion, and include \$3.4 trillion of principal and interest payable to various Federal agencies such as the Social Security Trust Fund. These borrowings do not include debt issued separately by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

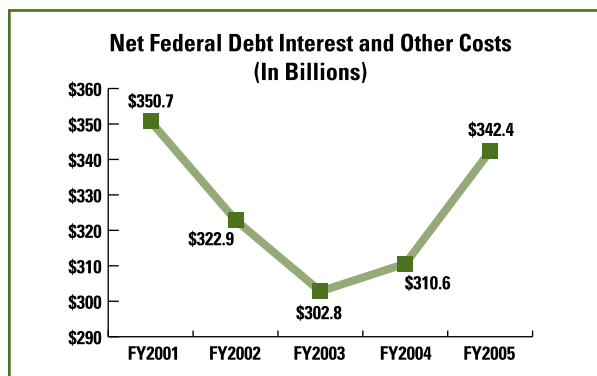
Liabilities also include federal debt held by the public, including interest, of \$4.6 trillion; the majority of this debt was issued as Treasury Notes. The increase in total liabilities in FY 2005 over FY 2004 (\$564 billion and 7.3%), is the result of increases from borrowing from various federal agencies (\$257 billion), and federal debt held by the public, including interest (\$295 billion). Debt held by the public increased primarily because of the need to finance budget deficits.



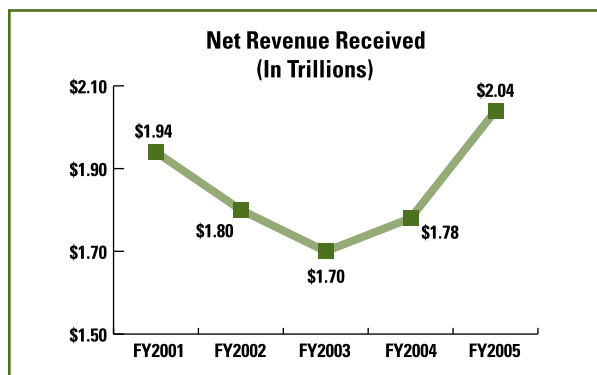
**Net Cost of Treasury Operations:** The Consolidated Statement of Net Cost presents the Department’s gross and net cost for its three strategic missions: financial focus, economic focus, and management focus. The majority of the net cost of Treasury operations is in the financial mission area. Treasury is the primary fiscal agent for the Federal government in managing the Nation’s finances by collecting revenue, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet the demand.



**Net Federal Debt Interest Costs:** Interest costs have increased significantly (10.2%) over the past two years due to the increase in the federal debt.



**Custodial Revenue:** Total net revenue collected by Treasury on behalf of the federal government includes various taxes, primarily income taxes, user fees, fines and penalties, and other revenue. Over 90 percent of the revenues are from income and social security taxes. After remaining relatively flat the past few years, net revenue increased by 15% in FY 2005 due to increased economic activity.



**Consolidated Balance Sheets**  
**As of September 30, 2005 and 2004**  
(In Millions)

	2005	2004
<b>ASSETS</b>		
<b>Intra-governmental Assets</b>		
Fund Balance	\$66,334	\$59,946
Loans and Interest Receivable	228,491	214,065
Advances to the Black Lung Trust Fund	9,186	8,741
Due From the General Fund	7,978,081	7,420,492
Accounts Receivable and Related Interest	626	632
Other Intra-governmental Assets	40	12
<b>Total Intra-governmental Assets</b>	<b>8,282,758</b>	<b>7,703,888</b>
Cash, Foreign Currency, and Other Monetary Assets	47,578	53,161
Gold and Silver Reserves	10,933	10,933
Loans and Interest Receivable	670	977
Investments and Related Interest	9,404	10,870
Reserve Position in the International Monetary Fund	13,247	19,442
Investments in International Financial Institutions	5,464	5,403
Tax, Other, and Related Interest Receivable, Net	21,430	20,520
Inventory and Related Property, Net	468	459
Property, Plant, and Equipment, Net	2,398	2,745
Other Assets	22	24
<b>Total Assets</b>	<b>\$8,394,372</b>	<b>\$7,828,422</b>
<b>LIABILITIES</b>		
<b>Intra-governmental Liabilities</b>		
Federal Debt and Interest Payable	\$3,354,905	\$3,097,949
Other Debt and Interest Payable	14,164	0
Due to the General Fund	273,551	276,436
Other Intra-governmental Liabilities	422	935
<b>Total Intra-governmental Liabilities</b>	<b>3,643,042</b>	<b>3,375,320</b>
Federal Debt and Interest Payable	4,600,668	4,305,302
Certificates Issued to Federal Reserve Banks	2,200	2,200
Allocation of Special Drawing Rights	7,102	7,197
Gold Certificates Issued to Federal Reserve Banks	10,924	10,924
Refunds Payable	1,952	1,808
D.C. Pension Liability	8,511	8,367
Other Liabilities	4,665	4,146
<b>Total Liabilities</b>	<b>8,279,064</b>	<b>7,715,264</b>
Commitments & Contingencies		
<b>NET POSITION</b>		
Unexpended Appropriations	63,182	56,850
Cumulative Results of Operations	52,126	56,308
<b>Total Net Position</b>	<b>115,308</b>	<b>113,158</b>
<b>Total Liabilities and Net Position</b>	<b>\$8,394,372</b>	<b>\$7,828,422</b>

**Consolidated Statements of Net Cost**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

	2005	2004
<b>COST OF TREASURY OPERATIONS</b>		
<b>Economic Program</b>		
Gross Cost	\$3,066	\$3,019
Less Earned Revenue	(782)	(1,687)
<b>Net Program Cost</b>	<u>2,284</u>	<u>1,332</u>
<b>Financial Program</b>		
Gross Cost	15,580	14,737
Less Earned Revenue	(4,487)	(4,711)
<b>Net Program Cost</b>	<u>11,093</u>	<u>10,026</u>
<b>Management Program</b>		
Gross Cost	1,156	947
Less Earned Revenue	(739)	(525)
<b>Net Program Cost</b>	<u>417</u>	<u>422</u>
Total Program Gross Costs	19,802	18,703
Total Program Gross Earned Revenues	(6,008)	(6,923)
<b>Total Net Cost of Operations</b>	<u>13,794</u>	<u>11,780</u>
<b>FEDERAL COSTS:</b>		
Federal Debt Interest	354,386	322,142
Less Interest Revenue from Loans	(11,984)	(11,500)
<b>Net Federal Debt Interest Costs</b>	<u>342,402</u>	<u>310,642</u>
Other Federal Costs	8,673	12,915
<b>Net Federal Costs</b>	<u>351,075</u>	<u>323,557</u>
<b>Interests, and Other Federal Costs</b>	<u>\$364,869</u>	<u>\$335,337</u>

**Consolidated Statement of Changes in Net Position  
For the Year Ended September 30, 2005  
(In Millions)**

	<b>Cumulative Results of Operations</b>	<b>Unexpended Appropriations</b>
<b>Beginning Balance</b>	<b>\$56,308</b>	<b>\$56,850</b>
<b>Budgetary Financing Sources</b>		
Appropriations Received		369,312
Appropriations Transferred In/Out		(594)
Other Adjustments		(319)
Appropriations Used	362,067	(362,067)
Non-exchange Revenue	53	
Donations and Forfeitures of Cash and Cash Equivalents	169	
<b>Other Financing Sources</b>		
Donations and Forfeitures of Property	51	
Accrued Interest & Discount on the Debt	9,879	
Transfers In/Out Without Reimbursement	(133)	
Imputed Financing Sources	722	
Transfers to the General Fund and Other	(12,104)	
<b>Total Financing Sources</b>	<b>360,687</b>	<b>6,332</b>
Net Cost	(364,869)	
<b>Ending Balances</b>	<b>\$52,126</b>	<b>\$63,182</b>



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

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

**Combined Statements of Budgetary Resources  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

	<b>2005</b>	<b>2004</b>
<b>BUDGETARY RESOURCES</b>		
<b>Budgetary Authority</b>		
Appropriations Received	\$379,567	\$352,212
Borrowing Authority	331	30
Net Transfers	99	(809)
<b>Unobligated Balance:</b>		
Beginning of the Period	69,912	73,859
Net Transfers	(629)	(39)
<b>Spending Authority from Offsetting Collections</b>		
Earned		
Collected	6,286	7,328
Receivable from Federal Sources	36	(1)
Change in Unfilled Customer Orders		
Advance Received	(29)	(9)
Without Advance from Federal Sources	(81)	290
<b>Subtotal</b>	<b>6,212</b>	<b>7,608</b>
Recoveries of Prior Year Obligations	1,286	338
Temporarily Not Available Pursuant to Public Law	1,957	(322)
Permanently Not Available	(5,403)	(2,180)
<b>Total Budgetary Resources</b>	<b>\$453,332</b>	<b>\$430,697</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
<b>Obligations Incurred:</b>		
Direct	\$384,853	\$357,046
Reimbursable	3,809	3,739
Subtotal	388,662	360,785
<b>Unobligated Balance:</b>		
Apportioned	14,576	14,365
Exempt for Apportionment	40,084	45,368
Unobligated Balance Not Available	10,014	10,179
<b>Total Status of Budgetary Resources</b>	<b>\$453,332</b>	<b>\$430,697</b>

*(Continued)*

**Combined Statements of Budgetary Resources**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

	<b>2005</b>	<b>2004</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>		
Obligated Balance, Net, Beginning of the Period	\$41,446	\$35,018
<b>Obligated Balance, Net, End of the Period</b>		
Accounts Receivable	(211)	(173)
Unfilled Customer Orders from Federal Sources	(432)	(513)
Undelivered Orders	44,722	40,430
Accounts Payable	1,659	1,702
<b>Outlays</b>		
Disbursements	383,128	353,729
Collections	(6,258)	(7,319)
<b>Subtotal</b>	<b>376,870</b>	<b>346,410</b>
Less: Offsetting Receipts (Note 21)	(15,649)	(1,828)
<b>Net Outlays</b>	<b>\$361,221</b>	<b>\$344,582</b>

**Consolidated Statements of Financing**  
**For the Year Ended September 30, 2005 and 2004**  
(In Millions)

	<b>2005</b>	<b>2004</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$388,662	\$360,785
Less: Spending Authority from Offsetting Collections and Recoveries	(7,498)	(7,946)
<b>Obligations Net of Offsetting Collections and Recoveries</b>	<b>381,164</b>	<b>352,839</b>
Less: Offsetting Receipts	(15,649)	(1,828)
<b>Net Obligations</b>	<b>365,515</b>	<b>351,011</b>
<b>Other Resources</b>		
Donations and Forfeiture of Property	51	31
Accrued Interest & Discount on the Debt	9,879	3,481
Transfers In/Out Without Reimbursement	(133)	(38)
Imputed Financing Sources	722	714
Transfers to the General Fund and Other	(12,104)	(12,791)
<b>Net Other Resources Used to Finance Activities</b>	<b>(1,585)</b>	<b>(8,603)</b>
<b>Total Resources Used to Finance Activities</b>	<b>363,930</b>	<b>342,408</b>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	4,384	6,713
Resources that Fund Expenses Recognized in Prior Periods	432	243
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of		
Credit Program Collections that Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(7)	(128)
Other	(15,677)	(1,150)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	522	563
Adjustment to Accrued Interest & Discount on the Debt	7,313	2,590
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	2,060	(479)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>(976)</b>	<b>(8,352)</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$364,903</b>	<b>\$334,056</b>

(Continued)

**Consolidated Statements of Financing**  
**For the Year Ended September 30, 2005 and 2004**  
(In Millions)

	<b>2005</b>	<b>2004</b>
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIODS</b>		
<b>Components of Net Cost of Operations Requiring or Generating Resources in Future Periods</b>		
Increase in Annual Leave Liability	\$9	\$24
Upward Reestimates of Credit Subsidy Expense	1	328
Increase in Exchange Revenue Receivable from the Public	(2)	0
Other	141	90
	<hr/>	<hr/>
<b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>	<b>149</b>	<b>442</b>
<b>Components of Net Cost of Operations that will not Require or Generate Resources</b>		
Depreciation and Amortization	612	529
Revaluation of Assets or Liabilities	(714)	323
Other	(81)	(13)
	<hr/>	<hr/>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources</b>	<b>(183)</b>	<b>839</b>
	<hr/>	<hr/>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>(34)</b>	<b>1,281</b>
	<hr/>	<hr/>
<b>Net Cost of Operations</b>	<b>\$364,869</b>	<b>\$335,337</b>

**Statements of Custodial Activity**  
**For the Year Ended September 30, 2005 and 2004**  
(In Millions)

	<b>2005</b>	<b>2004</b>
<b>Revenue Received</b>		
Individual and FICA Taxes	\$1,864,687	\$1,695,212
Corporate Income Taxes	306,869	230,377
Estate and Gift Taxes	25,605	25,580
Excise Taxes	71,970	69,552
Railroad Retirement Taxes	4,539	4,421
Unemployment Taxes	6,948	6,718
Deposit of Earnings, Federal Reserve System	19,297	19,652
Fines, Penalties, Interest & Other Revenue	3,552	2,456
<b>Total Revenue Received</b>	<b>2,303,467</b>	<b>2,053,968</b>
Less Refunds	(267,114)	(278,436)
<b>Net Revenue Received</b>	<b>2,036,353</b>	<b>1,775,532</b>
Accrual Adjustments	(643)	(1,938)
<b>Total Custodial Revenue</b>	<b>2,036,996</b>	<b>1,773,594</b>
 <b>DISPOSITION OF CUSTODIAL REVENUE AND COLLECTIONS</b>		
Amounts Provided to Fund Non-Federal Entities	454	612
Amounts Provided to Fund the Federal Government	2,035,899	1,774,920
Accrual Adjustment	643	(1,938)
<b>Total Disposition of Custodial Revenue</b>	<b>2,036,996</b>	<b>1,773,594</b>
<b>Net Custodial Revenue Activity</b>	<b>\$0</b>	<b>\$0</b>

# Improper Payments Information Act and Recovery Act

## Background

The Improper Payments Information Act of 2002 (IPIA) requires agencies to annually review their programs and activities to identify those that are susceptible to significant erroneous payments. “Significant” means that an estimated error rate and a dollar amount exceed the threshold of 2.5% and \$10 million of total program funding.

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

Each year, a comprehensive inventory of the funding sources for all programs and activities is developed. If program or activity funding is at least \$10 million, Risk Assessments are required at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). For those payment types resulting in high risk assessments that comprise at least 2.5% and \$10 million of a total funding source, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) a Corrective Action Plan must be developed and submitted to the Office of Management and Budget for approval.

## Results for FY 2005

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 Improper Payments Information Act.

## Earned Income Tax Credit

The Earned Income Tax Credit 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 2005 estimate is that a maximum of 28% (\$11.4 billion) and a minimum of 23% (\$9.6 billion) of the EITC total program payments are overclaims.

Since June 2003, IRS has focused on reducing 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 Act

### Background

The Recovery 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.

### **Results for FY 2005**

During FY 2005, \$4.9 billion in contracts (defined as issued and obligated contracts, modifications, task orders, and delivery orders) were issued. Improper payments in the amount of \$428,977 were identified from recovery auditing efforts and, of this amount, \$364,680 has been recovered with \$64,297 outstanding as accounts receivable on September 30, 2005.



# Systems, Controls and Audit Follow-up

## The Secretary's Letter of Assurance

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

Treasury has seven remaining material weaknesses as of September 30, 2005. The weaknesses are in the following areas:

### Internal Revenue Service

- Collecting unpaid tax liabilities
- Improving systems modernization management and controls
- Reducing overclaims in the Earned Income Tax Credit program
- Improving systems security controls
- Resolving deficiencies in revenue accounting systems

### Financial Management Service

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

### Departmental Offices

- Complying with systems security

Treasury began the year having eight material weaknesses, and closed one. No new material weaknesses were identified in FY 2005. We are continually achieving positive results through:

- emphasizing management control program responsibilities throughout Treasury.
- ensuring senior management attention to management controls.
- focusing on the need to develop and carry out responsible plans for resolving weaknesses.

I am confident that Treasury's progress will continue in FY 2006.

Sincerely,



John W. Snow

### **Federal Managers' Financial Integrity Act (FMFIA)**

The management control objectives under FMFIA are to 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 above. During FY 2005, Treasury had a decrease of one material weakness. Seven material weaknesses are outstanding as of September 30, 2005. Of the seven remaining, two are projected to be closed in FY 2006. The remaining five are complex systems or systems security weaknesses, and will require a more protracted timeframe to resolve. The last currently identified material weakness is scheduled to be closed in FY 2009.

The Department of the Treasury continues to strengthen and improve the execution of our mission through the application of sound internal controls. During FY 2005, the Office of Management and

Budget (OMB) issued final revisions to OMB Circular A-123, *Management's Responsibility for Internal Controls*. One of the key areas of revision is assessing and documenting internal controls over Financial Reporting, similar to those mandated for the private sector under the Sarbanes-Oxley Act. Treasury established a work group to develop a Department-wide approach to address the requirements of the revised OMB Circular.

Material weaknesses, both the resolution of existing ones and the prevention of new ones, received special attention during FY 2005. Over the past five years, we have made great progress in reducing the number of material weaknesses Treasury-wide. During FY2006, we will solicit Department-wide support for continuing our path of no new material weaknesses and focusing our attention on preventing them before they occur.

### **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, 2005, Treasury is not in substantial compliance with these requirements due to the revenue accounting system weaknesses at the Internal Revenue Service. The Department received approval from OMB in 2001 to extend the 3-year statutory time frame addressing the weaknesses, which are scheduled to be corrected by May 2007. Despite some slippage, the Department continues to make progress with the implementation of its remediation plans.

### Audit Follow-Up

During FY 2005, 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. During the year, Treasury continued its effort to provide enhancement to the tracking system called the "Joint Audit Management Enterprise System" (JAMES). JAMES is a Department-wide, interactive, on-line, real-time system accessible to the OIG, TIGTA, Bureau Management, Departmental Management, and others. The system contains tracking information on audit reports from issuance through completion of all actions required to address all findings and recommendations contained in a report.

At the beginning of FY 2005, Treasury had identified corrective actions for 40 audit reports with \$8,061.2 million in potential monetary benefits. Corrective actions were identified for 38 new audit reports having \$83,422.4 million in potential benefits. Thirty-three reports with potential benefits of \$74,968.9 million were closed; \$81.0 million of the benefits were realized and \$74,887.9 million of potential benefits was not realized. At the end of FY 2005 there were 41 such open audit reports having potential benefits of \$16,514.7 million.

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, and it is understood that 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

Treasury's overall financial systems framework consists of a Treasury-wide financial data warehouse supported by separate bureau systems. Bureaus submit financial data to the data warehouse on a monthly basis. This framework satisfies both the bureaus' diverse financial operational and reporting needs as well as Treasury's reporting requirements. The financial data warehouse is part of the overarching Treasury-wide Financial Analysis and Reporting System, which also includes systems for bureau reporting of performance data, audit follow-up information, and activities performed by government personnel.

Treasury has continued to streamline and reduce the number of financial management systems. The number of systems was reduced to 68 at September 30, 2005 from 93 at the end of fiscal year 2004. In addition, thirteen of Treasury's twenty-four reporting entities are being cross-serviced by the Bureau of Public Debt's Administrative Resource Center (ARC) for their financial systems needs. In addition, ARC is also providing support to nine Treasury bureaus with the processing of their travel needs as part of the Department's e-Travel initiative. Five bureaus are scheduled for e-Travel implementation beginning in fiscal year 2006.

## Possible Future Effects of Existing Events and Conditions

The following paragraphs highlight the most significant issues facing Treasury and their possible impact on Treasury, the Federal Government, and the public.

### Fighting the Financial War on Terrorism

Terrorism is the single biggest threat to our national security and economic well being. If not combated effectively, terrorism has the potential to severely disrupt economic activity and negatively affect the lives of all Americans. The war on terrorism is being successfully waged on many fronts. Treasury is fighting on the financial front, and our recently created Office of Terrorism and Financial Intelligence is leading the fight. Terrorists need money to finance their destructive activities, and the means to move that money quickly to terrorist cells around the globe. Treasury is relentlessly working to dismantle the financial infrastructure of terrorism through several means at our disposal. By designating individuals or entities as terrorists or terrorist supporters, Treasury prohibits the movement of money or property through U.S. and international financial systems. Terrorist bank accounts are frozen to prevent the removal of funds while investigations are ongoing. Enforcement measures are proving effective in shutting down financial channels and as a deterrent to would-be donors to terrorist organizations. Treasury has bolstered its financial intelligence capabilities through the recent creation of a separate office dedicated to this purpose. And, aided by the provisions of the USA PATRIOT Act, the Bank Secrecy Act, and cooperation between the public and private financial sectors, Treasury is working successfully to stop terrorist money-laundering activities.

### Improving Compliance with the Internal Revenue Code

**The Tax Gap:** Closing the tax gap, the difference taxes that should be paid and what is actually collected, is at the heart of the IRS's renewed emphasis on enforcement. The IRS will continue to expand enforcement by targeting its case work and enforcement activities to deliver results more effectively and drive down the

tax gap. The IRS will continue to analyze tax information and data from compliance research studies to better define and quantify the tax gap. The IRS will use the results of these efforts to better understand and counter the methods and means of those taxpayers who fail to report or pay what they owe. The IRS is focusing on discouraging and deterring non-compliance with the emphasis on corrosive activity by corporations, high-income individual taxpayers, and other contributors to the tax gap.

**Fraudulent Tax Refund Claims:** The number of fraudulent tax refund claims continues to escalate. On-line filing and refundable credits, like the Advanced Child Care Credit and the Earned Income Tax Credit (EITC), have contributed to the increase. On-line filing makes it more difficult to identify those responsible, and self-employment income used to qualify for the EITC is difficult to verify. As of August 2005, criminal investigations increased approximately 22% over the same time period in 2004, which is the highest in the past five years. For tax return processing year 2005, fraud detection centers identified more than 33,000 questionable client returns associated with unscrupulous tax return preparers, claiming approximately \$103 million in refunds. Key to effective detection and deterrence of these fraudulent claims is the need to invest in new technology.

**Abusive Tax Shelters:** Abusive Tax Avoidance Transactions (ATAT) remain a challenge and a high enforcement priority for the IRS. These tax motivated transactions are corrosive to the equity and the fairness of the tax law for all taxpayers. Specifically, the prevalence and proliferation of ATAT impacts the achievement of the IRS' mission, goals, objectives, and the success of its major strategies by impeding the IRS' ability to make gains in compliance and interfering with allocation of workforce resources. Vigorous enforcement of the criminal provisions of the Internal Revenue Code, coupled with appropriate civil sanctions, materially contributes to maintaining voluntary compliance and public confidence in the fairness of the tax system.

Recent trends indicate that the tax shelter population will continue to expand to small to mid-size corporations where the issues will be more difficult to identify and examine. Promoters of tax shelters are migrating from the large accounting firms to firms and businesses that specialize in tax shelters. These promoters (boutique promoters) are less compliant for registration and less stable in their business operations, making it more difficult to pursue them for information and for penalties.

### Addressing the Complexity of the Internal Revenue Code

The December 2004 Report to Congress required by the Internal Revenue Service Restructuring and Reform Act of 1998 identifies the complexity of the Internal Revenue Code as the most serious problem facing taxpayers and the IRS alike. The Code contains well over a million words, bedeviling individual taxpayers with provisions such as the alternative minimum tax and the earned income tax credit. Business taxpayers must grapple with numerous rules that cover such topics as the depreciation of equipment; numerous and overlapping filing requirements for employment taxes; and complex factors that govern the classification of workers as either employees or independent contractors. The IRS must explain the Code in a way that taxpayers can understand.

In January 2005, President Bush established an Advisory Panel on Federal Tax Reform to devise options to reform the tax code and make it simpler, fairer, and more pro-growth to benefit all Americans. In November 2005 the Advisory Panel submitted a report to the Secretary of the Treasury containing revenue neutral policy options for reforming the Internal Revenue Code. These options are intended to:

- Simplify the tax laws to reduce the costs of compliance and to make it easier for taxpayers to plan for the future and manage their affairs;
- Share the burdens and benefits of the tax system in an appropriately fair and progressive manner while recognizing the importance of homeownership and charity in American society; and

- Promote long-run economic growth, higher wages and job creation by encouraging work effort and increased saving and investment to strengthen the competitiveness of the United States in the global marketplace.

### Improving the Efficiency and Effectiveness of Tax System Administration

**Taxpayer Service Challenges:** Delivering cost effective, efficiently valued, and effective information and services to taxpayers, while meeting demands to reduce the complexity of the tax law, being responsive to large and diverse taxpayer segments, and providing preferred means of delivery within budget limitations are challenges for the IRS. The IRS will continue to research and evaluate information regarding taxpayer service needs, priorities, and preferences in order to improve delivery services that support taxpayer preferable approaches for obtaining information or services. The IRS will seek opportunities to invest in technology, process improvement, and training to achieve consistent repeatable quality service with reduced unit delivery costs.

**Technology Modernization Projects:** FY 2004 and FY 2005 marked a reverse in the trend of cost overruns in the modernization program that plagued the IRS in previous years. In FY 2005, Business Systems Modernization (BSM) continues to build and improve upon its 2004 success by delivering projects, attaining cost and schedule targets, realizing benefits to taxpayers, and improving BSM program management capabilities. With the exception of the Integrated Financial System, BSM delivered all projects and releases planned on time (schedule), within budget (cost), and met or exceeded scope expectations (implemented functional and technical capability).

The FY 2006 BSM portfolio will focus on delivery of three major tax administration projects, along with infrastructure initiatives and continued improvement to program management operations. Program operations will continue to focus on improving program performance, improving and streamlin-

ing management process disciplines, and ensuring delivery of projects on time, on budget, and on scope by taking a greater ownership and leadership role in managing the BSM program.

***Achieving 80 Percent e-Filing of Tax Returns:***

Achieving the goal of having taxpayers submit 80% of all filings, information, and returns, electronically by FY 2007 continues to be a significant challenge. While the e-filing rate continues to increase, FY 2005 is the first year that more than half of all tax returns were filed electronically. The IRS is considering mandating e-filing for certain groups, by regulation or legislation, to ensure increased e-filing. Also, the Administration's proposal to extend the April filing date for electronically-filed tax returns to April 30, if enacted, may also increase electronic filing. But without a legislative change to mandate electronic filing, the challenge remains one of identifying options to encourage more of the taxpaying public to e-file.

**Improving Government- wide  
Financial Reporting**

Treasury continues its effort in the Government-wide Accounting (GWA) Modernization Project to improve the reliability, timeliness, and exchange of financial information between the Financial Management Service (FMS), Federal Program Agencies (FPAs), the Office of Management and

Budget, and the banking community. FMS will continue its work with the FPAs to adopt uniform accounting and reporting standards and systems. FMS will develop a government-wide infrastructure to standardize definitions of federal accounting terms and their usage, and provide to agencies an interactive U.S. Standard General Ledger website and database.

The FMS implemented a new process, the closing package process, for the FY 2004 reporting cycle via its Government-wide Financial Report System (GFRS). The closing package process enabled FMS to collect agency audited Financial Statement data through GFRS to compile the FY 2004 Financial Report (FR) of the U.S. Government. Agencies utilized the GFRS to reclassify their financial statement line items to the corresponding line items required for the Financial Report. This process will continue to be used in FY 2005 and directly links agency financial statements to the Financial Report which has been a long standing material deficiency. FMS will continue to work cooperatively with the Government Accountability Office, the Office of Management and Budget, and program agencies to eliminate the issues that prevent receiving an unqualified opinion on the Financial Report of the United States Government.



Part II:  
Annual  
Performance Report

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## Performance Scorecard

The following scorecard indicates the FY 2005 results for a selection of key Treasury performance measures. For a complete list of Treasury's official performance measures see Appendix A.

Performance Measure	Type	FY 2005 Results	FY 2005 Target	Met
<b>Economic</b>				
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	Outcome	23,656	26,995	
Administrative costs per number of Bank Enterprise Award (BEA) Applications processed	Efficiency	\$1,280	Baseline	✓
Improve International Monetary Fund (IMF) Effectiveness and Quality Through Periodic Review of IMF Programs	Outcome	78%	90%	
Encourage Movement Towards Flexible Exchange Rate Regimes	Outcome	3	Baseline	✓
Number of New FTA and BIT Negotiations Underway or Completed	Outcome	7	Baseline	✓
<b>Financial</b>				
Percent Individual Tax Returns Processed Electronically	Outcome	51.1%	51%	✓
Cost to Process a Federal Revenue Collection Transaction	Efficiency	\$1.20	\$1.40	✓
IRS Enforcement Conviction Rate	Outcome	91.2%	92%	
IRS Customer Service Representative Level of Service	Outcome	82.6%	82%	✓
Unit Cost for Federal Government Payments	Efficiency	\$0.37	\$0.35	
Percent of Payments Made Electronically	Outcome	76%	76%	✓
Percentage of Payments Made Accurately and On-time.	Outcome	100%	100%	✓
Percent of Debt Auction Results Released In Two Minutes +/- 30 Seconds	Outcome	95%	95%	✓
Percentage of Retail Customer Service Transactions Completed Within Thirteen Business Days	Outcome	88.7%	90%	
Cost Per Federal Funds Investment Transaction	Efficiency	\$85.00	Baseline	✓
Percentage of Government-wide Accounting Reports Issued Accurately	Outcome	100%	100%	✓
Variance Between Estimated and Actual Receipts	Outcome	5%	5%	✓
Percent of Thrifts That Are Well Capitalized	Outcome	99%	95%	✓
Percent of Banks That Are Well Capitalized	Outcome	99%	95%	✓
Number of Users Directly Accessing BSA Data Through FinCEN's Gateway Process	Outcome	3,344	3,000	✓
Average Time to Process Matters in Which Civil Enforcement Remedies May Be Appropriate	Efficiency	1.3 Years	1.0 Years	
Cost Per BSA Form E-filed	Efficiency	\$0.32	\$0.27	
Increase the Number of Outreach Engagements with the Charitable and International Financial Communities	Outcome	95	Baseline	✓
Increase In the Number of and Significance to the Foreign Narcotics Traffickers of New Designated Targets	Outcome	504	136	✓
Cost Per 1000 Currency Notes	Efficiency	\$28.83	\$31.00	✓
Cost Per 1000 Coin Equivalents	Efficiency	\$7.42	\$7.03	
<b>Management</b>				
Percent of Statutory IG Audits Completed By the Required Date	Outcome	100%	100%	✓
Average Calendar Days For TIGTA to Issue Final Audit Report	Efficiency	358	300	
Number of Open Material Weakness	Outcome	7	4	
Management Cost Per Treasury Employee	Efficiency	\$39.33	Baseline	✓

# Treasury Strategic Goals and Strategic Objectives

Below is a crosswalk that links Treasury’s focus areas, goals and objectives. The Department’s goals and objectives fall into three focus areas: Economic, Financial and Management. The goals and objectives describe how Treasury will (1) promote prosperous and stable U.S. and world economies; (2) preserve the integrity of financial systems; (3) manage the U.S. Government’s finances effectively; and (4) ensure sound and professional internal operations of the Department.

	<b>Strategic Goals</b>	<b>Strategic Objectives</b>
<b>Economic</b>	<b>Promote Prosperous U.S. and World Economies</b>	Stimulate Economic Growth and Job Creation Improve and Simplify the Tax Code Provide a Flexible Legal and Regulatory Framework
	<b>Promote Stable U.S. and World Economies</b>	Increase Citizens’ Economic Security Improve the Stability of the International Financial System
<b>Financial</b>	<b>Preserve the Integrity of Financial Systems</b>	Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks Execute the Nation’s Financial Sanctions Policies Increase the Reliability of the U.S. Financial System
	<b>Manage the U.S. Government’s Finances Effectively</b>	Collect Federal Revenue When Due, Through a Fair and Uniform Application of the Law Manage Federal Debt Effectively and Efficiently Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms Optimize Cash Management and Effectively Administer the Government’s Financial System
<b>Management</b>	<b>Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of Treasury</b>	Protect the Integrity of the Department of Treasury Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

# E Creating the Conditions for Economic Prosperity

Strategic Goals	Strategic Objectives
Promote Prosperous U.S. and World Economies	Stimulate Economic Growth and Job Creation
	Provide a Flexible Legal and Regulatory Framework
	Improve and Simplify the Tax Code
Promote Stable U.S. and World Economies	Increase Citizens' Economic Security
	Improve the Stability of the International Financial System

## Promote Prosperous U.S. and World Economies

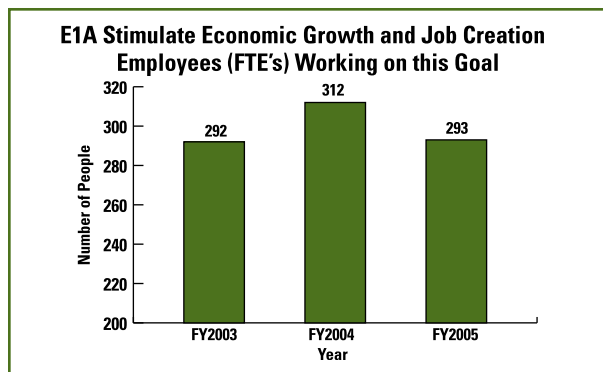
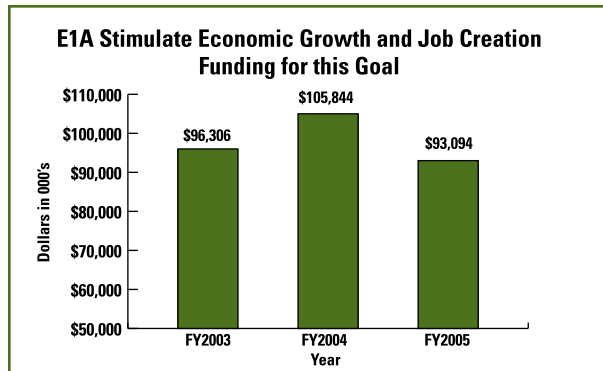
### Stimulate Economic Growth and Job Creation

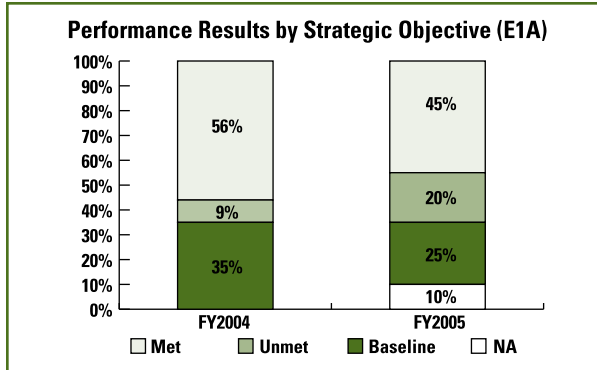


Treasury stimulates domestic and international economic growth and job creation primarily through three offices: the Office of Economic Policy (EP), the Office of International Affairs (IA) and the Community Development Financial Institutions Fund (Fund). Treasury stimulates economic growth by expanding the capacity of financial institutions to provide affordable credit, capital, and financial services to the American public. Treasury's Fund encourages investment in the nation's economically distressed communities and provides financial and technical support to the financial institutions within these underserved communities.

### Performance Summary and Resources Invested

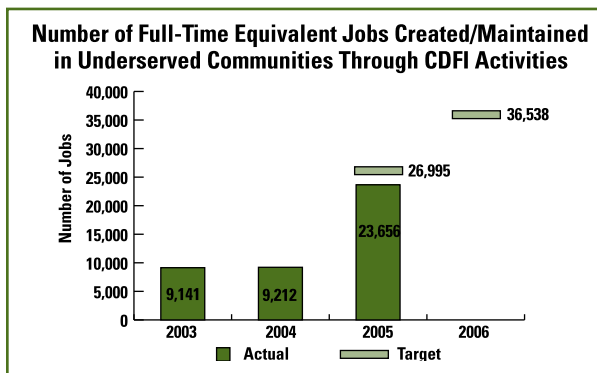
In FY 2005, Treasury spent \$93,094,000 with a workforce of 293 employees to stimulate economic growth and job creation. Treasury met 45% of its targets for this objective, did not meet 20% and designated the remaining 25% as "baseline" to assess the data and set appropriate targets for next year; 10% were unavailable due to revisions or discontinuance of the measures.





### Discussion and Analysis

Fund awardees and allocatees create jobs by lending to and investing in businesses and real estate projects. For FY 2005, the Fund reported 23,656 jobs created or retained by awardees and allocatees.



Through the Financial Assistance (FA) component of the CDFI Program, the Fund provides FA awards to certified CDFIs that demonstrate the ability to leverage non-federal dollars to support comprehensive business plans for providing services to create community development impact in underserved markets. In FY 2005, the Fund made \$33 million in FA awards to CDFIs that primarily serve rural and urban low-income communities.

**FA Awardees Exceed Private Leverage Goal:** The Fund significantly exceeded the \$500 million private dollars leverage goal for FA funds by leveraging \$1.8 billion. The awardees have increased the ability to leverage debt by showing a higher ratio of liabilities

to net assets. Furthermore, awardees have reported a greater project leverage by partnering with other entities. Overall, the leverage ratio has increased from \$20:\$1 to \$27:\$1 from FY 2004 to FY 2005.

**Native Initiatives:** The Fund has a number of initiatives designed to overcome barriers preventing access to credit, capital and financial services in Native American, Alaska Native and Native Hawaiian communities (collectively referred to as “Native American Communities”). Among these initiatives are a funding program, the Native American CDFI Assistance (NACA) Program, targeted to increase the number and capacity of existing or new CDFIs serving Native American Communities (Native American CDFIs), and complementary capacity-building initiatives that foster the development of Native American CDFIs through training and technical assistance. In FY 2005, the Fund issued \$3.5 million in Native Initiative Awards to 22 Native American CDFIs.

**Bank Enterprise Award (BEA) Program:** The BEA Program provides financial incentives to insured depository institutions to expand investments in CDFIs and to increase direct lending, investment, and service activities in economically distressed communities. Providing modest monetary awards for large increases in community development leverages the Fund’s dollars and puts more capital to work. BEA Applicants showed an increase of over \$100 million from FY 2004 to FY 2005, surpassing the Fund’s goal of \$55 million by nearly 100%. The prospect of receiving a BEA grant is an incentive for banks to increase their investments.

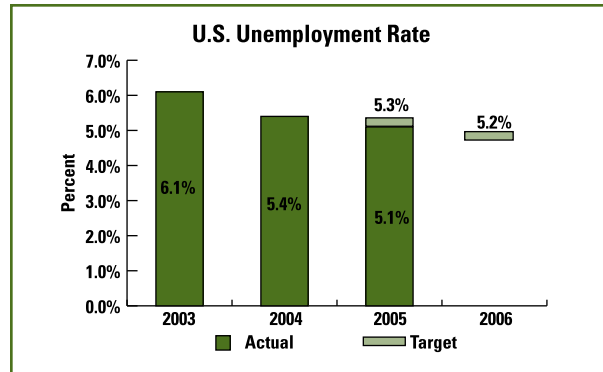
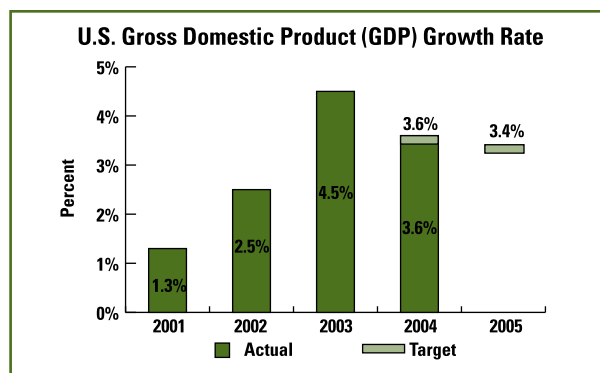
**New Markets Tax Credit (NMTC) Program:** The NMTC Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must be used by the CDE to provide investments in low-income communities. In FY 2005, the Fund made \$2 billion in tax credit

allocations, providing recipients the ability to raise capital and invest. The Fund works closely with the IRS to implement this program. In FY 2005, CDEs made \$1.2 billion in loans and investments. CDEs have used NMTC proceeds to finance a variety of activities throughout the United States. In most cases, the allocatees indicate that the projects would not have been undertaken without the NMTC.

**Effective Use of Technology & Resources:** The Fund completed its verification of the first round of annual data submitted through the Community Investment Impact System (CIIS). CIIS is the Fund’s new web-based data collection system for direct funding and tax credit awardees. The system collects both institution and transaction level data on the community development finance industry.

The Fund improved its mapping software for CDFIs to electronically update and store geographic data for targeted market areas. The data can be linked to funding applications and analyzed.

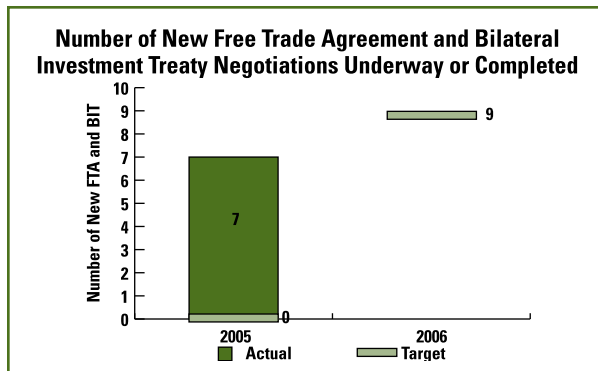
**Economic Policies:** Treasury develops and implements economic policies to stimulate economic growth and job creation. While drawing a direct relationship between Treasury’s actions and economic indicators is difficult, Treasury policy makers have helped to create an environment conducive to strong economic growth and a healthy labor market. In FY 2005, real Gross Domestic Product (GDP), the broadest measure of the economy’s performance, rose by



3.6%. Actual growth exceeded the Administration’s estimate of the economy’s potential growth rate. The solid pace of expansion spurred acceleration in job creation that helped lower the unemployment rate by 0.3 percentage points over the fiscal year to 5.1%. Each year, Treasury’s Office of Economic Policy participates in an interagency working group with the Office of Management and Budget and the Council of Economic Advisor. This group is responsible for developing the economic assumptions that serve as the foundation for the Administration’s budget forecast. In FY 2005, Treasury made a significant contribution to this effort, developing a study of recent trends in labor force participation and pairing this work with expected demographic changes to forecast the likely future path of the rate of labor force participation. Treasury also conducted a unique analysis of defined-benefit pensions and their role in future labor compensation packages. Finally, Treasury staff performed state-of-the-art analysis on the proportion of national income that is taxable. These efforts were used to develop the forecast for economic growth and estimated tax receipts in formulating the President’s overall financial plan for the Federal Government.

Treasury stimulates international economic growth and job creation primarily through the Office of International Affairs (IA). IA works to open trade and investment, encourage growth in developing countries, and promote responsible policies regarding international debt, finance, and economics.

**Removing International Barriers to Trade and Investment:** Treasury participates in the negotiation of international agreements that remove barriers to trade and investment. These agreements lead to enhanced global market efficiency and increased job and business opportunities for Americans. The U.S. seeks strong commitments from its trading partners to ensure those markets are available to the U.S. on a fair and open basis. Once implemented, these agreements serve as a core element of our trading partner's economic infrastructure, which enhances international economic and financial stability. Treasury participates actively in these negotiations, which are facilitated through the World Trade Organization or through U.S. initiated bilateral and regional Free Trade Agreements (FTA) and Bilateral Investment Treaties (BIT).



In FY 2005, the U.S. Congress passed the Central American Free Trade Agreement (CAFTA). Treasury co-led the financial services negotiations and was a significant participant in negotiations of the investment provisions. If approved and implemented in its present form, CAFTA would end most tariffs on more than \$33 billion of goods traded between the U.S. and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.

In FY 2005, there were seven open FTA negotiations with Panama, Thailand, three Andean countries, and initial talks with Oman and the United Arab Emirates (UAE). The talks with Oman reached an agreement

while the talks with the Andean countries and the UAE are expected to be completed in FY 2006.

BIT agreements contain provisions that help ensure the most efficient and effective use of capital and provide a legal framework to enhance investor confidence, economic growth and greater opportunities for American workers and employers. Building on the model BIT agreement developed last year, Treasury is participating in on-going negotiations with Pakistan. Additionally, Congress ratified a FY 2005 BIT agreement with Uruguay.

**Moving Forward**

In FY 2006, Treasury will continue to advance its analytical capabilities. Special emphasis will be placed on enhancing Treasury's forecasting capabilities to better project emerging trends, and on streamlining and improving analyses.

The Fund will continue to make changes to help communities in need. The Fund did not achieve the goal of 26,995 full-time jobs created for FY 2005. The primary factor was insufficient data as fewer awardees reported data this year. Moving forward, the Fund will work more closely with awardees regarding the importance of reporting in a timely and accurate manner, and may initiate administrative sanctions for such non-compliance.

The Fund is working to ensure that awardees submit CIIS reports on time and respond to the Fund's requests for clarification. Timely submission and response to inquiries is needed so that the Fund can accurately report on its annual performance. The Fund is working to make the CIIS data available to the public when legally appropriate.

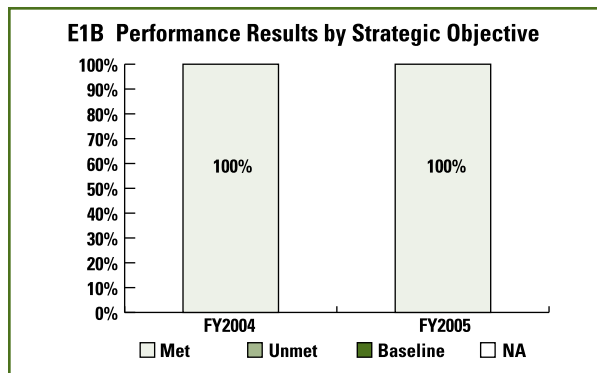
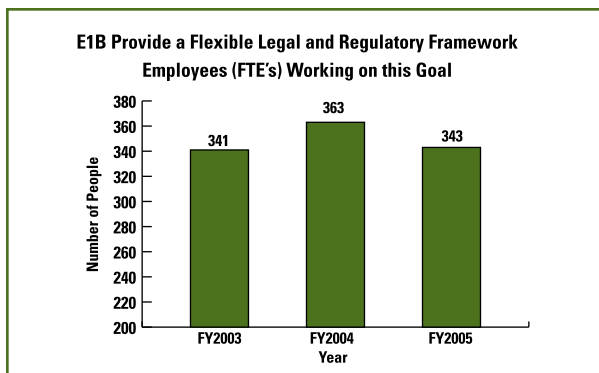
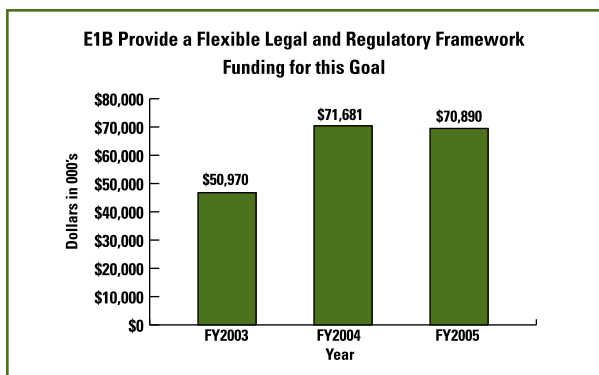
In FY 2006, the Fund will award and administer the contract for an independent evaluation of the NMTC Program. This evaluation will analyze the flow of capital into low-income communities, the performance of CDE's that receive allocations of tax credits and the outcomes at the community level.

### Provide a Flexible Legal and Regulatory Framework

Treasury is the primary regulator and supervisor of national banks, savings associations and savings and loan holding companies. Treasury’s regulation efforts are performed through the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS). OCC and OTS work to streamline their licensing and supervisory procedures and to keep regulations current, clearly written and supportive of an effective process that promotes competitive financial services, consistent with safety and soundness.

#### Performance Summary and Resources Invested

In FY 2005, Treasury spent \$70,890,000 with a workforce of 343 employees to provide a flexible legal and regulatory framework. In FY 2005, Treasury met 100% of its performance measures for this objective.



#### Discussion and Analysis

The OCC charters, supervises and regulates national banks as well as evaluates the permissibility of structures and activities of those banks and their subsidiaries. A responsive and efficient licensing operation is essential to meet the needs of banks that are part of, or seek to become part of, the national banking system. In FY 2005, OCC received 3,332 corporate applications and notices and issued 2,128 decisions, and issued 96% of all decisions within established time frames. The OCC received 1,256 applications and notices electronically, an increase of 44% from FY 2004. Electronic filing reached 38% overall, an increase from 34% in FY 2004.

In FY 2005, OCC issued 131 legal opinions on significant topics including the use of derivatives, electronic banking and directors’ qualifying shares. Of the 120 opinions subject to the established processing time frame, 86% were issued on time. The OCC issued seven final rules, one interim rule and two notices of proposed rulemaking.

OTS, like OCC, charters, examines, supervises, and regulates federal savings associations insured by the Savings Association Insurance Fund, in addition to their holding companies. OTS strives to reduce the regulatory burden on savings associations while maintaining effective supervision. To achieve this goal, OTS is improving the application process, limiting assessment rate increases, and reviewing burdensome statutes and regulations. OTS tailors

examinations based on the risk profile of the savings association. Smaller savings associations undergo streamlined exams, while more complex, larger savings associations are comprehensively reviewed.

In 2005, OTS continued to combine examinations for safety and soundness and compliance in order to attain greater efficiencies, improve its assessment of risk, reduce regulatory burden, and provide examiners with broader developmental opportunities. For the third consecutive year, OTS managed its operations to ensure that assessment rate increases did not exceed the inflation rate.

Under the Economic Growth and Regulatory Paperwork Reduction Act, a 1996 law, federal banking agencies are required to review all of their regulations at least once every 10 years. The agencies must complete the first review under this law by 2006. In 2003, the agencies began a three-year joint effort to categorize the regulations, publish the categories for comment, report to Congress on any significant issues raised by the comments, and eliminate unnecessary regulations. To date, agencies have issued five notices requesting comment on various categories of regulations. In addition, the agencies are conducting outreach meetings across the United States to solicit input from bankers as well as consumer and community groups.

The federal banking agencies have identified burdens that would require legislative changes to the underlying statutes before changes could be made to the regulations. These changes were presented to Congress as a list of consensus items that the national bank and thrift industries support.

### Moving Forward

OCC legal opinions and corporate decisions will enable national bank activities to continue to evolve, consistent with safety and soundness. The OCC will continue to support the ability of national banks to operate under uniform national standards. The agencies will implement the revised Community Reinvestment Act regulation to reduce regulatory burden and support public policy objectives for community investment.

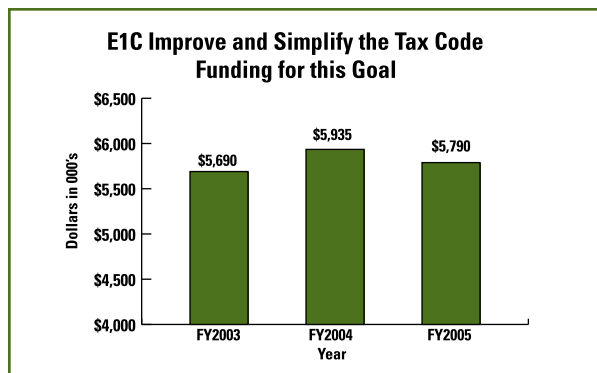
Beginning in FY 2006, OCC and OTS will implement a new performance measure (total costs relative to each \$100,000 in assets regulated) in support of its goal to efficiently control costs while ensuring the safety and soundness of the national bank and thrift industries.

### Improve and Simplify the Tax Code

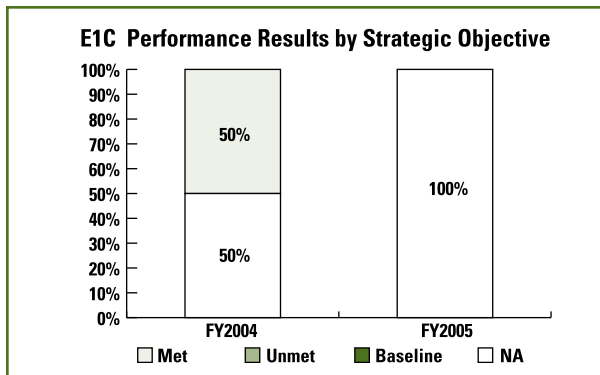
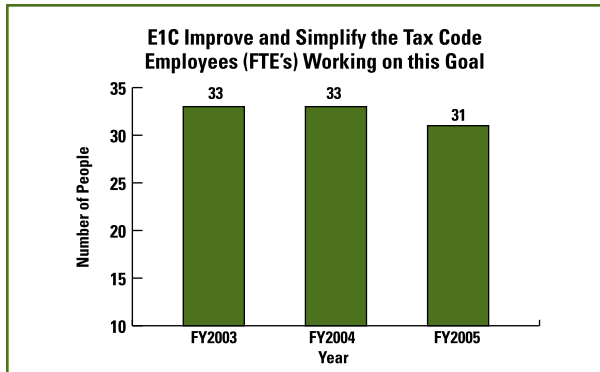
Treasury is focused on simplifying and reforming the tax code. This will reduce the cost of compliance and contribute to economic growth. Treasury’s Office of Tax Policy conducts this analysis.

### Performance Summary and Resources Invested

In FY 2005, Treasury spent \$5,790,000 with a workforce of 31 employees to improve and simplify the tax code. Performance measure data was not available for this objective due to revisions or discontinuance of the measures.







Discussion and Analysis



In FY 2005, Treasury worked closely with an advisory panel set up by President Bush to find options for reforming the Federal Internal Revenue Code. The Advisory Panel held public meetings in locations throughout the United States to obtain information and advice on making the tax system simpler, fairer and more growth-oriented. In analyzing the current tax system and reviewing the thousands of comments received, the Advisory Panel noted that, (1) over 60% of taxpayers use a paid preparer; (2) nine different definitions of income and fourteen phase-out levels are used to make fifteen common tax benefits available to families; and (3) there have been 14,400 distinct changes to the tax code since 1986. With analytical support from Treasury’s Office of Tax Policy, the Advisory Panel developed policy options and submitted their report to Secretary Snow on November 1, 2005.

Moving Forward

Treasury will present recommendations for tax reform to President Bush in early FY 2006.

## Promote Stable U.S. and World Economies

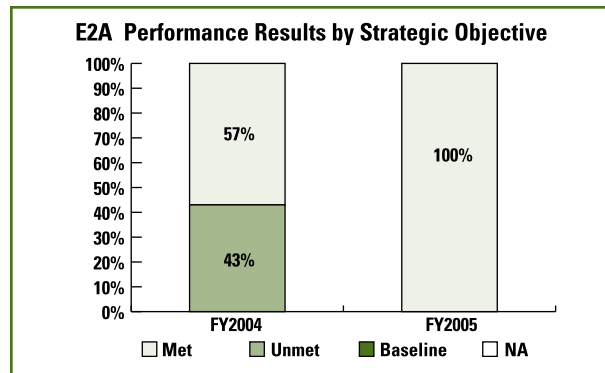
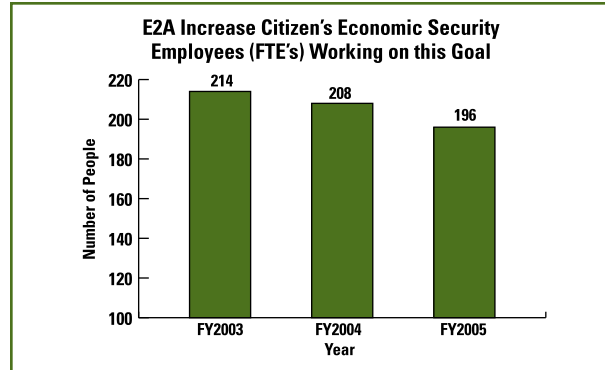
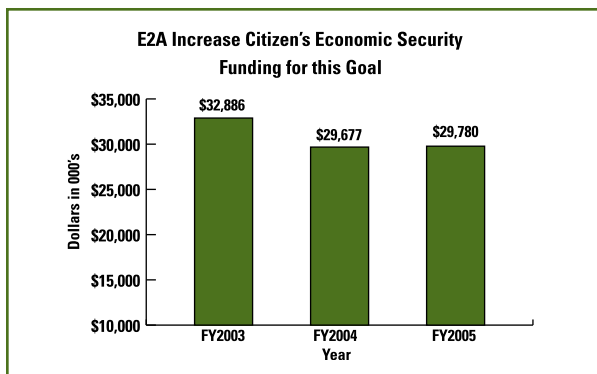
### Increase Citizens' Economic Security



Treasury promotes economic security through the Office of International Affairs (IA), the Office of Financial Education, the Office of Economic Policy (EP), and the Alcohol and Tobacco Tax and Trade Bureau (TTB). Treasury promotes a stable U.S. economy by encouraging personal savings, protecting the security of pensions, ensuring the privacy of personal information in financial transactions, and protecting consumers from fraud and deception.

#### Performance Summary and Resources Invested

In FY 2005, Treasury spent \$29,780,000 with a workforce of 196 employees to increase citizens' economic security. Treasury met 100% of its performance measures for this objective.



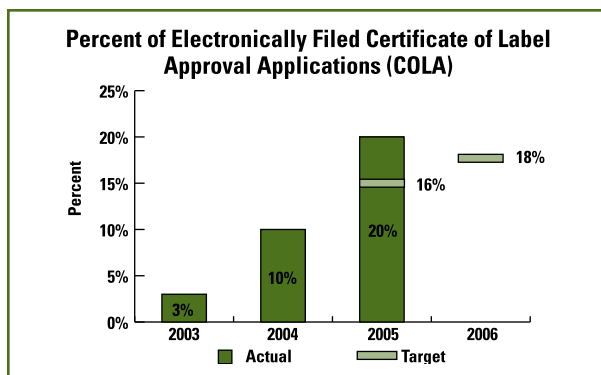
#### Discussion and Analysis

**Financial Education:** Treasury, through the Office of Financial Education, coordinates government efforts to increase the personal savings rate and ensure citizens make informed financial decisions. In FY 2005, Treasury increased its outreach efforts by improving the online Federal Financial Education Directory. By September 2005, this directory provided improved access to information on twenty-eight personal finance programs and initiatives in English and Spanish. Treasury also promoted financial education through increased outreach at events, speeches, round-tables, and teaching sessions. Topics included basic savings, credit management, home-ownership, and retirement planning. From January 2004 to August 2005, 164 events were held in 38 states, reaching over 9,200 people.

**Pensions:** Treasury's Office of Economic Policy supported the Administration's initiative to ensure secure pensions for citizens through fundamental

reform of the defined-benefit pension system. In FY 2005, a corporate bond yield curve was developed to provide a more accurate measure of funding requirements. This yield curve provides a schedule of interest rates that reflect the timing of future obligations. Yield curve proposals aim to improve accuracy and ensure that the value of assets in pension funds equal the value of payments promised.

**Regulation:** Treasury’s Alcohol and Tobacco Tax and Trade Bureau (TTB) protects consumers of alcohol products from fraud and deception through its regulation of businesses. Treasury, through TTB, requires importers and bottlers of alcoholic beverages to obtain a Certificate of Label Approval (COLA) or certificate of exemption from label approval for most alcoholic beverages prior to their introduction into interstate commerce. TTB conducts personal and financial background investigations, and inspections of premises to be used for the operation. In FY 2005, Treasury approved 79,805 of the 106,333 COLA applications received.



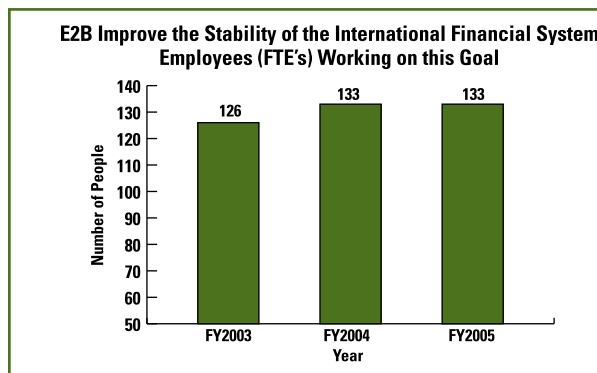
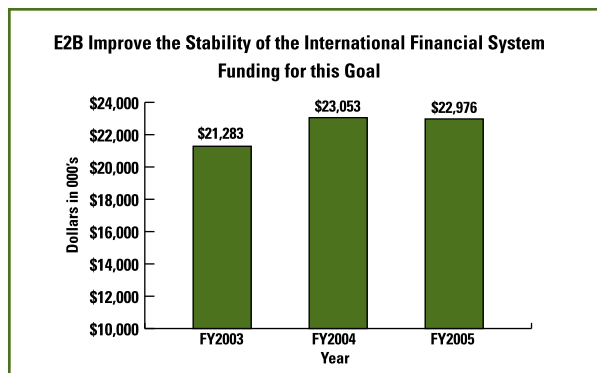
**Monitoring the Economy:** Treasury helps promote a stable economy by providing government officials with timely, in-depth analysis of the latest economic developments and emerging trends. In FY 2005, Treasury prepared over 400 updates on breaking economic news and more than 20 studies for the Secretary. Several of the analyses were shared with policy makers at other agencies to enhance their understanding of key economic issues.

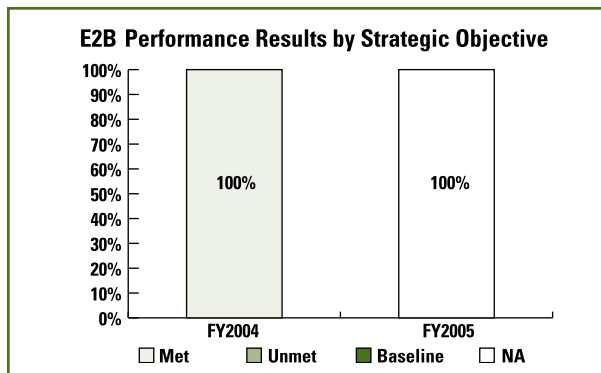
### Improve the Stability of the International Financial System

Treasury, through IA, monitors the economies of more than 160 countries worldwide to ensure stability and transparency in the global marketplace. Treasury also works directly with more than 20 International Financial Institutions and organizations to help target development assistance.

#### Performance Summary and Resources Invested

In FY 2005, Treasury spent \$22,976,000 with a workforce of 133 employees to increase citizens’ economic security. Treasury did not have data available for the performance measures in this objective due to revisions or discontinuance of the measures.





### Discussion and Analysis

#### *Promoting Free Trade and Budget Savings:*

Treasury supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to official export subsidies. Treasury secured agreements in the Organization for Economic Cooperation and Development (OECD) that reduced export credits and tied aid that requires that recipient countries buy goods and services from the donor country. These subsidies in official export financing are valued at \$70 billion annually. These agreements open markets, level the playing field for U.S. exporters, and provide effective subsidy reductions that save the U.S. taxpayer about \$800 million annually. Cumulative budget savings from these arrangements are estimated at over \$10 billion since 1991.

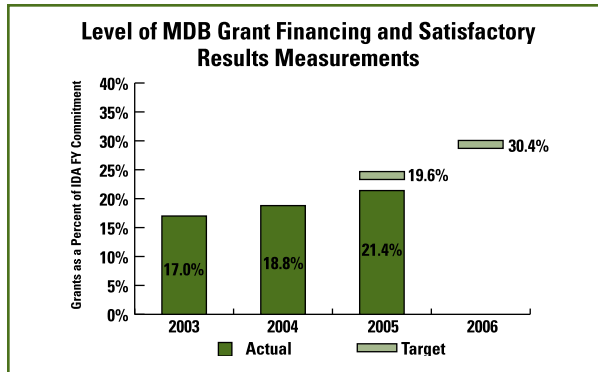


During FY 2005, Treasury negotiated an agreement to subject untied aid financing to new OECD rules. With the support of a Congressional mandate, Treasury reached agreement this using the G7 (U.S., Canada, United Kingdom, Japan, France, Germany, and Italy) and the OECD. Under this new agreement, bidding information for untied aid financed projects must now be publicly available in advance of bidding to facilitate effective competition by U.S. and other exporters. U.S. exporters could average as much as \$1 billion of new capital goods export contracts annually at no cost to U.S. taxpayers. Untied aid financing has averaged over \$7 billion annually since 1995.

#### *G8-Broader Middle East and North Africa (BMENA) Initiative:*

Across the Middle East, countries lack strong, well regulated, and efficient financial systems that can allocate resources to productive activities that provide employment, goods, and services for a rapidly-growing population. The multilateral G8 (U.S. Canada, United Kingdom, Japan, France, Germany, Italy, and Russia) BMENA initiative aims to address this deficiency by providing training, technical assistance, and policy advice. Treasury’s goal is to secure a more prosperous Middle East by influencing the development of the financial sector that creates jobs and opportunities for the region and become an increasingly important trading partner to the United States.

*Egypt:* Treasury, in cooperation with the State Department and U.S. Agency for International Development, negotiated an agreement with the Government of Egypt to tie the disbursement of U.S. foreign assistance to Egypt’s implementation of a series of reforms designed to modernize its financial sector. As a result, Egypt began the process of privatizing state-owned banks, resolving bad loans, and increasing the efficiency of the foreign exchange market. These reforms boosted investor confidence in Egypt and contributed to strengthening economic growth, up from 3.1% in FY 2003 to 5% in FY 2005. If maintained, this growth will boost job creation and help protect Egypt against economic shocks as it opens its markets.



**African Mortgage Markets Initiative:** In July 2003, President Bush called for the United States to assist African countries in developing their respective mortgage markets. The President asked Secretary Snow to spearhead the effort and coordinate assistance with other U.S. Government agencies. Subsequently Treasury, the Overseas Private Investment Corporation, and the United States Agency for International Development implemented eight mortgage programs in seven African countries. Commitments have been made to fund or finance over \$60 million for these programs that range from technical assistance on mortgage policy development to actual mortgage deals. During FY 2005, a major private sector program started in Zambia that will produce 5,000 homes and 5,000 mortgages. This program combines housing production with mortgage financing for buyers, providing first-time mortgages for many middle income Zambians.

**Brazil:** The largest economy in Latin America continued a strong recovery from the financial crisis of 2002, during which the United States supported International Monetary Fund assistance to Brazil to stabilize its economy. Good economic policies helped produce 4.9% real GDP growth during 2004 in Brazil, the highest growth rate in ten years. In addition, during the twelve months through July 2005, Brazil's economy created 1.4 million new jobs. During Treasury consultations with Brazil in August 2005, discussions focused on the global outlook, the benefits of increased trade openness for growth, strategies to increase investment in produc-

tive infrastructure, and policies to promote research and innovation.

**Tsunami Relief:** Treasury worked closely with a State Department interagency task force to ensure that the U.S. response to the tsunami tragedy was coordinated effectively with international organizations and other donors, to minimize the impact of the tsunami on growth and financial markets, and to provide real results for the people affected. To achieve these goals, Treasury worked with other U.S. government agencies to:

- Support creation of a “tracking matrix” for specific reconstruction projects underway by key donors in tsunami-affected countries to demonstrate that donor funds generated results
- Support a multilateral deferral of debt payments by the two countries most affected (Indonesia and Sri Lanka), to help them best use their own resources for tsunami relief and avoid financing shortfalls
- Coordinated with the World Bank, Asian Development Bank, and other donors to share information, avoid duplication of effort, and set up proper monitoring arrangements to minimize the potential misuse of donor resources

**China:** Treasury's international efforts included continuing dialogue and cooperation with Chinese leaders to achieve the goal of greater Chinese exchange rate flexibility. This involved discussions among senior policy officials, multilateral efforts, and a Treasury-led Technical Cooperation Program. This effort helped bring about the decision by the Chinese authorities to abandon their eight-year exchange rate peg and adopt a new exchange rate mechanism, an important first step toward greater flexibility in China's exchange rate. Treasury also broadened the discussion with China to include two issues critical to continuing China's economic success: fostering deeper, more open, and more efficient financial markets, and achieving a more balanced and sustainable pattern of growth with greater reliance on domestic demand.

**Debt Relief for the Heavily Indebted Poor Countries (HIPC):** In July 2005, President Bush and other G8 leaders endorsed 100% debt relief for Highly Indebted Poor Countries (HIPCs). Treasury developed and successfully negotiated the financial structure of this agreement, which will result in 100% cancellation of debt obligations owed to the International Development Association, African Development Fund, and International Monetary Fund by eligible countries.

Under this plan, the following 18 countries will be eligible immediately for approximately \$40 billion in relief: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. In addition, Cameroon, Chad, Democratic Republic of Congo, Gambia, Guinea, Guinea-Bissau, Malawi, Sao Tome and Principe, Sierra Leone, Cote d'Ivoire, Burundi, Central African Republic, Republic of Congo, Comoros, Laos, Myanmar, and Togo will also become eligible as they reach "Completion Point." Total debt relief provided under the G8 agreement is approximately \$56 billion.

This unprecedented initiative will improve debt sustainability and balance of payments positions, contribute to economic growth and job creation, and end the destabilizing lend-and-forgive approach to development assistance. Furthermore, the removal of unsustainable debt combined with additional development resources, largely provided on grant terms, will deliver significant support for countries' efforts to reach their development goals. Approval of this agreement by the World Bank, African Development Fund, and IMF is pending. It will likely be implemented in early 2006.

**Liberia:** A Treasury-initiated effort to improve economic governance in Liberia led to the creation of a Governance and Economic Management Assistance Program (GEMAP) for Liberia. The GEMAP is necessary to promote good governance in Liberia fol-

lowing decades of dictators and a long civil war that ended in 2003. A key objective of GEMAP is to limit the potential for corruption by providing increased international oversight over budget revenues and expenditures the granting of concessions, and the judiciary process. The GEMAP is also intended to facilitate much needed international community assistance to Liberia in the short term, while building capacity so that such assistance is not needed in the long term.

**Jordan:** The U.S. provided Jordan with \$650 million in assistance during the past year. Treasury worked closely with Jordanian financial authorities by providing policy advice and support to move Jordan from dependency on U.S. financial assistance to financial self-sufficiency. Treasury consistently pressed Jordanian authorities to remove the inefficient and costly fuel subsidies that have become an enormous drain on that government's resources. Jordan agreed to remove the subsidies in five stages (the first two are already completed). This will encourage fiscal balance, economic stability and job growth, and a reduction in U.S. foreign aid.

**Iraq:** One of the U.S.'s primary goals in Iraq is to establish a functioning government and to rebuild the security infrastructure. Once accomplished, the U.S. can reduce its presence by shifting key tasks to the Iraqi Government.

Real success in this effort can only be built upon the foundation of a rejuvenated economy. Meaningful employment opportunities can help restore a flourishing middle class and weaken support for the insurgency. A credible, sustainable budget will be the centerpiece of Iraq's IMF program, the first step in its return to the international financial system. A restored oil sector can provide the resources for Iraq to finance its own reconstruction and security. Treasury staff worked closely with Iraqi officials, providing policy advice and practical assistance. In FY 2005, Treasury helped Iraq secure an historic debt reduction deal under the Paris Club, success-

fully concluding its first IMF Article IV consultation in many years, and strengthening financial management and budget execution capabilities.

Key in this effort is the Treasury Financial Attaché in Baghdad, who also serves as the head of the Fiscal and Financial Affairs office of the Iraq Reconstruction Management Office (IRMO).

**Turkey:** Treasury focuses on supporting Turkey's economic stability program. A large, fast-growing economy with roots in Europe and the Middle East, Turkey is a major emerging market and key ally whose economic stability is critically important to U.S. interests in the region. Turkey is also one of the largest debtors to the International Monetary Fund (IMF), which makes Turkish stability important to the financial health of the IMF. Treasury continues to work closely with Turkish authorities to craft and support what has become an extremely successful economic stability program. Turkey's economy is strong enough that this year the country was able to forego an \$8.5 billion loan from the U.S. intended to help cushion against the negative impacts from the war in Iraq. Turkey has also begun formal negotiations to join the EU, which attests to its current stability.

**Encouraging Small Business Growth in Eurasia:** The Small and Medium Enterprise (SME) Fund, established in 2000, leverages capital from the European Bank for Reconstruction and Development (EBRD) to lend to SMEs through local banking systems in 12 countries in Southeast Europe and the former Eastern Bloc. As in the U.S., SMEs generate the bulk of growth and job creation. In FY 2005 total loan volume doubled to over \$3 billion, which was provided to 521,000 entrepreneurs. The total U.S. share of contributions was \$37 million. Each \$1 of U.S. funding leveraged \$81 of new lending.

## Moving Forward

Treasury will continue to study, recommend, and support Administration policy initiatives to strengthen the U.S. economy, create more jobs for Americans, and enhance citizens' economic security. Treasury engages actively in work that will improve the U.S. pension system, reform social security, and improve the federal income tax system. In FY 2006, Treasury will also renew its effort to develop improved performance measures.

Treasury will continue to measure IMF programs to ensure efficiency and effectiveness. Because this was the first year the IMF programs were measured, the target of 90% was not met. Treasury will work to meet the 90% target in FY 2006.

Treasury will assist the broader Middle East and North Africa in building strong, well regulated, and efficient financial systems that can allocate resources to productive activities that provide employment, goods, and services for a rapidly growing population. Additionally, the Department will continue dialogue with China to address global and current account trade imbalances and increase exchange rate flexibility.

# F Financing the U.S. Government and Preserving the Integrity of Financial Systems

Strategic Goals	Strategic Objectives
Preserve the Integrity of Financial Systems	Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks
	Execute the Nation's Financial Sanctions Policies
	Increase the Reliability of the U.S. Financial System
Manage the U.S. Government's Finances Effectively	Collect Federal Revenue When Due, Through a Fair and Uniform Application of the Law
	Manage Federal Debt Effectively and Efficiently
	Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms
	Optimize Cash Management and Effectively Administer the Government's Financial Systems

## Preserve the Integrity of Financial Systems

### *Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks*

### *Execute the Nation's Financial Sanctions Policies*

Treasury's Office of Terrorism and Financial Intelligence (TFI) is a key player in the Government's efforts to track and cut off the flow of funds to terrorists and other national security threats. In strong partnership with the Departments of Justice, State, and Homeland Security, as well as the Intelligence Community, TFI is leveraging a range of financial intelligence authorities to prevent the flow of funds to terrorist organizations. These efforts are beginning to yield encouraging results, impeding access to funds and the financial system by terrorist groups such as al Qaeda and Hamas.

Created in 2004, the Office of Terrorism and Financial Intelligence (TFI) marshals all of Treasury's intelligence resources and authorities and deploys them in a coordinated and focused manner against security threats.

TFI unifies leadership for the functions of:

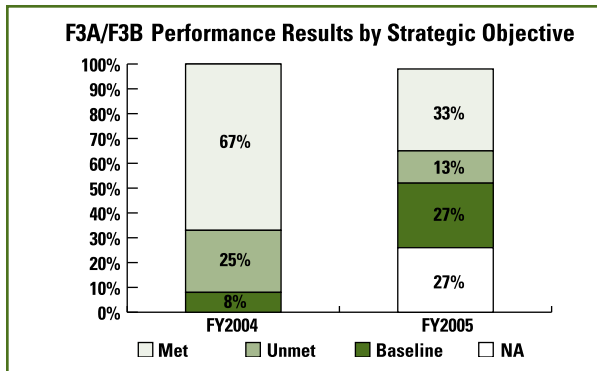
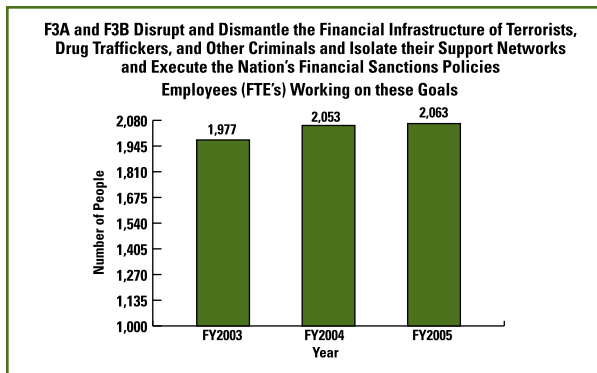
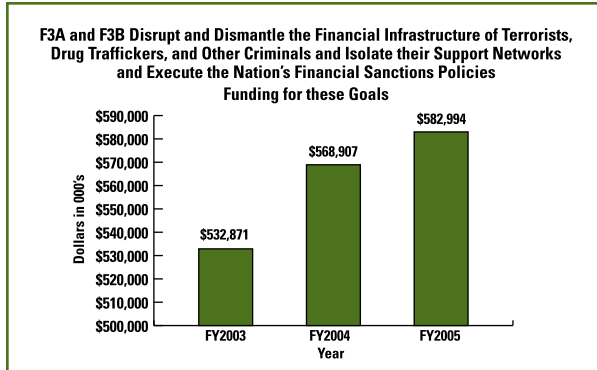
- The Office of Intelligence and Analysis (OIA)
- The Office of Terrorist Financing and Financial Crimes (TFFC)
- The Financial Crimes Enforcement Network (FinCEN)
- The Office of Foreign Assets Control (OFAC)
- The Treasury Executive Office for Asset Forfeiture (TEOAF)

Treasury's range of activities against national security threats include: (1) coordinating financial intelligence and analysis, (2) promoting international relationships that attack the financial underpinnings of national security threats, (3) improving the transparency and safeguards of financial systems, and (4) targeting and sanctioning supporters of terrorism, proliferators of weapons of mass destruction, narco-traffickers and other threats.

### Performance Summary and Resources Invested

In FY 2005, Treasury spent \$582,994,000 with a workforce of 2,063 employees to fight financial crimes and the financial war on terror. Treasury met 33% of its targets for this objective, did not meet 13% and designated 27% as "baseline" to assess the data and set appropriate targets for next year. 27% were unavailable due to revisions or discontinuance of the measures.





**Discussion and Analysis**

**Developing Increased Role in the Intelligence Community:** One of TFI's priorities is to collect and analyze intelligence for action by the Government. Congress created the Office of Intelligence and Analysis (OIA) to improve Treasury's intelligence and analytic capabilities. TFI conducts weekly targeting sessions to review potential targets, assess the full range of possibilities and assign follow up action. Intelligence information and analyses are incorpo-

rated into all aspects of policy deliberations.

TFI is better integrated into the intelligence community. TFI hired a Requirements Officer in 2005, focused on providing comprehensive background information to the organization and communicating intelligence gaps. As a result, support from the intelligence community is tailored to Treasury's needs. An example where improved coordination has made a difference is in Treasury's efforts to cut-off funding for the insurgents in Iraq.

Appropriate policy, regulatory and enforcement actions include:

- Freezing the assets of terrorists, drug kingpins and support networks
- Cutting off corrupt foreign jurisdictions and financial institutions from the U.S. financial system
- Developing and enforcing regulations to reduce terrorist financing and money laundering
- Tracing and repatriating assets looted by corrupt foreign officials
- Promoting a meaningful exchange of information with the private financial sector to help detect and address threats to the financial system

**The Fight Against Money Laundering:** The fight against money laundering is integral to the war against terrorism. Treasury continues to promote anti-money laundering as a key to attacking criminal activity, including narcotics trafficking, white collar crime, organized crime, and public corruption. Resources devoted to fighting money laundering and financial crimes reap benefits beyond addressing the financial crimes they directly target. Financial investigations expose the infrastructure of criminal organizations. They provide a roadmap to those who facilitate the criminal activity, such as broker-dealers, bankers, lawyers and accountants; lead to the recovery and forfeiture of illegally obtained assets; and create broad deterrence against criminal activity.

International cooperation is a key element in the fight against money laundering. Accordingly, Treasury participates with other nations in the Financial Action Task Force (FATF). FATF, created in 1989, is the leading international standard setting body charged with safeguarding the global financial system against money laundering and terrorist financing. In FY 2005, as a member of the FATF, Treasury:

- Actively participated in and led many FATF initiatives, including efforts to strengthen counter terrorist financing standards
- Prompted an initiative within the FATF to strengthen the world's defenses of counter-terrorist financing
- Coordinated with agencies in promoting the FATF; adoption of a new international standard calling on governments to establish regimes to address cross border movement of illicit currency and bearer negotiable instruments
- Developed a list of “red flag” indicators to detect cash couriers

During FY 2005, TFI implemented a new Executive Order to combat the financing of Weapons of Mass Destruction proliferation that enables the government to designate proliferators and their supporters. The designation blocks or freezes all property and interests in the U.S. or that come into the control of the U.S. The U.S. originally designated eight entities (3 North Korean, 4 Iranian, and 1 Syrian), and has subsequently designated eight additional entities.

TFI also led an inter-agency effort to develop the first-ever National Money Laundering Threat Assessment. The assessment tracks money-laundering threats over a large geographic area and identifies evolving vulnerabilities to assist the enforcement community to apply resources to the greatest threat areas.

By the close of FY 2005, TFI, through the Financial Crimes Enforcement Network (FinCEN), completed anti-money laundering regulations for 11 of the 15 targeted industries. FinCEN drafted regulations for the remaining industries; however, due to resource

constraints and the need for extensive consultation and coordination with other federal regulators, was unable to finalize regulations for all 15 industries.

**Administering the Bank Secrecy Act:** TFI, through FinCEN, safeguards the financial system from the abuses of financial crime by enforcing the Bank Secrecy Act (BSA). The BSA requires financial institutions to make reports available to law enforcement, keep records, and establish appropriate internal controls to guard against financial crime. Additionally, in its role as administrator of the BSA, FinCEN oversees and coordinates the sharing of financial intelligence analysis with its stakeholders. FinCEN works closely with its regulatory partners to take action when industry does not comply with the BSA. FinCEN encourages compliance by imposing civil monetary penalties or lesser enforcement remedies against violating institutions.

In 2005, FinCEN closed 76 enforcement cases and eliminated its historic case backlog. Unfortunately, FinCEN did not meet the FY 2005 performance measure of “1.1 years average time to process cases.” The actual result of 1.3 years resulted from focusing resources on eliminating the case backlog. By eliminating the case backlog, FinCEN is able to direct resources towards the timely and appropriate resolution of significant cases such as *AmSouth Bank* and *Arab Bank*. Those cases were processed in three months and eight months, respectively.

FinCEN facilitates information sharing through BSA Direct to track and share data within the enforcement community. The goal of BSA Direct is to accelerate the secure flow of financial information so that enforcement agencies can more readily use the information to prevent, detect, and prosecute financial crime, including terrorist financing. FinCEN enhanced BSA Direct with a new, easier to use, web-based functionality. Law enforcement users accessing BSA Direct data through the web-based system increased from 582 in FY 2001 to 3,344 in FY 2005, surpassing Treasury's target of 3,000 users.

**Criminal Investigations:** Beyond working to ensure taxpayers comply with tax laws, IRS enforcement actions contribute to national security and homeland defense. Terrorists and their supporters have raised funds by abusing tax-exempt and non-profit organizations ostensibly engaged in humanitarian relief or religious activities. TFI provides policy guidance to the IRS-Criminal Investigation Division in anti-money laundering, terrorist financing and financial crimes cases. Given that a significant amount of terrorism funding has come from within the United States, the IRS plays a unique role in combating the use of charitable organizations to raise funds for terrorist organizations. In addition to tax-exempt organizations, terrorist organizations also finance their operations using a variety of conventional criminal activities, such as stolen property, insurance fraud, smuggling and narcotics trafficking. All of these activities impact tax administration.

The IRS provides financial investigation expertise to the Federal Bureau of Investigation's Joint Terrorism Task Forces and the U.S. Attorney's Office Anti-Terrorism Task Forces in disrupting and dismantling terrorist financing. The IRS works closely with TFI to investigate and freeze accounts controlled by individuals or "charitable" organizations suspected of raising or facilitating the movement of funds used to support terrorism.

This year, the IRS Criminal Investigation Division (CI) had 162 terrorism related investigations in inventory. Approximately 50% of these investigations have a tax related component and are directly tied to CI's core mission. In addition, 86 cases were recommended for prosecution to the Department of Justice and 67 resulted in an indictment.

**Enforcing Sanctions:** The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers and those engaged in activities related to the proliferation of weapons of mass destruction (WMD). OFAC acts

under the President's wartime and national emergency powers, as well as under authority granted by specific legislation, to impose controls on transactions and assets subject to U.S. jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments. Recent OFAC actions under several sanctions programs include:

- In January 2005, OFAC announced the designation of 15 companies and 24 individuals associated with a money-laundering cell of the Arellano Felix Organization involved in a money-laundering scheme centered on the use of currency exchange houses in Mexico laundering more than \$120 million in illicit proceeds from narcotics sales in the United States
- In May 2005, OFAC designated the Elehssan Society, including all its branches, as a charitable front for the Palestinian Islamic Jihad (PIJ), pursuant to E.O. 13224
- In May 2005, OFAC designated the Colombian conglomerate Grupo Grajales, its CEO, Raul Alberto Grajales Lemos, a key cartel leader and money launderer, 32 companies that form the Grupo Grajales business group and 30 other individuals. On June 16, 2005, Colombian authorities seized the Grupo Grajales companies in a criminal forfeiture action
- On June 28, 2005, OFAC executed Presidential Executive Order 13382, Blocking Property of WMD Proliferators and Their Supporters
- In July 2005, OFAC designated the Movement for Islamic Reform in Arabia (MIRA) as a Specially Designated Global Terrorist (SDGT). MIRA is run by al Qaeda affiliated SDGT Saad al-Faqih
- OFAC designated Viktor Bout's international arms trafficking network under E.O. 13348 with respect to Liberia and blocked approximately \$2 million in assets

## Moving Forward

Treasury achieved results in combating financing of terrorists and other national security threats. Quantifying these results is challenging. Given the clandestine nature of the activities of terrorists and proliferators of WMD, it is impossible to estimate with any precision how much money intended for their support failed to reach their hands. Treasury is forced to rely on proxy indicators to determine the effectiveness of its actions. In FY 2006, TFI will implement more refined metrics to assess performance.

Looking forward, TFI will continue to enhance its abilities to identify, disrupt and dismantle the financial infrastructure of terrorists, proliferators of WMD, narco-traffickers, criminals, and other threats and to isolate their support networks. Additionally, TFI will improve analytical capabilities, particularly with respect to the financing of proliferators of WMD.

TFI plans to:

- Improve its outreach to state governments and financial industries newly covered by BSA regulations, and strengthen oversight compliance examination activities
- Complete anti-money laundering regulations
- Develop a stronger analytic capability
- Expand international terrorist financing information exchanges by upgrading the secure web system used by the Financial Intelligence Unit network
- Monitor, update and extend existing designations to capture the evasions of Specially Designated Global Terrorists and their support networks
- Track the development of new support structures and funding sources
- Support the “all fronts” attack on the flow of drugs across Mexico

## *Increase the Reliability of the U.S. Financial Systems*

Treasury ensures the U.S. financial system’s reliability and security through the production of the nation’s coin and currency and supervision of national banks and savings associations. Two bureaus share the responsibility of meeting global demand for the world’s most accepted coins and currency: the United States Mint (Mint) and the Bureau of Engraving and Printing (BEP). These bureaus manufacture circulating coinage and popular numismatic products, and develop new designs for next generation currency to guard against counterfeiting. The Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) promote the increased reliability of the U.S. financial system by supervising national banks, savings associations, and savings and loan holding companies, thereby ensuring adherence to applicable laws, rules, and regulations and providing a safe and sound financial system.

In FY 2005, the Mint and BEP:

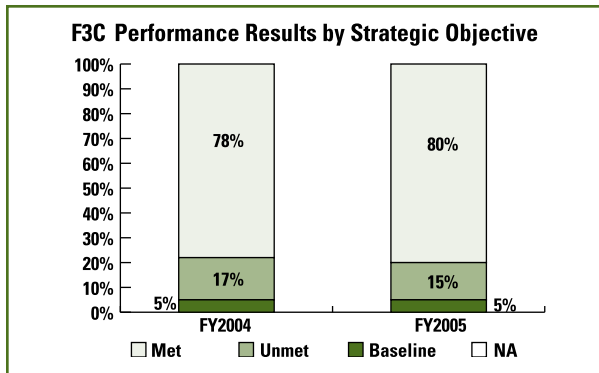
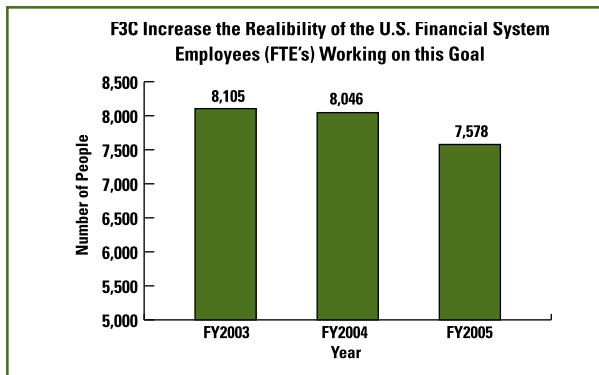
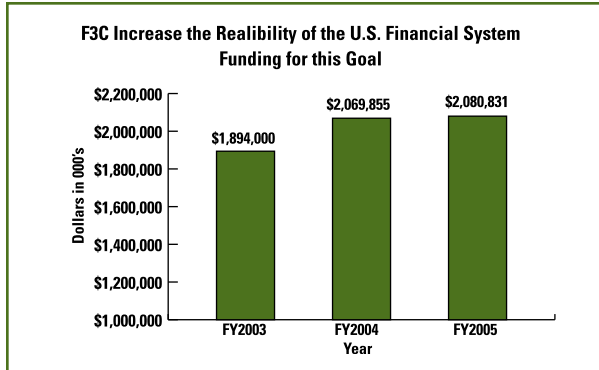
- Produced 14.2 billion coins – 700 million more than FY 2004
- Produced 8.6 billion paper currency notes – 1 million more than FY 2004

The OCC and OTS:

- Supervised 1,933 banks and 51 federal branches, with assets totaling approximately \$5.9 trillion
- Supervised 870 savings associations with \$1.4 trillion in total assets and 483 holding company enterprises with approximately \$7 trillion in consolidated assets

## **Performance Summary and Resources Invested**

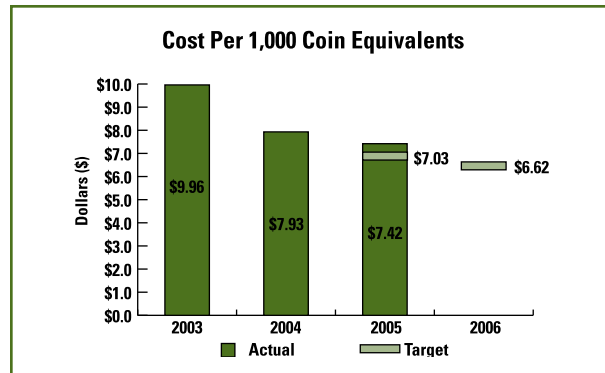
In FY 2005, Treasury spent \$2,080,831,000 with a workforce of 7,578 employees to sustain reliable financial systems. Treasury met 80% of its performance measures for this objective, did not meet 15% and designated the remaining 5% as “baseline” to assess the data and set appropriate targets for next year.



### Discussion and Analysis

The Mint and BEP have streamlined processes and leveraged technology to produce the nation's coin and currency at significant cost savings providing additional value to the American people.

**Producing Coins:** The Mint's total revenues and collections increased to \$1.77 billion in FY 2005 from \$1.65 billion in FY 2004. Total operating results and profits before protection costs increased to \$823.5 million in FY 2005 from \$688.1 million in FY 2004. Total



margins before protection costs increased to 46.5% compared to 41.7% in the prior year despite a rise in the prices of the metals that are used in the fabrication of coins. The Mint was able to increase margins by shipping more coins, improving time to market and reducing manufacturing and Selling, General and Administrative costs. Because of the improved operating results and profits, the Mint returned \$775 million to the Treasury General Fund in FY 2005, compared with \$665 million in FY 2004.

The Mint's strategic plan focuses on adding value, ensuring integrity and realizing world-class performance. Two performance measures that improved in FY 2005 are cost per 1,000 coin equivalents and cycle time. The cost per 1,000 coin equivalents decreased 6% to \$7.42 in FY 2005 from \$7.93 in FY 2004, missing the target of \$7.03. The Mint plans to continue to reduce conversion costs for given production volumes through further implementation of lean manufactur-

ing techniques at the manufacturing facilities. Cycle time declined to 69 days as of September 2005 from 85 days in September 2004, but missed the target of 53 days. The primary cause for not reaching the target is the size of the dollar coin inventory maintained by the Mint. No new production of dollar coins is taking place for circulation because demand is currently being met by existing inventory. The Mint is currently working with the Federal Reserve Banks, the armored carrier industry, and commercial banking industry to reduce inventories.

**Producing Currency:** BEP streamlined its operations to produce currency at the lowest possible cost in FY 2005. Two performance measures used to assess production and delivery efficiency are: the dollar costs per 1,000 notes produced and security costs per 1,000 notes delivered. The cost per 1,000 notes produced increased by \$0.77, up from \$28.06 in FY 2004 to \$28.83 in FY 2005, but still exceeded the target by \$2.17. The security costs per 1,000 notes delivered decreased 3% to \$5.75 in FY 2005 from \$5.95 in FY 2004. Shipment discrepancies are prevented by a series of automated quality and accountability checks performed throughout the production process as well as by final verification prior to shipment to the customer.

BEP’s program specifically addresses the nation’s need for counterfeit-deterrent currency. To deter counterfeiters, Treasury redesigned the \$10 note and continued to use the latest technologies for security printing and processing. The \$10 note follows

the successful introductions of the redesigned \$20 note and the redesigned \$50 note in 2003 and 2004, respectively. BEP will continue its currency redesign efforts. The Department has already begun its redesign of the \$100 note and expects production to begin in 2007.

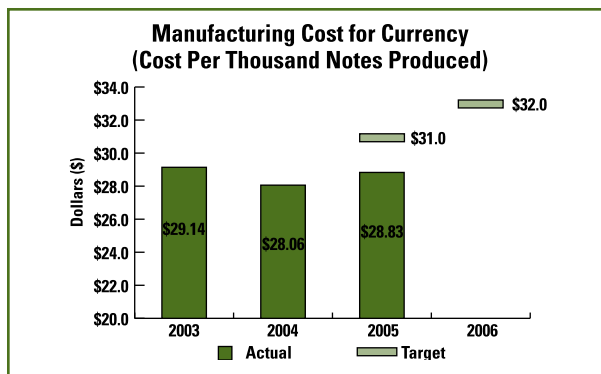
BEP’s automated inspection equipment consistently produces high quality, counterfeit-deterrent currency. As a result, 99.9% of all notes delivered to the Federal Reserve met or exceeded their exacting quality standards.

Reducing cost provides value to taxpayers and BEP established ambitious annual targets for the cost of currency and other security items produced. In FY 2005, both the currency and postage stamp programs were completed below standard cost with lower than anticipated spoilage.

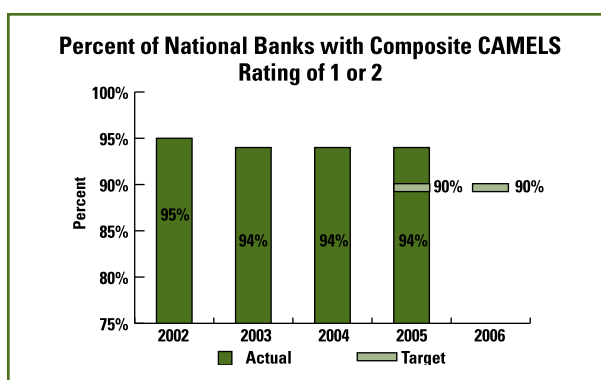
In FY 2005, 111 years of printing stamps at the BEP ended when the Bureau ceased stamp production. Throughout this relationship with the United States Postal Service, the Bureau continued to improve and update its creation of well-crafted, high quality postage stamps.

Through monthly reporting and analysis of production and cost performance data, program managers receive timely and effective feedback that they use to continually adjust and fine-tune production processes to achieve continuous improvement. For example, currency shipment discrepancies are prevented by a series of automated quality and accountability checks performed throughout the entire production process as well a final verification prior to shipment. BEP exceeded both security performance targets in FY 2005 for the number of currency shipment discrepancies (per 1000 notes delivered) and security costs per 1000 notes delivered.

**Regulating National Banks and Savings Association:** Treasury continually enhances the reliability of the U.S. financial system by administering bank and



savings association supervision programs. These programs consist of those ongoing supervision and enforcement activities undertaken to assure that each national bank or savings association is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank or savings association and the customers and communities it serves.



Treasury, through the OCC, supervised 1,933 banks and 51 federal branches, with assets totaling approximately \$5.9 trillion. OCC supervision ensures that the national banking system operates in a safe and sound manner while complying with consumer protection laws and regulations. In FY 2005, 99% of all national banks were well capitalized relative to their risks. OCC examiners concluded that 94% of national banks earned the highest composite ratings of 1 or 2 under the standard method of evaluating a bank’s operations, to include capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS). For the relatively few problem national banks, 44% improved their composite CAMELS rating to either 1 or 2 since last year.

To ensure fair access and fair treatment of bank customers, banks are evaluated on their compliance with consumer protection laws and regulations. In FY 2005, 94% of national banks earned the highest consumer compliance ratings of 1 or 2, meeting the FY 2005 target of 90%.

A significant FY 2005 challenge has been Bank Secrecy Act/Anti-money Laundering (BSA/AML) supervision. To address this challenge, the OCC developed and successfully completed actions outlined in its FY 2005 – 2006 BSA/AML Operating Plan. The OCC completed BSA/AML/USA PATRIOT Act (USAPA) examinations in all identified high-risk mid-size banks, community banks, and Federal Branches during FY 2005. The OCC continued BSA/AML examinations and completed USAPA examinations in all large banks. Through June 30, 2005, OCC conducted 1,123 BSA/AML/USAPA examinations. During FY 2005, numerous actions were taken to improve the BSA/AML compliance program. New enforcement policy revisions were published to provide additional guidance on situations where formal actions should be taken. An ambitious outreach program was conducted that included nationwide conference calls and meetings around the country to answer questions about BSA/AML and supervisory standards. This program reached more than 24,000 people, mostly bankers. Foreign supervisors were provided with technical assistance and training on BSA/AML techniques used in OCC’s supervision process. The OCC and OTS, in collaboration with FinCEN and other bank regulators, issued the Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-money Laundering Examination Manual.

Treasury, through OTS, supervises savings associations and their holding companies in order to ensure compliance with consumer laws, and to encourage a competitive industry.

In FY 2005, Treasury’s OTS regulated 870 savings associations with total assets of \$1.4 trillion. These savings associations operated in a safe and sound manner with 94% achieving an overall composite CAMELS rating of 1 or 2. The industry’s capital position remains strong with over 99% of savings associations meeting the well-capitalized standards.

OTS also supervises 483 holding company enterprises with approximately \$7 trillion in consolidated assets. Over half of all savings associations and 80%

of total savings association assets are owned by OTS-regulated holding companies.

More than 65% of all savings associations have total assets that are less than \$250 million and are generally community-based organizations. As community-based lenders, the majority of savings associations' loans are made to consumers. Direct loans to consumers, including single-family mortgages, make up 63% of aggregate savings association assets. Savings associations' asset quality is strong. Continued strong asset quality is dependent on stable real estate values, a favorable employment environment, and consumers' continued ability to service debt.

OTS closely monitors interest rate risk due to the thrift industry's natural concentration in longer-term mortgage loans, generally funded through shorter-term deposits and borrowings. OTS maintains an interest rate risk sensitivity model that stress-tests savings association portfolios to evaluate potential exposure to changing interest rates. The model allows OTS to assess interest rate risk exposure. OTS remains cautious of the potential impact of a rapid increase in market interest rates, and OTS will remain vigilant in monitoring savings associations for adverse trends.

OCC and OTS serve on several international task forces and working groups responsible for developing and implementing an international capital framework known as Basel II. Domestically, OCC and OTS, along with the other Federal Banking Agencies (FBA), are implementing Basel II as a modern risk-based capital framework that enhances risk management and refines capital adequacy on a basis broadly consistent with capital standards governing foreign banking organizations. A key aspect of this work was the fourth quantitative impact study (QIS4) designed to provide the agencies with a better understanding of how implementation of the Basel II Framework might affect minimum required risk-based capital within the U.S. banking system. The study results will help the Federal Banking Agencies develop an

interagency notice of proposed rulemaking and comprehensive guidance to be issued in FY 2006.

During the summer of 2005, Treasury's regulatory agencies issued interagency guidance on a wide variety of specific topics, such as customer identification program requirements, the provision of services to foreign embassies and foreign political figures, and information sharing requirements under section 314(a) of the USA PATRIOT Act. To address the specific issue of examination consistency, the agencies, in coordination with TFI, issued examination procedures that provide valuable guidance to both examiners and the banking industry. These interagency examination procedures were augmented by a series of nationwide examiner training and industry outreach efforts. The outreach efforts included a national rollout of the examination procedures by video conference that was broadcast to federal banking and state agency examiners at 38 sites in 13 cities; a series of nationwide conference calls for the banking industry; and regional outreach meetings in San Francisco, Dallas, Chicago, New York and Miami. Each regional outreach meeting included an industry session and separate examiner training session. In addition, the regional event in New York was simulcast over the Internet. Registration indicates that the events were attended by over 2,000 examiners and 10,000 representatives of the banking industry, trade associations, and other interested parties.

### **Moving Forward**

Emerging technologies will create challenges for Treasury. The increased use of electronic transactions, coin counting machines, and improved distribution will likely moderate demand for newly issued coins and currency. Treasury will continually assess and analyze operations to monitor and hold-down the per-unit costs of production. Efforts to migrate to lines of business under the PMA arrangements for back-room administrative processing are expected to lead to cost savings in the long term. The immediate challenge will be to handle the migration of functions, without impacting the level and quality of



service provided.

To realize Treasury's strategic focus on realizing world-class performance, maximizing taxpayer value, and developing a model workplace, the Department will:

- Invest in state-of-the-art equipment and a highly skilled workforce to ensure that Treasury remains the world's premier producer of coins and currency
- Continue to be an active member of the Advanced Counterfeit Deterrence (ACD) Committee
- Develop new products such as the new 24-Karat gold bullion coin as well as continue with programs such as the 50 States Commemorative Quarter Program
- Remain competitive by researching new materials and new technologies, reducing the time to market for new products, and implementing lean manufacturing and management techniques

In FY 2006, a key supervision issue will be monitoring the potential impact of a sudden and sustained rise in interest rates on banks' and savings associations' real-estate portfolios and the potential effects to other consumer lending portfolios.

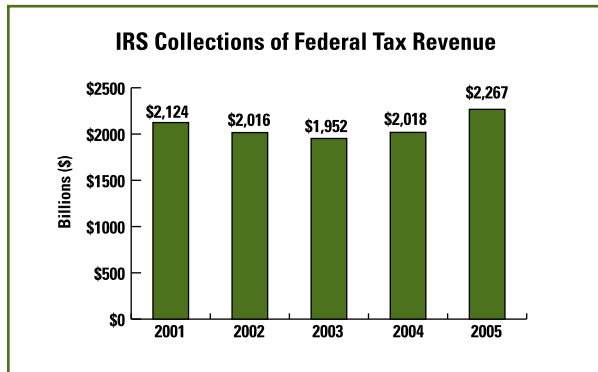
OTS will reinforce close attention to underwriting standards and lending practices with savings associations using these new product lines. The OCC will continue efforts to implement Basel II, revise capital rules for non-Basel II banks, and provide training.

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

### Collect Federal Tax Revenue When Due Through A Fair and Uniform Application of the Law

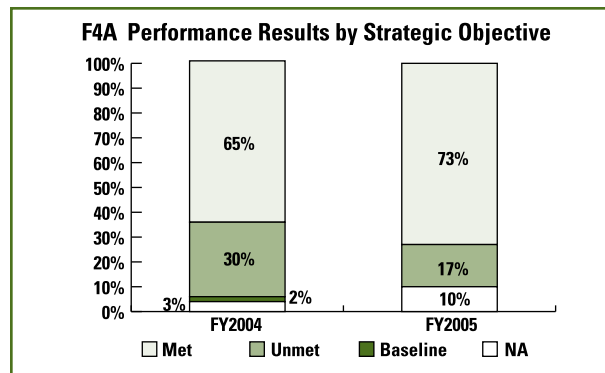
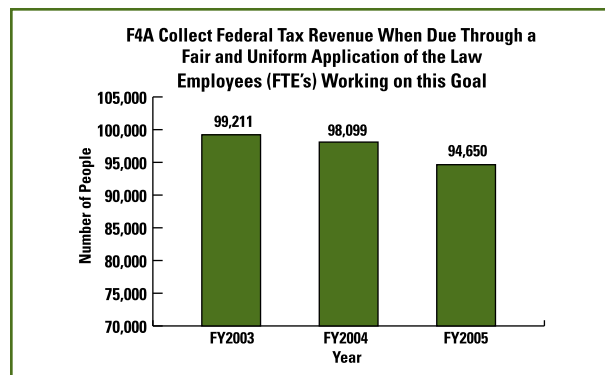
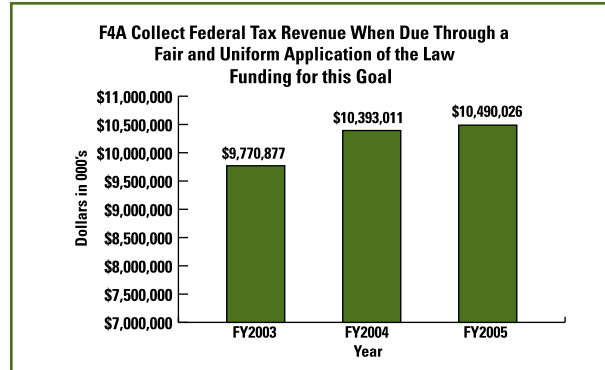
A key element in managing the Federal Government's finances effectively is collecting federal tax revenue. Treasury dedicates the largest percentage of its resources to this mission element. Three bureaus process and collect federal tax revenue: the Internal Revenue Service (IRS), the Alcohol and Tobacco Tax and Trade Bureau (TTB) and Financial Management Services (FMS).

In FY 2005, the IRS collected over 2 trillion dollars in revenue, with a record \$47.3 billion collected through enforcement activities. Enforcement revenue increased 9.7% over last year, and total IRS collections of federal tax revenue increased 12.3%. An additional \$14.71 billion in excise taxes was collected by TTB from producers and sellers of alcohol, tobacco, firearms and ammunition.



### Performance Summary and Resources Invested

In FY 2005, Treasury spent \$10,490,026,000 with a workforce of 94,650 employees to collect federal tax revenue. Treasury met 73% of its performance measures for this strategic objective, did not meet 17%, and designated the remaining 10% as "baseline" to assess the data and set appropriate targets for the next year.



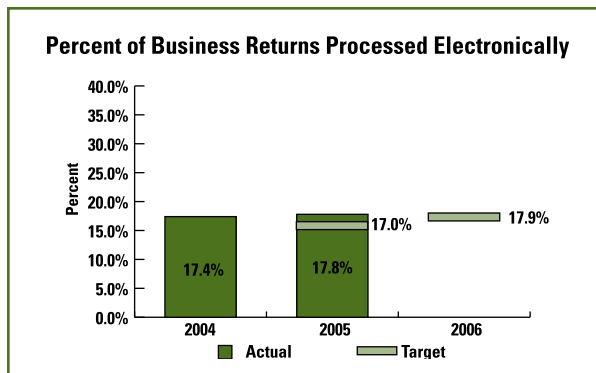
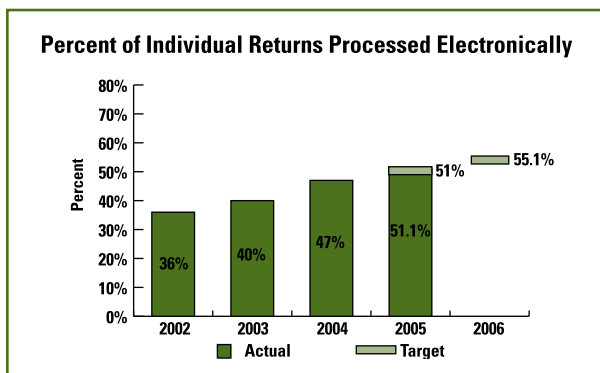
### Discussion and Analysis

The IRS achieved an overall success rate of 81%, meeting 17 of 21 performance measures, compared to 67% in FY 2004. Of the four measures not meeting IRS's targets, three related to improving the quality of examinations while one related to reducing the backlog of cases.

### Collection of Tax Revenue/ Processing Efficiency

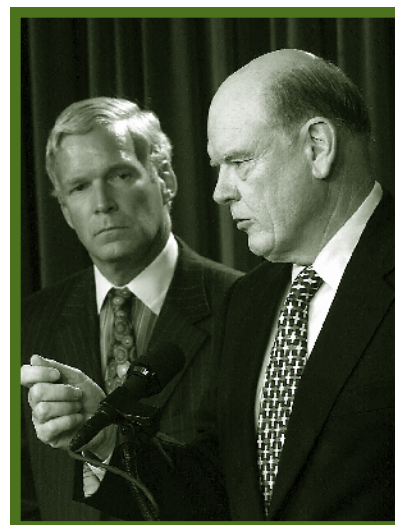


The IRS educated taxpayers and stakeholders on the benefits of electronic filing, resulting in an electronic filing rate for individuals above 50% for the first time. A record 68 million taxpayers elected to file their returns electronically, helping IRS improve processing efficiency. Electronic filing eliminates manual sorting of paper tax returns, batching, assignment of document locator numbers and provides efficiencies such as data transcription, error correction and refund issuance. Moving the filing of information returns (W2s, 1099s, etc.) away from paper or magnetic media toward electronic filing by third parties streamlines the document matching process and improves the capability of IRS to uncover underreporting of taxable revenue. In FY 2005, IRS increased the electronic filing of information returns to 54.4%, an improvement of 24% over FY 2004. More electronic filing reduces the need for processing centers, and the IRS is implementing plans to scale them back.



### Compliance/Reducing the Tax Gap

Reducing the tax gap is at the heart of IRS's enforcement program. The tax gap is the difference between what taxpayers should pay and what they actually pay. It results from taxpayers not paying their tax liability on time or failing to report their correct tax liability.

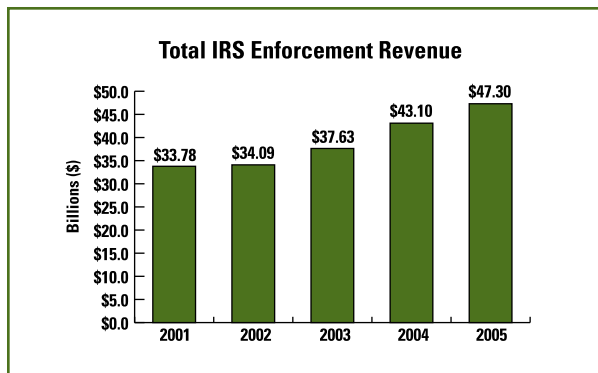


The IRS currently projects, based on compliance data from the 1980's, that the annual Federal gross tax gap is somewhere between \$312 billion and \$353 billion.

Based on IRS's March 2005 estimates, underreporting of income taxes, employment taxes, and other taxes represents about 80% of the tax gap. The single largest sub-component of underreporting involves the individual income tax, with individuals understating their incomes, taking improper deductions, overstating business expenses or erroneously claiming credits. The IRS's National Research Program (NRP) study confirmed that the majority of under-

stated income results from business activities, not wage or investment income.

The IRS, using the NRP, is focusing tax gap efforts on corrosive activities of corporations, high-income taxpayers and other major violators of the tax code. These efforts are working. Enforcement revenue from all sources was at a record level of \$47.3 billion in FY 2005. Targeting high-risk taxpayers improves IRS efficiency and reduces the burden on compliant taxpayers, and it increases enforcement presence where it is most needed.



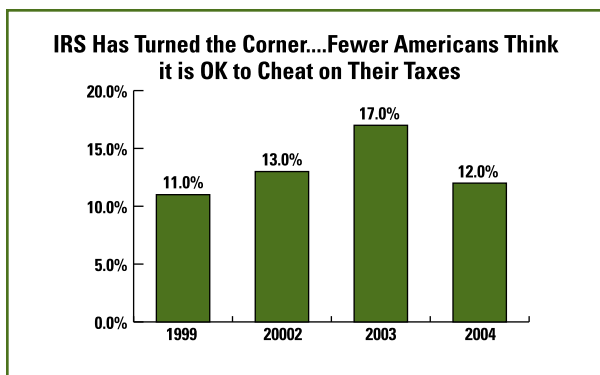
The IRS increased enforcement to improve taxpayer compliance while ensuring taxpayer confidence. For FY 2005, improved enforcement resulted in meeting or achieving 69% (9 of 13) of IRS's targets through streamlining and centralizing work processes, improving workload selection techniques and increasing managerial involvement in casework. Refining case selection criteria resulted in shorter processing cycles and freed resources for casework. In addition, focusing on case quality and the use of embedded quality reports and data increased performance. The total of individual audits completed was 20% higher in FY 2005 than in FY 2004, while the number of high-income audits for the same period was 10% higher. The increase was made possible by focusing on more limited scope examinations and by using improved analytics, workload identification, and selection systems that targeted high-risk cases.

Small business audits increased 81% from last year. Corporate audits increased 15%, a significant gain given the size (over \$10 million in revenue) and complexity of these entities. Expanded examination coverage was achieved by increasing the focus on identification of limited non-compliant corporate returns and development of strategies to address issues at the entity level instead of the return level. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts and the delivery of business results for the second consecutive year all led to better performance in 2005.

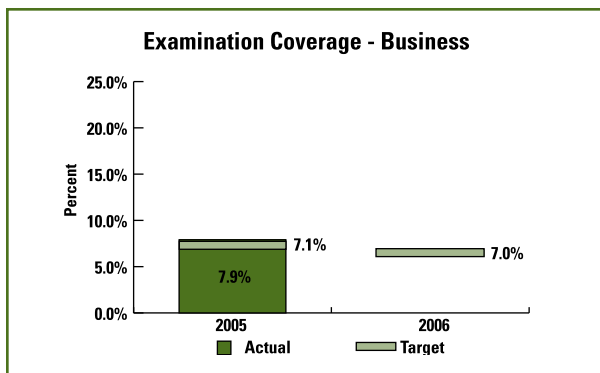
The IRS also improved performance in collecting tax revenue by improving workload selection techniques, reengineering outdated processes and deploying centralized processing to reduce overhead. Improved case selection tools, including risk-based modeling, is a critical component for ensuring timely processing of appropriate cases. For example, employment taxes (also known as trust fund or payroll) are high risk and one of IRS's collection priorities. Risk-based modeling provides the IRS with earlier identification of potential noncompliance and provides the taxpayer with the best chance for resolving the issue. The IRS also reduced its inventory through timely and appropriate filing of Notices of Federal Tax Lien. Educating taxpayers about lien subordination, discharge and posting bonds or other collateral where appropriate has increased taxpayer compliance in meeting their outstanding liabilities. Because of these efforts, the IRS collected 14% more revenue and closed 12% more cases compared to FY 2004.

A heightened focus on enforcement increased taxpayer awareness of the importance of voluntary compliance. Overall taxpayer attitudes toward tax compliance softened somewhat in 2003, but rebounded in 2004. Attitudinal support for compliance rebounded as well, with nearly three out of four taxpayers agreeing that it is everyone's duty to pay their fair share of taxes. Support for turning in tax evaders was at its highest recorded level, with nearly one of every four Americans agreeing that it is everyone's personal

responsibility to report anyone who cheats on their taxes.



The IRS is focused on reducing the promotion and use of abusive tax schemes and avoidance transactions, while continuing to identify any taxpayers who underreport or underpay their taxes. During the past five years, the IRS has identified over 200,000 questionable returns prepared by practitioners on behalf of their clients. These returns claimed over \$700 million in refunds. Staff years devoted to return preparer investigations in FY 2005 increased by 12%. Since August 2002, more than 98,000 audits have been completed and over \$200 million in additional tax has been assessed on returns because of the ongoing return preparer investigations.

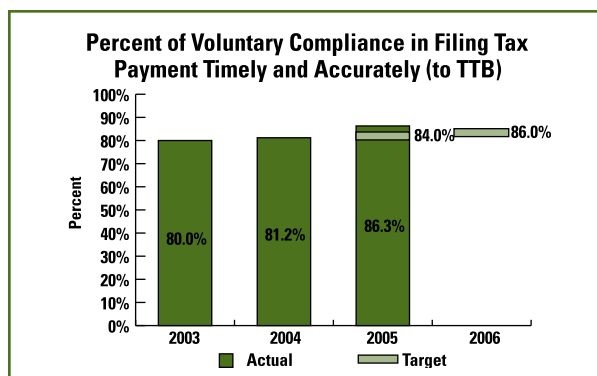


Before conducting an audit, the IRS offers taxpayers suspected of being involved in abusive tax shelters an opportunity to settle; in 2005 such offers generated more than \$4.7 billion in revenue. One significant tax shelter case was the Son of Boss, in which more than 1,200 qualified taxpayers elected to participate in a tax

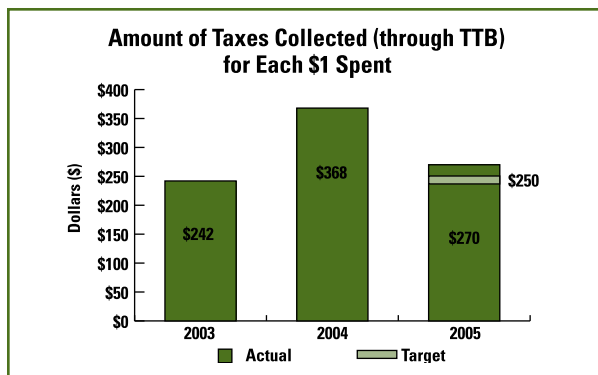
shelter settlement offer. The taxes, interest and penalties collected from the Son of Boss settlement have exceeded \$3.7 billion. A second settlement initiative is underway, in cooperation with the Securities and Exchange Commission. This abusive tax transaction involves transferring executive stock options or restricted family stock to family controlled entities for the personal benefit of executives. At least 42 companies and 700 executives participated in this abusive practice, and settlements have resulted in the collection of an additional \$1 billion through September 2005.

The combined detection and analytical capabilities of the Joint International Tax Shelter Information Centre will better enable the IRS and other participating tax agencies to take action against those who go abroad to plan, facilitate or engage in abusive tax transactions. The task force, which consists of tax officials from the U.S., U.K., Canada and Australia, is scrutinizing tax arbitrage by multinational corporations.

TTB also makes an effort to ensure that taxes due become taxes collected. TTB has roughly 7,300 taxpayers. Approximately 400 of the largest taxpayers account for 98% of the annual excise tax collections. To collect all the revenue due, a field approach is used to target non-compliant industry members and establish an identifiable presence that encourages voluntary compliance. TTB uses a risk model to evaluate and select the target audiences to audit. In FY 2005, TTB completed more than 60 audits of alcohol and tobacco companies, up from 54 audits in FY 2004.



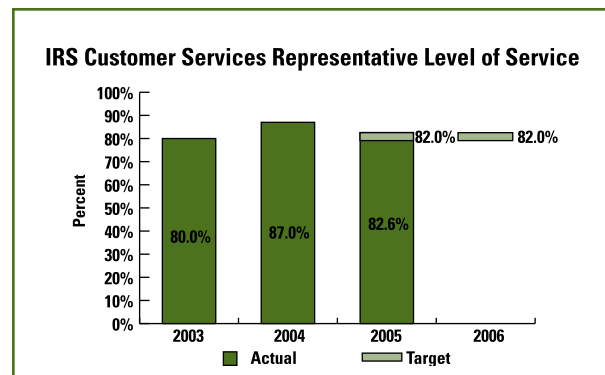
Treasury is focusing on linking goals and results to costs. In FY 2005, TTB calculated that it collected \$270 in alcohol and tobacco excise taxes for every dollar spent on administration. To help TTB benchmark its performance, the bureau has compared its operations to other countries. TTB found that it excelled against international benchmarks in terms of resources used as a percentage of taxes collected. The *“Tax Administration in the Organization for Economic Cooperation and Development (OECD) Countries: Comparison Info Series”* study found that TTB’s administrative costs of 0.37% of collections are below Sweden, which has administrative costs of 0.42% of collections (Sweden has the lowest cost of all 31 OECD member countries). Other efforts to link goals and results to costs include the development of cost per unit metrics in the tax collection arena. Some of these include cost per conviction in criminal cases at the IRS and the cost to process an excise tax return at TTB.



### Taxpayer Service and Outreach

Assisting the public in understanding their tax reporting and payment obligations is the cornerstone of taxpayer compliance. For FY 2005, the IRS met or exceeded 100% (8 of 8) of the targets related to taxpayer service. Improvement efforts such as replacing paper with electronic processes and increasing quality control reviews raised the level of telephone customer service to an all-time high of 87% in FY 2004. For FY 2005, the IRS lowered its target to 82% to reflect the reduced level of funding appropriated for taxpayer

service programs. The IRS will continue to properly staff toll free call sites in order to achieve the optimal level of service based on the number of calls it expects to answer. Although the average time callers spent waiting for telephone assistance has dropped steadily over the last few years, the IRS experienced an increase in call waiting times based on increased demand and its plan to stabilize resources dedicated to telephone services.



The IRS processed over 130 million individual returns for the FY 2005 filing season (Tax Year 2004) and issued over 99 million refunds totaling over \$210 billion. For the 2005 filing season, IRS representatives also answered 33.4 million assistor telephone calls, while the automated telephone system handled nearly 25.7 million calls.

- Taxpayers received correct responses to 89% of tax law questions and 91.5% of account questions
- The IRS achieved an 82.6% level of service on answering toll-free calls from taxpayers, above the target of 82%
- The IRS continued to expand electronic tax products for businesses by increased marketing; expanded business e-file programs, including the acceptance of new forms and schedules; estates, trusts, and partnership tax returns; acceptance of amended returns; and acceptance of the new annualized employment tax return

The number of “hits” on the award-winning website IRS.gov totaled more than 4.8 billion, up 20% over last year. The high level of success is attributed to improvements in the expanded scope of electronically provided services. The IRS improved accuracy and timeliness of responses to taxpayer inquiries through online, self-service solutions such as the popular “Where’s my Refund?” application used by more than 22 million taxpayers to check on the status of their refunds this past filing season, a 49% increase over last year. Another feature allowed taxpayers to generate replacement checks if the first one was lost or was undeliverable. Taxpayers were also able to apply for and receive an Employer Identification Number via the Internet in less than five seconds.

**Taxpayer Outreach:** The IRS works to balance competing priorities of improving efficiency, reducing taxpayer burden and ensuring appropriate resources are on the front lines to combat egregious non-compliance. In FY 2005, IRS approached this challenge by expanding outreach efforts to bring more taxpayers into the system, increasing voluntary compliance levels and tax revenue, and improving service to compliant taxpayers.

IRS maintains a comprehensive library of educational materials for each type of taxpayer (individual, small business, corporation, etc.) on its website. In addition to providing educational materials that can be accessed by taxpayers, IRS also reaches out into neighborhoods through the Taxpayer Assistance Centers (TACs) and by using a dedicated staff of partners who provide tax filing assistance and education. In FY 2005, 6.6 million taxpayers visited a TAC to resolve account issues, obtain answers to tax law questions and to pick up needed tax forms. The number of taxpayers walking into TAC offices declined by 10%, as more taxpayers opted to use telephone or internet to resolve their issues. IRS partners reach groups including Spanish speaking taxpayers, taxpayers located in rural areas, taxpayers eligible for earned income credits and the elderly. The IRS increased the percent of e-filed returns in its volunteer return preparation program by 10%. More than

86% of Volunteer Income Tax Assistance returns are e-filed and nearly 70% of Tax Counseling for the Elderly returns are e-filed.

Another component of the IRS’s outreach strategy is establishing community-based partnerships and coalitions. These groups include the United States Armed Services, the United Way, numerous city and state governments and local organizations. Partners prepared nearly two million tax returns for low-income families in 2005 in addition to making taxpayer contacts through Earned Income Tax Credit (EITC) educational products and messages. Grassroots outreach efforts were conducted in major cities where the IRS hosted events to help citizens file their tax returns.

The IRS coordinated media activity throughout the filing season to draw attention to EITC benefits and filing requirements, including interviews with national news media and several local TV bureaus. The publication *Tax Hints 2005* was redesigned with a new interactive look using hyperlinks to make the electronic version easier to navigate.

Outreach for the individual taxpayer involves bringing new individual tax filers into the voluntary compliance system. In FY 2005, IRS continued to make its popular program “Understanding Taxes—a website for teachers and students” available. This web-based program was visited 717,000 times in FY 2005. IRS continues to develop products targeting non-English speaking taxpayers. IRS offered 266 different forms and notices in Spanish and developed a new marketing flyer in Spanish that highlights taxpayer service information.

Business taxpayers have unique needs in complying with tax laws since the majority of businesses must meet complex withholding and deposit requirements. The IRS has developed specialized programs to educate business taxpayers. IRS focused its outreach in three main areas: practitioner liaison, stakeholder engagement and supporting compliance initiatives.

Working with organizations to provide tax practitioners with information about IRS policies, practices, and procedures ensures compliance with tax laws. One of IRS's strategic initiative is issue management. Through effective issue management, IRS can resolve controversies on a more timely basis. This includes increasing the efficiency of the examination process and seeking alternative issue resolution tools. Issue management reduces taxpayer burden and makes IRS resources more effective by resolving or eliminating controversies before the tax return is filed.

### Taxpayer Burden Reduction

IRS set a record for electronic filing, reaching 68 million returns. This represents an increase of approximately 11% and is the first time in IRS history that over half of all individual taxpayers filed electronically.

- Home computer usage by individuals to prepare and e-file tax returns totaled 17.1 million returns
- Tax professional use of e-file increased by 11%, with 47.6 million filing electronically
- In its third year, "Free File," the public private partnership between the IRS and a consortium of tax software companies, saw more than 5 million taxpayers use the free on-line filing service, a 43% increase

The focus on providing and promoting e-filing services resulted in the IRS exceeding all performance targets for electronic filing. The higher satisfaction rating with e-filing compared to paper filing improves taxpayer satisfaction. The NOP world favorability survey reported a favorable opinion level of 52% in 2004, up from 49% in 2003 and a substantial increase over its lowest point of 32% in 1998.

The IRS now requires many businesses and tax-exempt organizations to file their returns electronically. In 2005, new forms for filing extensions for corporations and information returns for private foundations were included in the suite of electronic

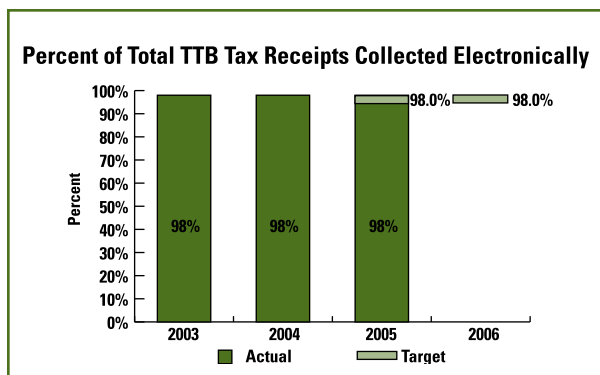
forms offered. The number of business return preparers participating in e-File doubled in FY 2005 with more than 7.7 million business returns filed electronically by nearly 6,000 participating providers.

The IRS is committed to making it easier for all taxpayers to understand their filing requirements by simplifying the tax process, enabling taxpayers to fulfill their reporting obligations more quickly and with less frustration.

Not only are many forms simpler to use, the access to online forms and publications has greatly reduced taxpayer burden in locating and understanding the forms. Internet tools such as the "IRS Withholding Calculator" provide self-service access to information previously reported in a lengthy publication. The IRS is also striving to make the EITC easier to claim by eligible taxpayers. In FY 2005, the IRS deployed the "EITC Assistant" on IRS.gov. The EITC Assistant is a web-based application to help taxpayers determine eligibility, filing status and estimated EITC amount. The EITC Assistant is available in both English and Spanish and reflects the EITC tax law changes, including new income limits for EITC eligibility. It also offers taxpayers the option to include nontaxable combat pay in earned income for the credit. The IRS deployed telephone and web self-service applications on IRS.gov to help taxpayers determine their certification status and explain determinations made during the certification process. IRS also enhanced the EITC Online Toolkit for tax professionals and launched EITC messages on Housing and Urban Development (HUD) kiosks in over 100 locations nationwide. Information provided online has contributed to the overall customer satisfaction of taxpayers with its speed, accessibility and accuracy.

TTB also strives to reduce the burden on taxpaying industries. TTB uses technology to reduce the paperwork burden by creating alternative electronic filing methods. TTB recently expanded the use of the *Pay.gov* program to allow all excise taxpayers to file and pay electronically.





**Business Systems Modernization (BSM):** The IRS's Business Systems Modernization program aims to modernize the tax system by providing real business benefits to taxpayers and IRS employees through new technology. In FY 2005, the IRS continued its BSM efforts by building upon its success of delivering projects, attaining cost and schedule targets, and realizing benefits to taxpayers. BSM delivered the majority of projects and releases on time and within budget, meeting or exceeding scope expectations.

In FY 2005, IRS's modernization efforts focused on maintaining modernization work for three key tax administration systems that will provide additional benefits to taxpayers and IRS employees, specifically:

- The Customer Account Data Engine (CADE) project
- Modernized e-File
- Filing and Payment Compliance (F&PC)

CADE replaces the IRS's legacy system, called the Master File, which is the repository of taxpayer information. It will be the single repository for account and return data. Release 1.2 went into production in January 2005 for filing season 2005. Over 1.4 million returns have been posted, totaling \$427 million in refunds generated. CADE processed its one-millionth tax return on March 31, 2005. The next CADE release was deployed in September 2005 with new capabilities that enable CADE to retain and process more taxpayer accounts. The key benefits of CADE include its ability to process refunds

more rapidly (CADE processes refunds on a daily basis), improve taxpayer service, support more timely account settlements, and provide a robust foundation for integrated systems.

In January 2005, Modernized e-File (MeF) deployed Form 7004 (Filing Extension for Corporations) and Form 990PF (Information Return for Private Foundations), and the tax law changes for filing season 2004. This allowed the IRS to establish regulations requiring large corporations and tax-exempt organizations to file electronically their income tax or annual information returns beginning in 2005. To date, MeF is processing returns 1120 and 990 at higher than expected volumes and still achieving performance goals. The IRS has accepted over 134,000 returns in 2005.

### Moving Forward

Treasury will continue to work to reduce the tax gap and increase voluntary compliance. The IRS is focused on reducing the tax gap by discouraging and deterring non-compliance with the emphasis on corrosive activity by corporations, high-income individual taxpayers and other tax code violations. The agency's goals include collecting known tax debt by using Private Collection Agency (PCA) activities and increased collection work in Taxpayer Assistance Centers, identifying correct tax liabilities through increased audits and other enforcement activity, deterring and attacking fraud and properly determining pension revenue. Expanding data capture methods will expand enforcement. The IRS will continue to analyze tax information and compliance research studies to better define and quantify the tax gap, and will use the results of these efforts to better understand and counter the methods and means of those taxpayers who fail to report or pay what they owe.

Maximizing usage of online resources will provide a more efficient means of processing returns, payments, collections, and customer queries at reduced costs. The IRS will continue to work with private industry to expand internet-filing options and deploy e-Services

to include additional customer access to electronic account resolution. In addition, the IRS will further enhance web site functionality with new features such as improved search capabilities, tax applications with online calculators, and multi-lingual presentations. Efforts will continue to ensure that all published products are accessible in electronic formats.

Services to taxpayers will improve as new systems are implemented. The IRS will continue to gather best practices from high-performing sites and identify areas for improvement. Using electronic methods to replace paper processes will improve the response to customer inquiries and correcting errors. Development of online services and publications will continue, increasing the efficiency of the tax filing process and improving customer satisfaction.

New training tools and quality assurance procedures planned for FY 2006 will increase opportunities to improve quality of examinations. Revenue agents hired late in FY 2005 will have access to a new interactive electronic application developed to assist in closing cases, which is expected to reduce the backlog of cases and improved case closure performance.

TTB will continue its growing initiative in electronic government by consolidating the existing tax databases into the Integrated Revenue Information System (IRIS). Plans for FY 2006 include merging the Federal Excise Tax (FET) database into IRIS, thereby eliminating duplicate entries of taxpayer information (name, address, principal parties, etc). TTB will put into production the electronic Financial and Administrative Policies (eFAPs) program, which facilitates the electronic downloading of tax payment information into the FET database. This will eliminate manual entries into FET and the imaging of paper documents.

For additional information on IRS challenges, see the Management Challenges section as well as the Possible Future Effects of Existing Events and Conditions section.

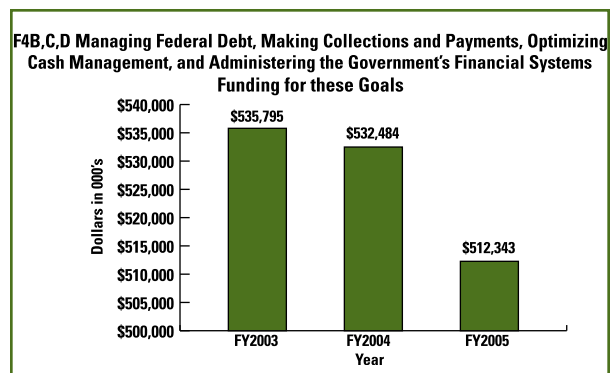
### ***Manage Federal Debt Effectively and Efficiently***

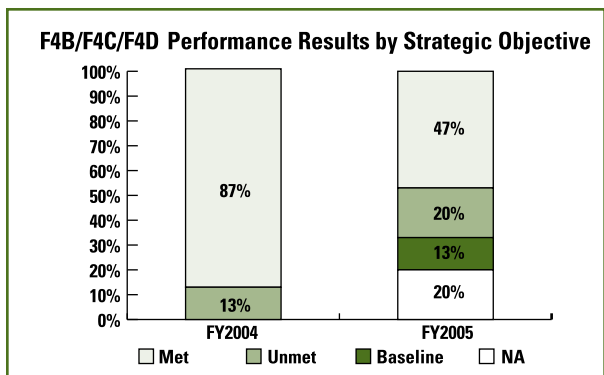
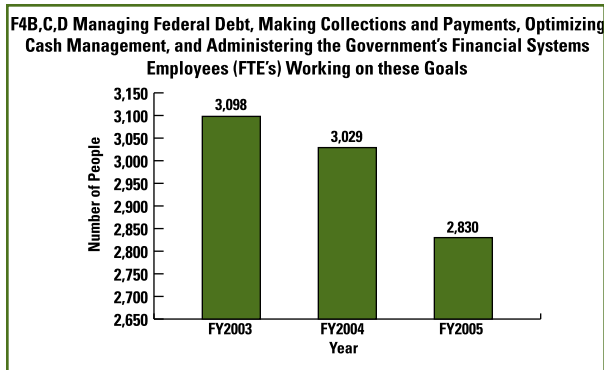
The Department determines and executes the federal borrowing strategy to meet the monetary needs of the Government at the lowest possible cost. Each year, Treasury borrows and accounts for trillions of dollars needed for the government to function. Moreover, as the government’s money manager, Treasury provides centralized payment, collection, and reporting services for the government.

The Bureau of the Public Debt (BPD) conducts Treasury debt financing operations by issuing and servicing Treasury securities. Debt is held by individuals, corporations, state or local governments, federal agencies, and foreign governments. In FY 2005, more than \$4 trillion in marketable securities were auctioned and issued and approximately \$33 trillion in non-marketable securities were issued to the public and government accounts.

### **Performance Summary and Resources Invested**

In FY 2005, Treasury spent \$512,343,000 with a workforce of 2,830 employees to manage the federal debt. In FY 2005, Treasury met 47% of its performance measures for these objectives, did not meet 20% and designated the remaining 13% as “baseline” to assess the data and set appropriate targets for next year. Data was not available for 20% of the performance measures due to revisions or discontinuance of those measures.

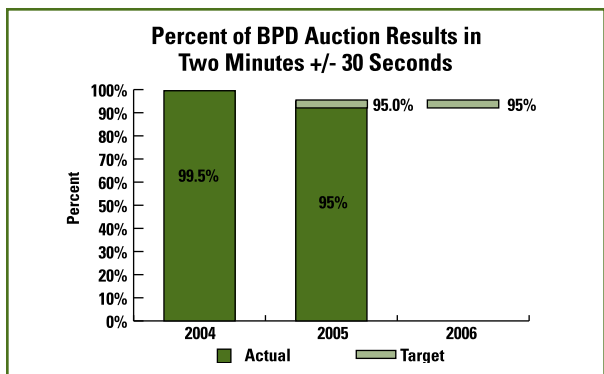




**Discussion and Analysis**

BPD met its performance goal of announcing Treasury auction results within two minutes plus or minus thirty seconds of the auction close 95% of the time. As a result, Treasury minimized the cost of borrowing, because with shorter release times, exposure to adverse market movements and the implicit market premium are reduced.

BPD's goal of processing 90% of retail customer service transactions within 13 business days was

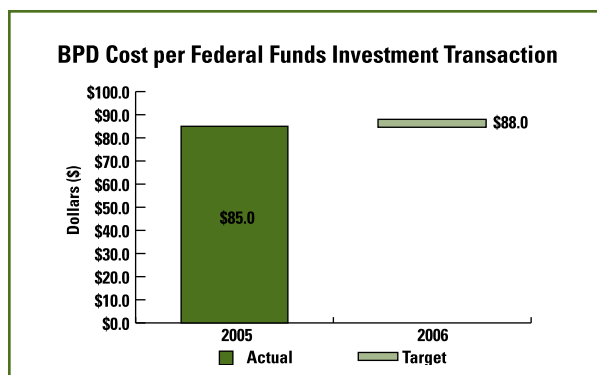


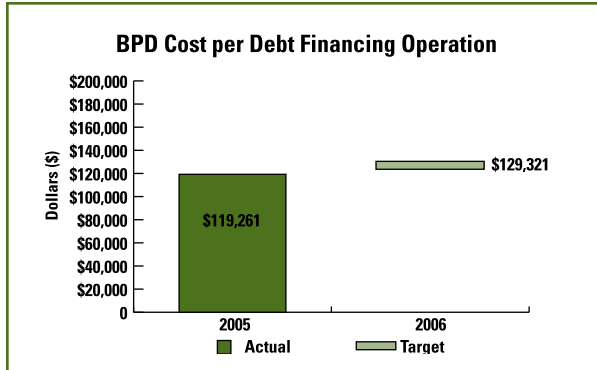
missed by 1.3%. Two things contributed to this: (1) abnormally high volumes of transaction requests, and (2) a disruption to the normal workflow. The announced termination of the Series HH bonds and the exchange of Series EE/E bonds for Series HH bonds resulted in a spike in transaction requests. Additionally, BPD worked to reengineer the customer service business processes.

In FY 2005, the Office of Financial Markets expanded Treasury's Inflation-Protected Securities (TIPS) offerings to include 5-year notes, and reopened the 20-year bond. TIPS are auctioned to the public, and help to diversify Treasury's investor base, lessen operational risks, and lower borrowing costs. The expanded offerings, coupled with efforts to promote investors' understanding of TIPS, has improved liquidity, increased investor interest, and increased demand.

Treasury improved efficiency in the Government Agency Investment Services (GAIS) program. GAIS supports federal, state, and local government agency investments in non-marketable Treasury securities and manages over \$3 trillion in assets. Over 72% of GAIS transactions were conducted online.

BPD adopted Rapid Application Development (RAD) to utilize standardized development and design tools,





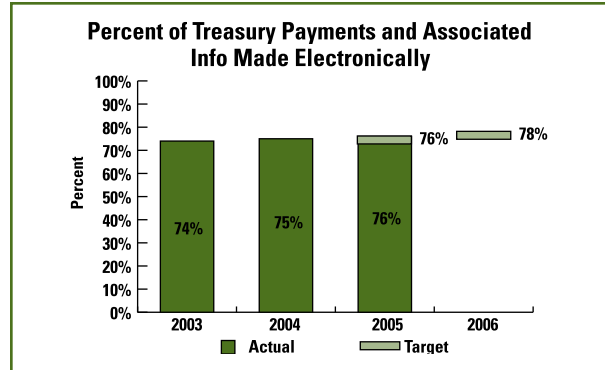
reuse programming functionality, and use standard release schedules to define, design, develop, and deploy system functionality. This process has delivered new functionality every four months to enhance investors' ability to purchase and manage holdings of Treasury securities online. The RAD process focuses on challenges, prioritizes requirements, and promotes business re-engineering.

***Make Collections and Payments on Time and Accurate***

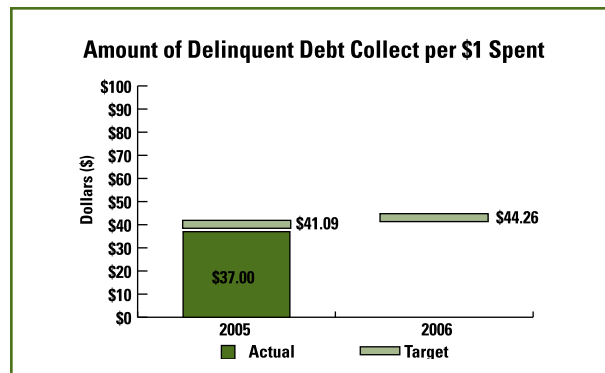
Treasury works as the nation's disburser, manager and accountant of public monies to distribute payments, finance public services, and balance the government's books.

The Financial Management Service (FMS) administers the government's payments, collections, and debt collections systems. FMS oversees a daily cash flow in excess of \$50 billion, and distributes 85% of federal payments each year worth close to \$1.5 trillion timely and accurately. In FY 2005, FMS issued 76% of 952 million non-Defense payments electronically, and, once again, 100% of check and Electronic Funds Transfer (EFT) payments were made accurately and on time. These payments include income tax refunds, Social Security benefits, veterans' benefits, and other federal payments.

Additionally, FMS collects delinquent debts owed the federal government. For FY 2005, FMS collected



over \$3.2 billion in delinquent debt, exceeding all previous collection amounts. FMS collected \$37 in delinquent debt for every dollar spent on administration. Virtually all collection tools at FMS have shown increasing collection trends over the last few years.

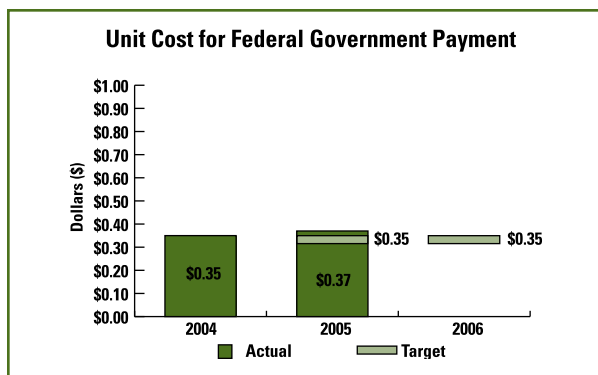


FMS did not meet the target percentage of government collections that are collected by electronic mechanisms compared to total government collections. This was due to increased IRS Lockbox collections, which represent paper checks mailed from individuals and small businesses. However, FMS collected record cash receipts of \$2.7 trillion in FY 2005, which was a 12.5% increase over \$2.4 trillion in FY 2004. The percentage of electronic collections increased 10.2% over last year. EFTPS processed over 76 million revenue payments at a value of \$1.7 trillion and \$6.1 billion was collected through Pay.gov, a 575% increase in the number of transactions and an approximate 60% increase in dollar volume

compared to FY 2004. Since inception, *Pay.gov* has processed 5.8 million transactions with an approximate value of \$19.1 billion.

FMS still faces obstacles to increase the growth of electronic payments. EFT payments are less costly and more secure for the taxpayers. Overall, the direct deposit growth rate for federal benefit payments has leveled off to less than 0.7% a year, a decrease of almost two-thirds since the late 1990's. To confront this challenge, a six-month pilot marketing campaign called *Go Direct* was completed in FY 2005. *Go Direct* is designed to increase the percentage of federal benefit payments issued via direct deposit – particularly Social Security and Supplemental Security Income (SSI). The pilot was successful. The six-month targets were exceeded, and tens of thousands of Social Security and SSI check recipients signed up for direct deposit. As a result of the successful pilot, the *Go Direct* campaign was expanded to markets nationwide in September 2005.

FMS did not meet its goal of processing a payment for 35 cents due to increased expenses from Enterprise Architecture (EA) enhancements. The cost per payment was 37 cents. FMS will continue to improve efficiencies in payments delivery, concentrating on expanding electronic payments to contain costs.



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

Before the Department can make payments it must manage the government's cash position to ensure that funds are available. Treasury monitors the government's receipts and payments and accurately forecasts the government's current and future daily cash requirements.

The Office of Fiscal Projections (OFP), BPD, and FMS are all involved in cash management and administering the government's financial systems. OFP manages the government's cash position to ensure that funds are available on a daily basis to cover federal payments and to maximize investment earnings and minimize borrowing costs. To optimize cash management, Treasury measures the difference between actual and projected receipts. In FY 2005, OFP continued to improve in forecasting receipts, outlays, debt and overall cash. This year, variance was 5.0%, compared to 3.3% in FY 2004. The slight increase in variance was mainly due to the unanticipated increase in tax receipts in April.

This year, BPD received an unqualified audit opinion on its *FY 2005 and FY 2004 Schedules of Federal Debt*. This represents the largest single liability on the government-wide financial statement. Additionally, BPD has successfully introduced quarterly financial statements in FY 2005.

FMS was successful in publishing all government-wide financial data relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) with 100% accuracy and timeliness for the second consecutive year.

### Moving Forward

Treasury will review annually the industry for advancements in technology and business processes, and will continue to apply best practices in its analy-

sis. Improvements in forecast accuracy have a direct impact on reducing borrowing costs and increasing the return on investment.

Treasury is committed to financing the Federal Government at the lowest possible cost. BPD will continue to meet the “two minute” securities auction standard and redesign the auction system to ensure it keeps pace with business and contingency needs. At the same time, BPD will continue to progress towards a paperless environment for savings bonds.

Treasury will continue to accurately account for and report on federal debt. To improve the availability and usefulness of financial information, BPD will begin producing monthly financial statements in FY 2006, and daily financial statements in FY 2007.

Treasury will continue to enhance its business processes and systems to support its customers, both public investors in Treasury securities and government agencies. A key element of this direction is the expansion and refinement of BPD’s Enterprise Architecture to support the delivery of exceptional customer service in the most cost-efficient manner.

The Department continues to work towards an “all-electronic Treasury,” integrating e-commerce technologies. FMS will continue to streamline payments and collections processes and invest in state-of-the-art technology. This is an integral part in processing payments and collections accurately, timely, and more safely and securely for the taxpayer. These efforts will decrease costs and increase efficiencies.

In FY 2006, FMS plans to increase the percentage of government receipts collected electronically to 83%. FMS will be converting more checks to electronic collections at the various collection lockboxes, expanding pay.gov to other federal agencies, and will continue to expand EFTPS for taxpayers.

FMS will focus on incorporating all non-Treasury disbursed salary and vendor payments into its offset programs for collecting delinquent debt. In October 2005, FMS replaced the current debt program Cross-Servicing system with FedDebt. FedDebt will provide a single point of entry for agencies to refer their debts to FMS for collection and to access the delinquent debtor database. FMS will also continue to roll out Debt Check, FMS’s program to help agencies bar delinquent debtors from obtaining new loans or loan guarantees.

Finally, FMS will continue to place increased emphasis on program activities related to strengthening Government-wide accounting operations through the continued rollout of the new Government-wide accounting system. This system will significantly reduce agency reporting and reconciliation requirements. As part of the system redesign, FMS will provide agencies with a web-based account statement resembling a bank statement that will contain summarized Treasury fund account balance activity. Agencies will have daily access to key data on the account statement for reconciliation and fund reclassification through a web-based system. As a result, fund balance information will be available to agencies on a near real-time (one-day lag) basis.

# M Managing the Department of the Treasury

Strategic Goals	Strategic Objectives
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of Treasury	Protect the Integrity of the Department of Treasury
	Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service

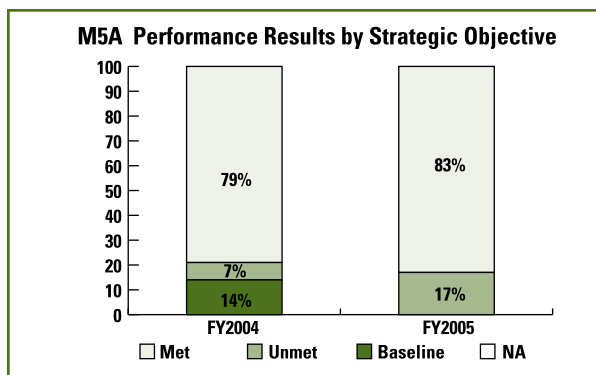
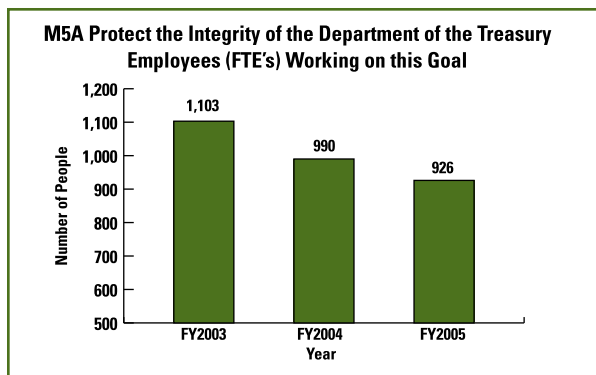
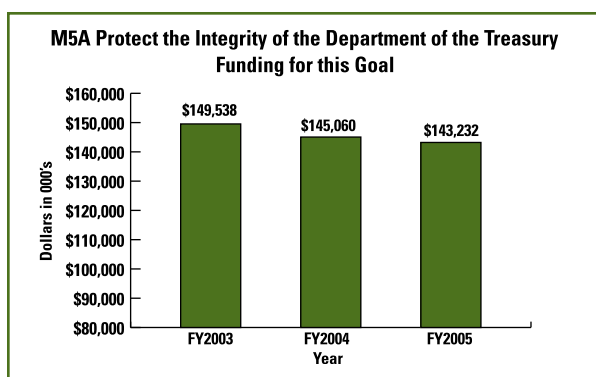
## Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

### *Protecting the Integrity of the Department of Treasury*

The Treasury Department has two Inspectors General (IGs) that provide independent oversight of the Department’s activities: the Treasury Inspector General for Tax Administration (TIGTA) and the Office of the Inspector General (OIG). TIGTA’s audit and investigative services protect and promote the fair administration of the tax system and ensure that the IRS is accountable in its administration of the internal revenue laws. The OIG has audit and investigative responsibilities for the non-IRS organizations within the Department. Both offices keep the Congress, the Secretary of the Treasury, and management informed on issues, problems, and deficiencies related to the administration of programs and operations, and any need for corrective action.

### Performance Summary and Resources Invested

In FY 2005, the Department of Treasury spent \$143,232,000 with a workforce of 926 employees to protect the integrity of the Department. Treasury met 83% of its performance measures and did not meet 17% for this strategic objective.



## Discussion and Analysis

In FY 2005, OIG issued 54 audit and evaluation reports, completed 100% of all statutory audits by the required dates and met applicable standards for sampled audits.

The OIG opened 168 new investigations and referred 72 for criminal prosecution, civil litigation or administrative corrective action. All investigations sampled met applicable President's Council for Integrity and Efficiency standards.

Investigative work prevents, detects and investigates complaints of fraud, waste and abuse. This includes the detection and prevention or deterrence of employee misconduct and fraud or related financial crimes within or directed against Treasury. Approximately 7,000 complaints requiring investigation are reviewed each year. For example, in March 2005, two people were convicted because of OIG's investigation, in partnership with the FDIC and the FBI, into the Sinclair National Bank failure. Both individuals were sentenced and ordered to pay \$4.2 million in restitution. In another case, the Treasury OIG participated in an investigation concerning a missing shipment of nickels from a U.S. Mint facility valued at \$180,000. The contractor's tractor-trailer containing the nickels for shipment to the Federal Reserve Bank in Louisiana was eventually located, and as a result approximately \$160,000 worth of nickels were recovered and five subjects were arrested.

In FY 2005, TIGTA issued 180 audit reports, resulting in potential financial accomplishments of \$83.4 billion and potentially impacting 2.8 million taxpayer accounts in areas such as privacy and security, burden and rights. Audit recommendations led to improvements in systems modernization, tax compliance, tax return processing, and the implementation of tax law changes. Results included:

- Identifying shortcomings in the IRS's processes to identify and investigate improper tax refunds to prisoners

- Reporting on extensive waste, mismanagement and project failings in the implementation of the HR Connect System
- Determining that the IRS's Office of Appeals operates with a substantial degree of independence. As a result, the IRS plans to promote the independence of the Office of Appeals to restore the damaged credibility of the appeals process

Investigative work at TIGTA is designed to protect the integrity of tax administration. This includes investigating allegations of bribery, threats, and external attempts to corrupt tax administration. In FY 2005, TIGTA processed over 8,000 complaints of alleged criminal wrongdoing or administrative misconduct, opened and closed approximately 3,500 cases and achieved an 82% positive results ratio from its investigations. Investigations helped to indict six former employees of Mellon Financial Services for initially hiding, and then destroying, approximately 80,000 unprocessed federal tax returns, vouchers, and checks in an attempt to conceal their inability to fulfill their contractual requirements. Another TIGTA investigation revealed that a former lockbox employee stole 30 taxpayer remittance checks that totaled more than \$2.7 million.

## Moving Forward

OIG has developed initiatives that, if approved, will increase the OIG's audit and investigative capacity. The first initiative will improve audit coverage of anti-money laundering and counter-terrorist financing programs. The second will reduce investigative delays resulting from agents carrying a disproportionately high caseload due to the significant number of complaints of fraud, waste and abuse; will permit completion of investigations in a timely manner; and will enable establishment of a proactive integrity program. OIG closed its San Francisco field office at the end of FY 2005 and consolidated the bank audit function in Washington, D.C. Through this FY 2006 shift in resources, OIG anticipates increasing the comprehensiveness and regularity of its audits of anti-money laundering, counter-terrorist financing and other high risk activities.



In addition, the OIG plans to:

- Improve audit coverage of anti-money laundering and counter-terrorism financing programs
- Reduce investigative delays resulting from agents carrying a disproportionately high caseload in order to complete investigations in a timely manner
- Establish a proactive integrity program

In order to ensure that audit recommendations continue to improve, TIGTA plans to continue:

- Performing work that balances statutory audit coverage and discretionary audit work
- Addressing major management challenges such as computer security, taxpayer protection and rights, and ensuring quality taxpayer service
- Monitoring the IRS's modernization efforts to identify problems the IRS may encounter as it implements new programs and rolls out information systems
- Monitoring the IRS's efforts to achieve its strategic goals, eliminate identified material weaknesses and achieve the President's Management Agenda initiatives

In order to ensure that TIGTA's investigative programs continue to improve each year, the office plans to continue:

- Investigating complaints of wrongdoing that could potentially impact the integrity of tax administration
- Conducting investigations that concentrate on three core areas: employee integrity, external attempts to corrupt tax administration, and employee and infrastructure security
- To heighten integrity awareness through the regular delivery of integrity awareness presentations to IRS employees, law enforcement agencies, tax practitioners and community groups
- To liaison with federal, state, and local law enforcement agencies

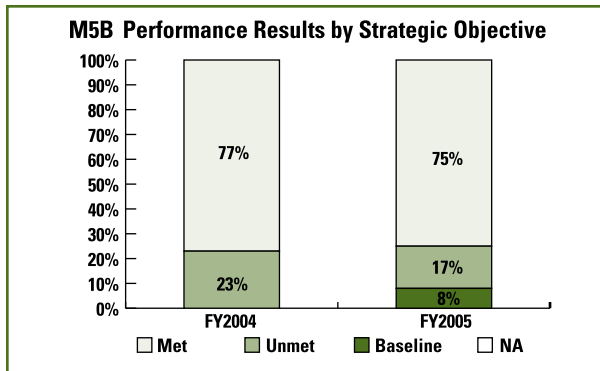
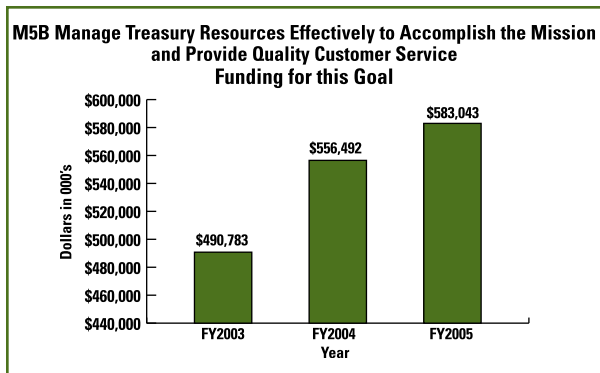
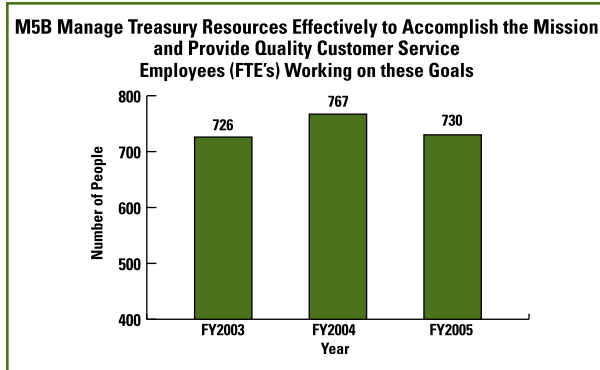
### *Managing Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service*



Treasury ensures that taxpayers receive the most efficient and effective use of their tax dollars by building a strong institution that is citizen-centered, results-oriented, and actively implements the principles of the President's Management Agenda (PMA).

#### **Performance Summary and Resources Invested**

In FY 2005, Treasury spent \$583,043,000 with a workforce of 730 employees to manage the Treasury resources. In FY 2005, Treasury met 75% of its performance measures for this objective, did not meet 17% and designated the remaining 8% as "baseline" to assess the data and set appropriate targets for next year.



### Discussion and Analysis

Treasury works to manage the Department effectively through the principles of the PMA. In 2001, the President challenged the Federal Government to become more efficient, effective, results-oriented and accountable. Over the past four years, the PMA has become the framework for organizing the efforts cited by the President and for focusing on results.

This agenda reflects the President's commitment to achieve immediate, concrete and measurable results that matter to the American people.

The President holds each agency accountable for its performance in carrying out the PMA. This is done through quarterly scorecards issued by OMB. Two rating categories are used – one for “status,” which assesses whether a department has satisfied the overall goals or long-term criteria to accomplish an initiative and the other for “progress,” which measures the extent to which the agency has followed its plan. To convey an agency's performance, the Administration developed a simple grading system of red, yellow and green.



The Department is meeting the President's challenge to improve the management of Treasury's people and its resources. On the most recent scorecard, the Department achieved a “green” progress score in four out of six initiative areas, indicating that plans are in place and implementation is progressing to accomplish the PMA objectives.

The PMA originally identified five key government-wide areas. In FY 2005, the Administration added an initiative on eliminating improper payments that applies to a more limited number of agencies, including Treasury.

Initiative	Status		FY 2005 Progress			
	FY 2004	FY 2005	Q1	Q2	Q3	Q4
Human Capital	Y	Y	G	G	G	G
Competitive Sourcing	Y	G	Y	G	G	G
Financial Performance	R	R	Y	R	Y	Y
E-Government	R	R	G	G	Y	G
Budget Performance Integration	Y	Y	G	G	G	G
Improper Payments	N/A	R	N/A	G	Y	Y

● Green for Success   
 ● Yellow for Mixed Results   
 ● Red for Unsatisfactory

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

In FY 2005, Treasury’s Human Capital status score remained Yellow. The Treasury Human Capital team developed a results-oriented performance culture. They identified mission critical occupation competency gaps, reported Department-wide human capital survey results, and strengthened the accountability process. The Treasury Human Capital team:

- Demonstrated bureau progress in meeting the 45-day hiring model
- Demonstrated progress in promoting and sustaining diversity
- Demonstrated a linkage between organizational and individual performance

Moving forward, the Human Capital team must meet two criteria to reach Green status. Treasury will finish work on completing a plan to further reduce skills gaps in mission critical occupations and competencies and use outcome measures to make human capital decisions, demonstrate results, make key program and budget decisions, and drive continuous improvement in the agency to ensure accountability.

**Competitive Sourcing:** Through Competitive Sourcing, Treasury leverages public-private competition, resulting in effective delivery of services at the lowest cost possible to American taxpayers. Competitive Sourcing allows Treasury to look internally and externally for the most efficient ways to achieve its mission.

Treasury improved its score for Competitive Sourcing from Yellow to Green in both progress and status in FY 2005. The Competitive Sourcing team accomplished this by establishing four goals at the beginning of the year: (1) integrate HR Connect (Treasury’s on-line human capital system) and the Federal Activities Inventory Reform (FAIR) Act, (2) create a Shared Services concept so that Treasury could leverage existing competitive sourcing expertise in conducting studies, (3) develop a demand analysis for conducting potential studies, and (4) improve coordination Treasury-wide.

In FY 2005, Treasury integrated the FAIR Act inventory in to HR Connect. As a result, the Department is potentially able to use the results to help guide future budget decisions, leveraging the query and scenario testing capabilities of HR Connect.

Treasury continued to oversee competitions, issue appropriate guidance to bureaus on initiatives and coordinate reporting to the Office of Management and Budget and Congress on the FAIR Act and Congressional mandates. Treasury had significant results this fiscal year including:

- Realized cost savings and avoidance from Competitive Sourcing to exceed \$250 million over the next five years
- Initiated eight competitive sourcing studies covering almost 5,000 FTE, and
- Earned the Presidents Quality Award for management excellence and exemplary performance

Moving forward, the Department can maintain its green status by:

- Completing studies on time
- Establishing the processes, procedures, and framework for Most Efficient Organization (MEO) use of sub-contracts
- Managing and monitoring post-implementation of competitive sourcing studies

**Improved Financial Performance:** Treasury works to comply with the Federal Financial Management Improvement Act (FFMIA) and accounting processes to produce accurate and timely information to support operating, budget and policy decisions.

Treasury accounted for public funds accurately and timely by implementing the three-day close of the monthly accounting books and the monthly Treasury statement for the federal government. This year, Treasury’s Financial Performance team met its reporting deadlines and was provided a clean annual audit. In late FY 2005, the Financial Performance team submitted a corrective action plan for the IRS’s new revenue accounting system, a key PMA requirement.

Treasury’s continued emphasis on reducing material weaknesses during the year resulted in a reduction from eight to seven material weaknesses. Treasury continues to face many challenges in the Financial Performance initiative, and this year remains Red in status.

To improve financial performance, Treasury is reengineering processes and working to develop the financial system’s capability to comply with the FFMIA to produce accurate and timely information to support operating, budget and policy decisions. This will facilitate internal analysis, resolve known, auditor-reported and FFMIA material weaknesses, prevent new material weaknesses and enhance external financial statement reporting.

Moving forward, Treasury will continue to implement corrective actions to resolve material weaknesses. Treasury has an established schedule of planned actions in place to address its material weaknesses (a copy of the schedule is in the appendix).

**Expanded E-government:** Expanding electronic government products and services across Treasury makes the workforce and agency more efficient and effective. In support of the PMA, Treasury is focused on completing a Departmental Enterprise Architecture and Information Technology capital planning process to direct future IT investments. Additionally, Treasury works to manage projects to meet cost/schedule/performance goals, certify and accredit Treasury systems to protect information from unauthorized access and theft, and fully participate in all Presidential E-Government Initiatives.

In FY 2005, Treasury continued to make progress toward its goal of achieving Green for overall status, although the status score remained Red. Treasury was Green for progress for three quarters. During FY 2005, Treasury results included:

- Establishing a New IT Governance Process to oversee approximately \$2.7 billion in information technology investments
- Strengthening the Treasury Capital Planning and Investment Control processes
- Developing an OMB-approved E-Government Implementation Plan
- Maturing the Enterprise Architecture (EA) plan and receiving a rating of “effective” from the Federal Enterprise Architecture Program Management Office

Moving forward, Treasury will improve its performance in complying with the Federal Information Security Management Act (FISMA), continue to integrate and utilize the Treasury EA and, most importantly, standardize implementation of Earned Value Management (EVM) analysis within the IT capital planning process.

**Budget and Performance Integration:** By working to assess the effectiveness and efficiency of its programs, Treasury is better able to allocate scarce resources. Budget and performance integration links strategic planning, budgeting and program evaluation functions, and incorporates the Program Assessment Rating Tool (PART) evaluation process in the budget and planning decision-making process.

Treasury’s Budget and Performance Integration initiative must overcome two issues to earn a Green status score, develop marginal cost measures for four core Treasury missions and resolve past “Results Not Demonstrated” PART scores. Treasury’s score is Yellow in status and Green in progress.

Treasury worked to improve its budget and performance program in 2005. Treasury worked with OMB, the Office of Inspector General, the Treasury Chief Financial Officer’s Council and key bureau contacts to assess each of Treasury’s 299 performance measures using an analytical technique called “value mapping.” As a result, Treasury reduced the number of performance measures by 58%, while improving the overall quality of the remaining measures. The smaller set of measures has also added focus to the performance program and simplified measures monitoring.

During FY 2005, Treasury also:

- Conducted seven PART evaluations, all receiving scores of moderately effective or effective
- Improved Treasury’s PART scores 36% over the prior year
- Used PART results to assess bureaus’ FY 2007 funding requests
- Developed and publicized estimated marginal costs measures for six core mission areas of Treasury
- Completed implementation of a finance/performance dashboard to monitor key mission results

Moving forward, Treasury will achieve Green during FY 2006 by developing marginal cost measures for the remaining four core mission areas of Treasury and resolving past PART evaluations that were scored “Results Not Demonstrated.” Treasury’s efforts to achieve a Green status score will be supported by the comprehensive performance framework implemented this year. The framework will guide future budget and performance integration efforts. Treasury will also implement marginal cost metrics for the remaining mission areas.

**Eliminating Improper Payments:** Treasury is committed to ensuring accurate and appropriate federal payments. Accordingly, Treasury sets performance targets to track progress on eliminating improper payments. Treasury is working currently with the Office of Management and Budget to develop a risk assessment plan to identify vulnerable programs and create measurement systems and corrective action plans that include aggressive, yet feasible, reduction targets across the Department.

Treasury’s score is Red in status and Yellow in progress. This PMA initiative is tied to the Improper Payments Information Act of 2002. Detailed information on Treasury’s plan to address the Act and, subsequently the PMA, can be found in Part IV of this report.

### The Program Assessment Rating Tool (PART)



*“My budget substantially reduces or eliminates more than 150 government programs that are not getting results, or duplicate current efforts, or do not fulfill essential priorities. The principle here is clear: Taxpayer dollars must be spent wisely or not at all.”*

President George W. Bush,  
2005 State of the Union Address

Program evaluation is a core management tool used by Treasury to allocate resources and promote efficiency and effectiveness. In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with OMB to evaluate 20% of its programs each year through the PART process.

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

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

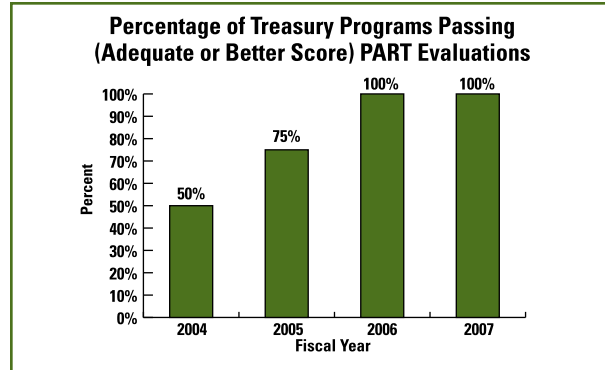
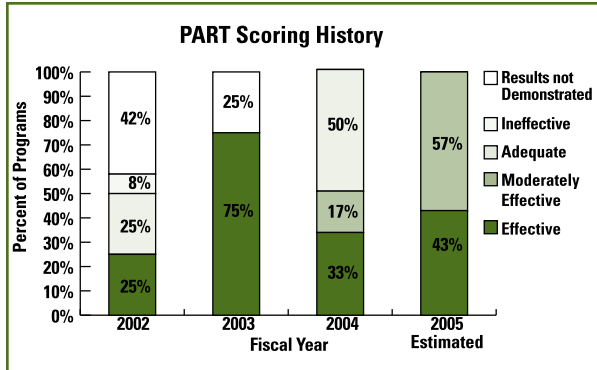
PART scores are summarized by OMB as a qualitative rating of “Effective,” “Moderately Effective,” “Adequate,” “Results Not Demonstrated” or “Ineffective.”

Like the PMA, the PART process provides Treasury a framework for assessing performance. By using in-depth performance questions, PART allows Treasury leadership to evaluate how well a program is meeting its intended objectives, how effectively and efficiently it is managed, the extent to which the program supports Treasury’s overarching strategic goals and how well the program achieves results.

The Table below details all of the Treasury programs that have received OMB PART evaluations thus far. For a full list of PART evaluations see the appendix (FY 2005 PART scores not final at time of publication).

Treasury made program evaluation and PART a top priority in FY 2005 and made a strong commitment to improve. While the results are still pending, Treasury expects a 36% increase in its score compared to last year’s aggregate result. Treasury’s improved PART scores in 2005 were a result of: (1) significant improvements in goals and measures; (2) a half-day training session that included an exchange of lessons learned across bureaus; and (3) solid evidentiary procedures. All seven PART programs evaluated in 2005 (for the 2007 budget year) received effective or moderately effective ratings, demonstrating Treasury’s commitment to focusing on program results.

Treasury’s progress in improved program performance is indicated in the two charts below.



Program	Bureau	Year PART Conducted	Rating
Consumer Product Safety Activities	TTB	2002	Adequate
International Development Association	DO	2002	Adequate
Circulating Coinage	Mint	2002	Effective
Bank Supervision	OCC	2002	Effective
Thrift Supervision	OTS	2002	Effective
Earned Income Tax Credit	IRS	2002	Ineffective
Collection	IRS	2002	Results not Demonstrated
Bank Enterprise Award	CDFI	2002	Results not Demonstrated
Office of Technical Assistance	DO	2002	Adequate
Office of Foreign Assets Control	DO	2002	Results not Demonstrated
Tropical Forest Conservation Fund	DO	2002	Results not Demonstrated
Global Environment Facility	DO	2002	Results not Demonstrated
New Currency Manufacturing	BEP	2003	Effective
Debt Collection	FMS	2003	Effective
Administering the Public Debt	BPD	2003	Effective
Submission Processing	IRS	2003	Results not Demonstrated*
African Development Fund	DO	2003	Results not Demonstrated
IRS Taxpayer Advocate Service	IRS	2004	Moderately Effective
IRS Taxpayer Service	IRS	2004	Adequate
Financial and Technical Assistance	CDFI	2004	Adequate
FMS Collections	FMS	2004	Effective
Mint Numismatic	Mint	2004	Effective
New Market Tax Credits	CDFI	2004	Adequate
FinCEN BSA Collection & Dissemination	FinCen	2005	Moderately Effective
FMS Payments	FMS	2005	Effective
IRS Examinations	IRS	2005	Moderately Effective
IRS Criminal Investigations	IRS	2005	Moderately Effective
Submission Processing - Re-do	IRS	2005	Moderately Effective
Mint Protection	Mint	2005	Effective
TTB Collect the Revenue	TTB	2005	Effective

\*Re-PARTed in FY 2005 with a Moderately Effective Rating

Additional details of OMB recommendations and actions planned or underway for each program can be found in the appendix of this report.

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## Part III: Annual Financial Report

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**Consolidated Balance Sheets**  
**As of September 30, 2005 and 2004**  
(In Millions)

	2005	2004
<b>ASSETS</b>		
<b>Intra-governmental Assets</b>		
Fund Balance (Note 2)	\$66,334	\$59,946
Loans and Interest Receivable (Note 3)	228,491	214,065
Advances to the Black Lung Trust Fund	9,186	8,741
Due From the General Fund (Note 4)	7,978,081	7,420,492
Accounts Receivable and Related Interest (Note 10)	626	632
Other Intra-governmental Assets	40	12
<b>Total Intra-governmental Assets</b>	<b>8,282,758</b>	<b>7,703,888</b>
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	47,578	53,161
Gold and Silver Reserves (Note 6)	10,933	10,933
Loans and Interest Receivable (Note 3)	670	977
Investments and Related Interest (Note 7)	9,404	10,870
Reserve Position in the International Monetary Fund (Note 8)	13,247	19,442
Investments in International Financial Institutions (Note 9)	5,464	5,403
Tax, Other, and Related Interest Receivable, Net (Note 10)	21,430	20,520
Inventory and Related Property, Net (Note 11)	468	459
Property, Plant, and Equipment, Net (Note 12)	2,398	2,745
Other Assets	22	24
<b>Total Assets (Note 13)</b>	<b>\$8,394,372</b>	<b>\$7,828,422</b>
<b>LIABILITIES</b>		
<b>Intra-governmental Liabilities</b>		
Federal Debt and Interest Payable (Notes 4 & 14)	\$3,354,905	\$3,097,949
Other Debt and Interest Payable (Note 14)	14,164	0
Due to the General Fund (Note 4)	273,551	276,436
Other Intra-governmental Liabilities	422	935
<b>Total Intra-governmental Liabilities</b>	<b>3,643,042</b>	<b>3,375,320</b>
Federal Debt and Interest Payable (Notes 4 & 14)	4,600,668	4,305,302
Certificates Issued to Federal Reserve Banks (Note 5)	2,200	2,200
Allocation of Special Drawing Rights (Note 5)	7,102	7,197
Gold Certificates Issued to Federal Reserve Banks (Note 6)	10,924	10,924
Refunds Payable (Notes 4 & 22)	1,952	1,808
D.C. Pension Liability (Note 16)	8,511	8,367
Other Liabilities (Notes 15 & 18)	4,665	4,146
<b>Total Liabilities (Note 18)</b>	<b>8,279,064</b>	<b>7,715,264</b>
Commitments & Contingencies (Notes 3, 5, 12, 15, 16 & 17)		
<b>NET POSITION</b>		
Unexpended Appropriations	63,182	56,850
Cumulative Results of Operations	52,126	56,308
<b>Total Net Position (Note 19)</b>	<b>115,308</b>	<b>113,158</b>
<b>Total Liabilities and Net Position</b>	<b>\$8,394,372</b>	<b>\$7,828,422</b>

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

**Consolidated Statements of Net Cost  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

	<b>2005</b>	<b>2004</b>
<b>COST OF TREASURY OPERATIONS</b>		
<b>Economic Program</b>		
Gross Cost	\$3,066	\$3,019
Less Earned Revenue	(782)	(1,687)
<b>Net Program Cost</b>	2,284	1,332
<b>Financial Program</b>		
Gross Cost	15,580	14,737
Less Earned Revenue	(4,487)	(4,711)
<b>Net Program Cost</b>	<b>11,093</b>	<b>10,026</b>
<b>Management Program</b>		
Gross Cost	1,156	947
Less Earned Revenue	(739)	(525)
<b>Net Program Cost</b>	417	422
Total Program Gross Costs	19,802	18,703
Total Program Gross Earned Revenues	(6,008)	(6,923)
<b>Total Net Cost of Operations (Note 20)</b>	<b>13,794</b>	<b>11,780</b>
<b>FEDERAL COSTS:</b>		
Federal Debt Interest	354,386	322,142
Less Interest Revenue from Loans (Note 19)	(11,984)	(11,500)
<b>Net Federal Debt Interest Costs (Note 20)</b>	<b>342,402</b>	<b>310,642</b>
Other Federal Costs (Note 20)	8,673	12,915
<b>Net Federal Costs</b>	<b>351,075</b>	<b>323,557</b>
<b>Net Cost of Operations, Federal Debt Interest, and Other Federal Costs</b>	<b>\$364,869</b>	<b>\$335,337</b>

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

**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2005**  
(In Millions)

	<b>Cumulative Results of Operations</b>	<b>Unexpended Appropriations</b>
<b>Beginning Balance</b>	<b>\$56,308</b>	<b>\$56,850</b>
<b>Budgetary Financing Sources:</b>		
Appropriations Received (Note 19)		369,312
Appropriations Transferred In/Out		(594)
Other Adjustments		(319)
Appropriations Used	362,067	(362,067)
Non-exchange Revenue	36	
Donations and Forfeitures of Cash and Cash Equivalents	169	
<b>Other Financing Sources:</b>		
Donations and Forfeitures of Property	51	
Accrued Interest & Discount on the Debt	9,879	
Transfers In/Out Without Reimbursement	(133)	
Imputed Financing Sources	722	
Transfers to the General Fund and Other (Note 19)	(12,104)	
<b>Total Financing Sources</b>	<b>360,687</b>	<b>6,332</b>
Net Cost	(364,869)	
<b>Net Change</b>	<b>(4,182)</b>	<b>6,332</b>
<b>Ending Balances</b>	<b>\$52,126</b>	<b>\$63,182</b>

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

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

	<b>Cumulative Results of Operations</b>	<b>Unexpended Appropriations</b>
<b>Beginning Balance</b>	\$58,925	\$50,433
<b>Budgetary Financing Sources</b>		
Appropriations Received (Note 19)		347,808
Appropriations Transferred In/Out		214
Other Adjustments		(400)
Appropriations Used	341,205	(341,205)
Non-exchange Revenue	45	
Donations and Forfeitures of Cash and Cash Equivalents	119	
Transfers In/Out Without Reimbursement	(42)	
Other Budgetary Financing Sources	(4)	
<b>Other Financing Sources</b>		
Donations and Forfeitures of Property	31	
Accrued Interest & Discount on the Debt	3,481	
Transfers In/Out Without Reimbursement	(38)	
Imputed Financing Sources	714	
Transfers to the General Fund and Other (Note 19)	(12,791)	
<b>Total Financing Sources</b>	332,720	6,417
Net Cost	(335,337)	
<b>Net Change</b>	(2,617)	6,417
<b>Ending Balances</b>	\$56,308	\$56,850

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

**Combined Statements of Budgetary Resources**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

	<b>2005</b>	<b>2004</b>
<b>BUDGETARY RESOURCES</b>		
Budgetary Authority:		
Appropriations Received	\$379,567	\$352,212
Borrowing Authority	331	30
Net Transfers	99	(809)
Unobligated Balance:		
Beginning of the Year	69,912	73,859
Net Transfers	(629)	(39)
Spending Authority from Offsetting Collections:		
Earned:		
Collected	6,286	7,328
Receivable from Federal Sources	36	(1)
Change in Unfilled Customer Orders:		
Advance Received	(29)	(9)
Without Advance from Federal Sources	(81)	290
Subtotal	<u>6,212</u>	<u>7,608</u>
Recoveries of Prior Year Obligations	1,286	338
Temporarily Not Available Pursuant to Public Law	1,957	(322)
Permanently Not Available	<u>(5,403)</u>	<u>(2,180)</u>
<b>Total Budgetary Resources</b>	<b><u>\$453,332</u></b>	<b><u>\$430,697</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct	\$384,853	\$357,046
Reimbursable	3,809	3,739
Subtotal	<u>388,662</u>	<u>360,785</u>
Unobligated Balance:		
Apportioned	14,572	14,365
Exempt for Apportionment	40,084	45,368
Unobligated Balance Not Available	<u>10,014</u>	<u>10,179</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$453,332</u></b>	<b><u>\$430,697</u></b>

(Continued)

**Combined Statements of Budgetary Resources  
For the Years Ended September 30, 2005 and 2004  
(In Millions)**

	<b>2005</b>	<b>2004</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>		
Obligated Balance, Net, Beginning of the Year	\$41,446	\$35,018
Obligated Balance, Net, End of the Year		
Accounts Receivable	(211)	(173)
Unfilled Customer Orders from Federal Sources	(432)	(513)
Undelivered Orders	44,722	40,430
Accounts Payable	1,659	1,702
<b>Outlays:</b>		
Disbursements	383,128	353,729
Collections	(6,258)	(7,319)
<b>Subtotal</b>	<b>376,870</b>	<b>346,410</b>
Less: Offsetting Receipts (Note 21)	(15,649)	(1,828)
<b>Net Outlays</b>	<b>\$361,221</b>	<b>\$344,582</b>

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



**Consolidated Statements of Financing**  
**For the Year Ended September 30, 2005 and 2004**  
(In Millions)

	<b>2005</b>	<b>2004</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
<b>Budgetary Resources Obligated:</b>		
Obligations Incurred	\$388,662	\$360,785
Less: Spending Authority from Offsetting Collections and Recoveries	(7,498)	(7,946)
<b>Obligations Net of Offsetting Collections and Recoveries</b>	<b>381,164</b>	<b>352,839</b>
Less: Offsetting Receipts	(15,649)	(1,828)
<b>Net Obligations</b>	<b>365,515</b>	<b>351,011</b>
<b>Other Resources:</b>		
Donations and Forfeitures of Property	51	31
Accrued Interest & Discount on the Debt	9,879	3,481
Transfers In/Out Without Reimbursement	(133)	(38)
Imputed Financing Sources	722	714
Transfers to the General Fund and Other (Note 19)	(12,104)	(12,791)
<b>Net Other Resources Used to Finance Activities</b>	<b>(1,585)</b>	<b>(8,603)</b>
<b>Total Resources Used to Finance Activities</b>	<b>363,930</b>	<b>342,408</b>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	4,384	6,713
Resources that Fund Expenses Recognized in Prior Periods	432	243
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations:		
Credit Program Collections that Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(7)	(128)
Other (Note 21)	(15,677)	(1,150)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	522	563
Adjustment to Accrued Interest & Discount on the Debt	7,313	2,590
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	2,060	(479)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>(973)</b>	<b>8,352</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$364,903</b>	<b>\$334,056</b>

(Continued)

**Consolidated Statements of Financing  
For the Year Ended September 30, 2005 and 2004  
(In Millions)**

	<b>2005</b>	<b>2004</b>
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
<b>Components of Net Cost of Operations Requiring   or Generating Resources in Future Periods</b>		
Increase in Annual Leave Liability	\$9	\$24
Upward Reestimates of Credit Subsidy Expense	1	328
Increase in Exchange Revenue Receivable from the Public	(2)	0
Other	141	90
<b>Total Components of Net Cost of Operations that will   Require or Generate Resources in Future Periods</b>	<b>149</b>	<b>442</b>
<b>Components of Net Cost of Operations That Will Not   Require or Generate Resources</b>		
Depreciation and Amortization	612	529
Revaluation of Assets or Liabilities	(714)	323
Other	(81)	(13)
<b>Total Components of Net Cost of Operations That Will Not   Require or Generate Resources</b>	<b>(183)</b>	<b>839</b>
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>(34)</b>	<b>1,281</b>
<b>Net Cost of Operations</b>	<b>\$364,869</b>	<b>\$335,337</b>

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

**Statements of Custodial Activity**  
**For the Year Ended September 30, 2005 and 2004**  
(In Millions)

	<b>2005</b>	<b>2004</b>
<b>SOURCES OF CUSTODIAL REVENUE: (Note 22)</b>		
<b>Revenue Received</b>		
Individual and FICA Taxes	\$1,864,687	\$1,695,212
Corporate Income Taxes	306,869	230,377
Estate and Gift Taxes	25,605	25,580
Excise Taxes	71,970	69,552
Railroad Retirement Taxes	4,539	4,421
Unemployment Taxes	6,948	6,718
Deposit of Earnings, Federal Reserve System	19,297	19,652
Fines, Penalties, Interest & Other Revenue	3,552	2,456
<b>Total Revenue Received</b>	<b>2,303,467</b>	<b>2,053,968</b>
Less Refunds	(267,114)	(278,436)
<b>Net Revenue Received</b>	<b>2,036,353</b>	<b>1,775,532</b>
Accrual Adjustments	643	(1,938)
<b>Total Custodial Revenue</b>	<b>2,036,996</b>	<b>1,773,594</b>
<b>DISPOSITION OF CUSTODIAL REVENUE</b>		
Amounts Provided to Fund Non-Federal Entities	454	612
Amounts Provided to Fund the Federal Government (Note 22)	2,035,899	1,774,920
Accrual Adjustment	643	(1,938)
<b>Total Disposition of Custodial Revenue</b>	<b>2,036,996</b>	<b>1,773,594</b>
<b>Net Custodial Revenue</b>	<b>\$0</b>	<b>\$0</b>

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

# Notes to The Financial Statements

## 1. Summary of Significant Accounting Policies

### A. Reporting Entity

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

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

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

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

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

Treasury's financial statements reflect the reporting of its own entity activities, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. government and others. Non-entity activities include the collection of federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. government as well as for others. Treasury's reporting entity does not include the "General Fund" of the U.S. government, which maintains receipt, disbursement and appropriation accounts for all federal agencies.

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

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

The financial statements have been prepared from the accounting records of Treasury in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Circular A-136, “*Financial Reporting Requirements.*” Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the U.S. government.

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. They consist of the consolidated Balance Sheet, the consolidated Statement of Net Cost, the consolidated Statement of Changes in Net Position, the combined Statement of Budgetary Resources, the consolidated Statement of Financing, and the Statement of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both FY 2005 and FY 2004 information.

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

Throughout these financial statements, intra-governmental assets, liabilities, earned revenues, and costs have been classified according to the entity for these transactions. Intra-governmental assets and liabilities are those from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals to other federal entities.

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.

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

Tax receivables are not accrued until related tax returns are filed or assessments are made. Prepayments of taxes are netted against liabilities. Accruals are made to reflect penalties and interest on tax receivables through the balance sheet date. Tax receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which Treasury can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of Treasury. Tax receivables are shown on the balance sheet net of an allowance for doubtful accounts and abatements. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible based on historical experience of similar taxes receivable.

### ***D. Inventory and Related Property***

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

Forfeited property is recorded at estimated fair market value at the time of seizure as deferred revenue, and may be adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayer's liability is recorded when title to the property passes to the U.S. government and a corresponding credit is made to the related taxes receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

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

Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

#### ***E. Loans and Interest Receivable - from Other Federal Agencies***

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

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

#### ***F. Advances to the Black Lung Trust Fund***

Advances have been provided to the Department of Labor's Black Lung Trust Fund from the General Fund of the U.S. government. The Bureau of Public Debt accounts for the advances on behalf of the General Fund of the U.S. government. Advances to the Black Lung Trust Fund are being accounted for pursuant to the Benefits Revenue Act which states: In the event that fund resources are not adequate to meet fund obligations, then, Advances, interest and principal are paid to the General Fund of the U.S. government when the Secretary of the Treasury determines that funds are available in the trust fund for such purposes. The Black Lung Trust Funds are repayable with interest at a rate determined by the Secretary of the Treasury to be equal to the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the anticipated period during which the advance will be outstanding. Advances made prior to 1982 carried rates of interest equal to the average rate borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt. The Black Lung Trust Fund balance includes accrued interest.

#### ***G. Plant, Property and Equipment***

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

Treasury's bureaus are diverse both in size and in operating environment. Accordingly, Treasury's capitalization policy thresholds range from \$25,000 to \$50,000. Treasury also uses a capitalization threshold range for bulk purchases: \$250,000 to \$500,000 for non-manufacturing bureaus and \$25,000 to \$50,000 for manufacturing bureaus. Bureaus determine the individual items that comprise bulk purchases. In addition, Treasury's bureaus may expense bulk

purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

#### **H. Federal Debt**

Debt and associated interest are reported on the accrual basis of accounting. Certain debt securities are issued at a discount or premium. Discounts and premiums are amortized over the term of the security using the effective interest rate method.

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

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

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

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

Similar to federal retirement plans, OPM, rather than Treasury, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. Treasury reports the full cost of providing other retirement benefits (ORB). Treasury also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, Treasury's Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) separately sponsor certain benefit plans for their employees. OCC sponsors a defined life insurance benefit plan for current and retired employees. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

#### **J. Special Drawing Rights (SDR) Certificates Issued to Federal Reserve Banks**

The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDRs holdings, to the Federal Reserve Banks in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other Exchange Stabilization Fund operations. Certificates issued are to be redeemed by Treasury at such times and in such amounts as the Secretary of the Treasury may determine. Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

#### **K. Federal Employee Benefits Payable - FECA Actuarial Liability**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers' compensation estimates were generated from an application of actuarial procedures

developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

#### ***L. Revenue and Financing Sources***

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

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

#### ***M. Custodial Revenues and Collections***

Non-entity revenue reported on Treasury's Statement of Custodial Activity includes cash collected and received by Treasury, primarily taxes. It does not include revenue collected by other Federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. government or are earmarked for certain trust funds. The Statement of Custodial Activity is presented on the "modified accrual basis." Revenues are recognized as cash is collected. The Balance Sheet includes an estimated amount for taxes receivable and payable to the General Fund of the U.S. government at September 30, 2005 and 2004.

#### ***N. Tax Assessments and Abatements***

Under Internal Revenue Code Section 6201, Treasury is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs, such as examination, under-reporter, substitute for return, and combined annual wage reporting. Treasury also has authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

#### ***O. Permanent and Indefinite Appropriations***

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custo-



dial activity of Treasury, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

Treasury also receives two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; the other is used to redeem securities that have matured, been called, or are eligible for early redemption. These accounts are not annual appropriations; and do not have refunds. Debt activity appropriations are related to Treasury's liability and would be reported on Treasury's balance sheet. Permanent indefinite authority for debt activity is available for an indefinite period of time.

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

#### ***P. Imputed Costs/Financing Sources***

U.S. government entities often receive goods and services from other U.S. government entities without reimbursing the providing entity for all the related costs. These constitute subsidized costs which are recognized by the receiving entity. An offsetting imputed financing source is also recognized by the receiving entity. Treasury recognized imputed costs and financing sources in fiscal years 2005 and 2004 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which includes unemployment and workers compensation under the Federal Employee's Compensation Act; and losses in litigation proceedings.

#### ***Q. Reclassifications***

Certain 2004 balances have been reclassified to conform to the 2005 presentation.

#### ***R. Income Taxes***

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

#### ***S. Use of Estimates***

Treasury has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates. Financial statement line items subject to estimates include tax receivables; depreciation; imputed costs; cost and earned revenue allocations; and, credit reform subsidy costs.

#### ***T. Credit Risk***

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counterparty to perform in accordance with underlying contractual obligations. The Treasury takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries. Given the history of the Treasury with respect to such exposure and the financial policies in place in the U. S. government and other institutions in which the United States participates, Treasury has no expectation that credit losses will be incurred in the foreseeable future. Treasury also takes on credit risk related

to loan guarantees, committed but undisbursed direct loans and its Terrorism Risk Insurance Program. The extent of the risk assumed by the Department is described in more detail in the notes to the financial statements.

### ***U. Liability for Loan Guarantees***

Treasury operates a loan guarantee program administered by the Air Transportation Stabilization Board. The purpose of the program is to assist air carriers that suffered losses as a result of the terrorist attacks on the United States that occurred on September 11, 2001. The program is accounted for in accordance with the provisions of the Federal Credit Reform Act of 1990, as amended. The authority to issue loan guarantees expired on September 30, 2004. The Liability for Loan Guarantees represents the present value of future projected cash outflows from the Department, net of inflows, such as fees, and other collections. A subsidy cost for the liability for loan guarantees is recognized as a cost in the year the guaranteed loan is disbursed. Subsidy costs are an estimate of the long-term cost to the U.S. Government. The subsidy costs represent the calculation of the present value of the estimated cash outflows over the life of the loan guarantee minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. The subsidy cost is reestimated on an annual basis. Administrative costs such as salaries and contractual fees are not included in the subsidy cost.

Each air carrier has material cash flows that are not considered appropriate to average with those of other air carriers, with the result that each air carrier guarantee has its own subsidy rate. The fluctuations in subsidy rates for the respective air carriers depend upon several risk factors, including current credit rating and default rates. Other factors that may affect the estimated subsidy rates include changes in loan terms (modifications, prepayments, etc.), appraised collateral/liquidation values, interest payments, outstanding balances, and other economic, legal and financial conditions specific to each individual air carrier (see Note 15).

## **2. Fund Balance**

Fund Balance with Treasury is the aggregate amount of Treasury's accounts with the U.S. government's central accounts from which Treasury is authorized to make expenditures and pay liabilities. It is an asset because it represents Treasury's claim to the U.S. government's resources. Fund balance with Treasury is not equivalent to unexpended appropriations, because it also includes non-appropriated revolving and enterprise funds, suspense accounts, and custodial funds such as deposit funds, special funds, and trust funds.

### ***Fund Balances***

As of September 30, 2005 and September 30, 2004, fund balances consisted of the following (in millions):

	<b>2005</b>	<b>2004</b>
Appropriated Funds	\$63,793	\$57,614
Revolving Funds	1,761	1,641
Deposit Funds	457	415
Special Funds	315	268
Other Funds	8	8
<b>Total Fund Balances</b>	<b>\$66,334</b>	<b>\$59,946</b>

As of September 30, 2005 and September 30, 2004, the status of fund balances consisted of the following (in millions):

	2005	2004
Unobligated Balance - Available	\$30,479	\$35,743
Unobligated Balance - Unavailable	10,014	10,179
Obligated Balance not yet Disbursed	45,704	41,431
<b>Subtotal</b>	<b>86,197</b>	<b>87,353</b>
Adjustment for Non Budgetary Funds	462	435
Adjustment for Borrowing Authority	(5,720)	(5,672)
Adjustment for Intra-Treasury Investments	(4,732)	(2,584)
Adjustment for Imprest Funds	(4)	(3)
Adjustment for Other Budgetary Resources Not in Fund		
Balance - Cash & Other Assets	(13,427)	(19,583)
Authority Unavailable for Obligation	3,558	0
<b>Total Status of Fund Balances</b>	<b>\$66,334</b>	<b>\$59,946</b>

The above balances do not include unobligated balances related to the Exchange Stabilization Fund (ESF). While ESF balances are included on the Statement of Budgetary Resources (SBR), they are not a component of the Fund Balance with the Treasury. The ESF balances displayed on the SBR are components of cash, foreign currency, and other monetary assets (see Note 5).

At September 30, 2005 and September 30, 2004, Treasury did not have any budgetary authority in fund balance that was specifically withheld from apportionment by OMB. The balances in non-entity funds, such as deposit funds, are being held in a fiduciary capacity by Treasury for the public or for another federal entity, such as the General Fund of the U.S. government. Such funds have an offsetting liability equal to fund balance. See Note 8 regarding restrictions related to the letter of credit balances.

### 3. Loans and Interest Receivable

#### *Entity Intra-governmental*

As of September 30, 2005 and September 30, 2004, intra-governmental loans (issued by the Federal Financing Bank) and interest receivable consisted of the following (in millions):

	2005	2004
	Loans & Interest Receivable	Loans & Interest Receivable
Agency Loans Purchased	\$0	\$5,150
Direct Loans	0	1,800
Guaranteed Loans	27,774	22,376
Interest Receivable	183	250
Less: Allowance & Discounts	0	(614)
<b>Subtotal- Entity</b>	<b>\$27,957</b>	<b>\$28,962</b>

The Federal Financing Bank (Bank) issues the above loans to federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies. When a federal agency has to honor its guarantee because a private sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay the Bank. Loan principal and interest are backed by the full faith and credit of

the U.S. government, except for loans to the U.S. Postal Service. The Bank has not incurred and does not expect to incur any credit-related losses on its loans and accordingly, has not recorded an allowance for uncollectible intra-governmental loans.

### *Non-Entity Intra-governmental*

	<b>Loans Receivable</b>	<b>Interest Receivable</b>	<b>2005 Total</b>	<b>Loans Receivable</b>	<b>Interest Receivable</b>	<b>2004 Total</b>
Department of Agriculture	\$60,385	\$323	\$60,708	\$46,821	\$68	\$46,889
Department of Interior	392	823	1,215	410	888	1,298
Federal Communications Commission	1,274	0	1,274	3,941	0	3,941
Department of Veterans Affairs	2,193	(3)	2,190	2,618	0	2,618
Railroad Retirement Board	2,973	69	3,042	2,962	64	3,026
Small Business Administration	7,695	0	7,695	8,546	0	8,546
Department of Housing & Urban Development	7,787	45	7,832	8,838	82	8,920
Department of Energy	2,777	13	2,790	2,900	13	2,913
Department of Education	104,471	2	104,473	96,530	2	96,532
Export Import Bank of the U. S.	5,848	0	5,848	7,237	0	7,237
Other agencies	3,459	8	3,467	3,170	13	3,183
<b>Subtotal—Non-Entity</b>	<b>\$199,254</b>	<b>\$1,280</b>	<b>\$200,534</b>	<b>\$183,973</b>	<b>\$1,130</b>	<b>\$185,103</b>
<b>Total Intra-governmental Loans and Interest</b>						
<b>Receivable — Entity and Non-Entity</b>			<b>\$228,491</b>			<b>\$214,065</b>

### *Entity and Non-Entity Non-Federal*

As of September 30, 2005 and September 30, 2004, loans and interest receivable from non-federal entities consisted of the following (in millions):

	<b>Entity</b>	<b>Non-entity</b>	<b>2005 Total</b>	<b>Entity</b>	<b>Non-entity</b>	<b>2004 Total</b>
Direct Loans	\$187	\$464	\$651	\$57	\$729	\$786
Interest Receivable	0	142	142	0	212	212
Less: Allowance and Subsidy Cost	(123)	0	(123)	(21)	0	(21)
<b>Total Non-Federal Loans and Related Interest Receivable</b>	<b>\$64</b>	<b>\$606</b>	<b>\$670</b>	<b>\$36</b>	<b>\$941</b>	<b>\$977</b>

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

## **4. Due from the General Fund and Due to the General Fund**

Treasury is responsible for managing various assets and liabilities on behalf of the U.S. government as a whole. Due from the General Fund represents amounts required to fund liabilities managed by Treasury on behalf of the U.S. government. Liabilities managed by Treasury are comprised primarily of the federal debt. Due to the General Fund represents assets held for the General Fund of the U.S. government.

As of September 30, 2005 and September 30, 2004, Due from and Due to the General Fund, included the following non-entity assets and liabilities (in millions):

	2005	2004
<b>Liabilities Requiring Funding from the General Fund:</b>		
Federal Debt and Interest Payable	\$4,600,668	\$4,305,302
Federal Debt and Interest Payable - Intra-governmental	3,354,905	3,097,949
Refunds Payable	1,952	1,808
Adjustment for Eliminated Liabilities	20,556	15,433
<b>Total Due from the General Fund</b>	<b>\$7,978,081</b>	<b>\$7,420,492</b>
<b>Assets to be Distributed to the General Fund:</b>		
Fund Balance	\$170	\$129
Advances to the Black Lung Trust Fund	9,186	8,741
Operating Cash of the Federal Government	28,344	31,029
Cash, Foreign Currency and Other Monetary Assets	39	60
Gold and Silver Reserves	9	9
Loans and Interest Receivable - Intra-governmental	200,534	185,103
Loans and Interest Receivable	606	941
Accounts Receivable - Intragovernmental	501	543
Tax and Other Non-Entity Receivables	21,331	20,428
Miscellaneous Assets	162	3
Adjustment for Eliminated Assets	12,669	29,450
<b>Total Due to the General Fund</b>	<b>\$273,551</b>	<b>\$276,436</b>

The Adjustment for Eliminated Intra-Treasury liabilities mainly represents investments in U.S. government securities held by Treasury reporting entities that were eliminated against federal debt. The Adjustment for Eliminated Intra-Treasury assets mainly represents loans and interest payable owed by reporting entities that are consolidated with Treasury, which were eliminated against Loans and Interest Receivable held by the Bureau of the Public Debt.

On the Balance Sheet, Treasury reported \$21,430 million in Tax, Other, and Related Interest Receivables as of September 30, 2005 (\$20,520 million as of September 30, 2004). However, only \$21,331 million is reported as due to the General Fund of the U.S. government (\$20,428 million as of September 30, 2004). The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. government, and miscellaneous entity receivables (see Note 10).

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

Cash, foreign currency, and other monetary assets held as of September 30, 2005 and September 30, 2004 were as follows (in millions):

	<b>2005</b>	<b>2004</b>
<b>Entity:</b>		
Cash	\$4	\$4
Foreign Currency:		
Japanese Yen	2,719	1,435
European Euro	7,413	7,450
Other	14	19
Other Monetary Assets:		
Special Drawing Rights	8,245	12,824
Other	227	135
<b>Subtotal - Entity</b>	<b>\$18,622</b>	<b>\$21,867</b>
<b>Non-Entity:</b>		
Operating Cash of the Federal Government	\$27,857	\$30,735
Foreign Currency	89	128
Other	1,010	431
<b>Subtotal - Non-Entity</b>	<b>28,956</b>	<b>31,294</b>
<b>Total Cash, Foreign Currency, and Other Monetary Assets</b>	<b>\$47,578</b>	<b>\$53,161</b>

Operating Cash & Other Cash of the Federal Government held by Treasury Consisted of the following (in millions):

	<b>2005</b>	<b>2004</b>
U.S. Operating Cash Accounts	\$31,299	\$30,362
Operating Cash - Federal Reserve Account	4,509	6,087
<b>Subtotal</b>	<b>\$35,808</b>	<b>\$36,449</b>
Outstanding Checks	(7,951)	(5,714)
<b>Total Operating Cash</b>	<b>\$27,857</b>	<b>\$30,735</b>
Other Miscellaneous Items	487	294
<b>Total Cash Held by the Treasury for Government-wide Operations</b>	<b>\$28,344</b>	<b>\$31,029</b>

### **Entity**

Entity cash, foreign currency, and other monetary assets primarily include foreign currency denominated assets (FCDA), special drawing rights (SDRs), and forfeited cash. SDRs and FCDAs are valued as of September 30, 2005 and September 30, 2004, using current exchange rates plus accrued interest, at September 30, 2005 and 2004. "Other" includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York. FCDAs represent Foreign Currency Agreements (swap agreements) between Treasury and various countries that provide for drawing of dollars by those countries and/or drawing of foreign currency by Treasury. Treasury enters into these agreements through the Exchange Stabilization Fund.

The foreign currency holdings are normally invested in interest bearing securities issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, (except for foreign currencies under swap agreements with developing countries) were valued at \$6.6 billion as of September 30, 2005 (\$5.3 billion as of September 30, 2004). Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As

of September 30, 2005, FCDAAs with maturities greater than three months were valued at \$3.6 billion (\$3.6 billion as of September 30, 2004).

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

The Special Drawing Rights Act of 1968 authorizes the Secretary of Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued for the purpose of financing the acquisition of SDRs from other countries or to provide resources for the financing of Treasury's Exchange Stabilization Fund's activities. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary of the Treasury may determine. As of September 30, 2005, the value of the certificates issued to Federal Reserve Banks amounted to \$2.2 billion (\$2.2 billion as of September 30, 2004).

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. Treasury's SDR holdings (assets resulting from various SDR related activities including remuneration received on interest earned on the U.S. reserve position – see note 8) and allocations from the IMF (liabilities of the U.S. coming due only in the event of a liquidation of, or U.S. withdrawal from the SDR department of the IMF, or cancellation of SDRs) are revalued monthly based on the SDR valuation rate calculated by the IMF.

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

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

Except for the payment of interest and charges on SDRs allocations to the United States, the payment of Treasury's commitment related to the SDRs allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981, the IMF has made no further allocations of SDRs. As of September 30, 2005, the amount of SDR holdings of the United States was the equivalent of \$8.2 billion and the amount of SDR allocations to the United States was the equivalent of \$7.1 billion. As of September 30, 2004, the amount of SDR holdings of the United States was the equivalent of \$12.8 billion and the amount of SDR allocations to the United States was the equivalent of \$7.2 billion.

During FY 2005, Treasury received remuneration on the U.S. reserve position in the IMF, at the prevailing rates, \$316 million equivalent of SDRs (\$300 million equivalent of SDRs during FY 2004), and paid the General Fund of the Federal Government \$.5 million (\$.4 million in FY 2004) in interest on these funds until they were transferred to the General Fund.

**Non-Entity**

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

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

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

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

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

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

Absent historical cost records to determine acquisition cost of the gold and silver over the decades, the statutory rates of \$42.2222 per fine troy ounce (FTO) for gold and \$1.292929292 per FTO for silver are used to value the entire custodial reserves, which are in the custody of the U.S. Mint and the Federal Reserve Bank of New York. As of September 30, 2005 and September 30, 2004, the gold and silver reserves consisted of the following (in millions):

	FTO's	Statutory Rate	9/30/05 Statutory Value	Market Rate	9/30/05 Market Value
Gold	245,262,897	\$42.2222	\$10,356	\$473.25	\$116,071
Gold Held by Federal Reserve	13,450,413	42.2222	568	473.25	6,366
<b>Subtotal - Gold</b>	<b>258,713,310</b>		<b>\$10,924</b>		<b>\$122,437</b>
Silver	7,075,171	1.292929292	9	7.53	53
<b>Total Gold and Silver Reserves</b>			<b>\$10,933</b>		<b>\$122,490</b>



	FTOs	Statutory Rate	9/30/04 Statutory Value	Market Rate	9/30/04 Market Value
Gold	245,262,897	\$42.2222	\$10,356	\$415.65	\$101,944
Gold Held by Federal Reserve	13,450,413	42.2222	568	415.65	5,591
<b>Subtotal - Gold</b>	<b>258,713,310</b>		<b>\$10,924</b>		<b>\$107,535</b>
Silver	7,075,171	1.292929292	9	6.67	47
<b>Total Gold and Silver Reserves</b>			<b>\$10,933</b>		<b>\$107,582</b>

## 7. Investments and Related Interest

Investments in U.S. government Securities held by Treasury entities have been eliminated against the federal debt liability for financial reporting purposes (See Note 4). The Exchange Stabilization Fund holds most of Treasury's other investments. Securities that Treasury has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. As of September 30, 2005 and September 30, 2004, entity investments consisted of the following (in millions):

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/05 Investment Balance	9/30/05 Market Value
Euro Bonds	\$3,398	\$95	\$3,493	\$104	\$3,597	\$3,677
Japanese Financing Bills	874	0	874	0	874	873
Japanese T Bills	1,986	0	1,986	0	1,986	1,986
Japanese Government Bond	2,751	8	2,759	0	2,759	2,756
Other	191	(3)	188	0	188	188
<b>Total Non-Federal</b>	<b>\$9,200</b>	<b>\$100</b>	<b>\$9,300</b>	<b>\$104</b>	<b>\$9,404</b>	<b>\$9,480</b>

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/04 Investment Balance	9/30/04 Market Value
Euro Bonds	\$3,395	\$106	\$3,501	\$108	\$3,609	\$3,670
Japanese Financing Bills	3,462	0	3,462	0	3,462	3,462
Japanese T Bills	3,675	0	3,675	0	3,675	3,675
Other	127	(3)	124	0	124	125
<b>Total Non-Federal</b>	<b>\$10,659</b>	<b>\$103</b>	<b>\$10,762</b>	<b>\$108</b>	<b>\$10,870</b>	<b>\$10,932</b>

## 8. Reserve Position in the International Monetary Fund

The United States participates in the IMF through a quota subscription. Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or SDRs, which are international reserve currency assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, issued by Treasury and maintained by the Federal Reserve Bank of New York (FRBNY), represents the bulk of the IMF's holdings of dollars. Approximately one quarter of 1 % of the U.S. quota is maintained in cash balances in an IMF account at FRBNY.

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

As of September 30, 2005, the U.S. quota in the IMF was 37.1 billion SDRs, valued at approximately \$53.8 billion. (The quota as of September 30, 2004 was 37.1 billion SDRs, valued at approximately \$54.6 billion.) The quota consisted of the following (in millions):

	2005	2004
Letter of Credit /1	\$40,419	\$34,995
U.S. Dollars Held in Cash by the IMF /1	181	135
Reserve Position /2	13,247	19,442
<b>U.S. Quota in the IMF</b>	<b>\$53,847</b>	<b>\$54,572</b>

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

/2 This amount is included in the Cumulative Results of Operations.

The U.S. reserve position is denominated in SDRs, as is the U.S. quota. Consequently, fluctuations in the value of the dollar with respect to the SDR results in valuation changes in dollar terms for the U.S. reserve position in the IMF as well as the IMF letter of credit. Treasury periodically adjusts these balances to maintain the SDR value of the U.S. quota and records the change as a deferred gain or loss in its cumulative results of operations. These adjustments, known as maintenance of value adjustments, are settled annually after the close of the IMF financial year on April 30. Such adjustments do not involve a flow of funds. At April 30, 2005, the annual settlement with the IMF resulting from the depreciation of the dollar against the SDR since April 30, 2004, called for an upward adjustment of the U.S. quota by \$1.523 billion (at April 30, 2004, the depreciation of the dollar against the SDR since April 30, 2003, called for an upward adjustment of the U.S. quota by \$1.375 billion) and a corresponding increase to Unexpended Appropriations on the Statement of Changes in Net Position. The dollar balances shown above for the U.S. quota include accrued valuation adjustments. At September 30, 2005, Treasury recorded a net deferred valuation loss in the amount of \$54.1 million (\$647 million valuation gain as of September 30, 2004) for deferred maintenance of value adjustments needed at year end.

The United States earns “remuneration” (interest) on its reserve position in the IMF except for the portion of the reserve position originally paid in gold. Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. (The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket.) Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share the financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors’ share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors’ share of establishing the contingency accounts is usually paid when

there are no longer any relevant overdue obligations or when the IMF Executive Board determines. There were no deductions in the remuneration paid by the IMF as a result of burden-sharing during FY 2005 and 2004. For FY 2005 and 2004, Treasury received \$316.0 million and \$300 million as remuneration (see note 5).

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in times of crisis when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). There were no U.S. loans outstanding under these arrangements in FY 2005 and FY 2004. The dollar equivalent of SDR 6.7 billion has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2005, and September 30, 2004, this amounted to \$9.7 billion and \$9.9 billion, respectively, in standing appropriations available for lending through the GAB or NAB, as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB result in concurrent adjustments to the U.S. reserve position in the IMF.

## 9. Investments in International Financial Institutions

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

As of September 30, 2005 and September 30, 2004, investments in international financial institutions consisted of the following (in millions):

	2005	2004
African Development Bank	\$165	\$160
Asian Development Bank	458	450
European Bank for Reconstruction & Development	593	558
Inter-American Development Bank	1,475	1,462
International Bank for Reconstruction & Development	1,985	1,985
International Finance Corporation	569	569
Multilateral Investment Guarantee Agency	44	44
North American Development Bank	175	175
<b>Total</b>	<b>\$5,464</b>	<b>\$5,403</b>

Refer to Note 17 for a description of the contingent liability to these institutions.

## 10. Accounts Receivable and Related Interest

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

Tax, other, and related interest receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued that were not paid or abated, reduced by an estimate for uncollectible amounts. Also included is interest income due on monies deposited in Federal Reserve Banks.

As of September 30, 2005 and September 30, 2004, tax, other, and related interest receivables, net, consisted of the following (in millions):

	2005	2004
<b>Non-Entity:</b>		
IRS Federal Tax Receivable, Gross	\$88,019	\$89,137
Less Allowance on Taxes Receivable	(67,008)	(69,117)
Receivable, Deposit of Earnings, Federal Reserve	312	412
Other Receivable & Interest	20	50
Less: Allowance on Other & Related Interest Receivable	(6)	(40)
<b>Total Tax, and Other Non-Entity Receivables, Net</b>	<b>\$21,337</b>	<b>\$20,442</b>
<b>Entity: Miscellaneous Entity Receivables &amp; Related Interest</b>	<b>93</b>	<b>78</b>
<b>Total Tax, Other &amp; Related Interest Receivables, Net</b>	<b>\$21,430</b>	<b>\$20,520</b>

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

### ***B. Intra-governmental Accounts and Related Interest Receivable***

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by Treasury under the Contract Disputes Act (\$501 million of the \$626 million and \$543 million of the \$632 million displayed for 2005 and 2004, respectively). Unlike Judgment Fund payments, other federal agencies are required to reimburse Treasury for payments made to contractors or federal employees, on their behalf, under the Act. These amounts remain a receivable on Treasury's books of the Financial Management Service and a payable on the other federal agencies' books until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions.

## **11. Inventory and Related Property, Net**

Inventory and related property includes inventory, operating materials and supplies, and forfeited property held by Treasury. Treasury's operating materials and supplies are maintained for the production of bureau products. Treasury maintains inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. Inventory for check processing activities is also maintained.

As of September 30, 2005 and September 30, 2004, inventory and related property consisted of the following (in millions):

	2005	2004
Operating materials and supplies held for use	\$16	\$14
Operating materials and supplies held in reserve for future use	22	21
Forfeited property	57	46
Other related property	388	387
Total allowance for inventories and related property	(15)	(9)
<b>Total Inventories and Related Property</b>	<b>\$468</b>	<b>\$459</b>

## 12. Property, Plant, and Equipment, Net

As of September 30, 2005 and 2004, plant, property, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2005 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	\$583	(\$216)	\$367
Furniture, fixtures and equipment	S/L	2 - 20 years	2,602	(1,796)	806
Construction in progress	N/A	N/A	172	0	172
Land and land improvements	N/A	N/A	11	0	11
ADP software	S/L	2 - 10 years	901	(285)	616
Assets under capital lease	S/L	2 - 25 years	86	(48)	38
Leasehold improvements	S/L	2 - 25 years	461	(245)	216
Other	S/L	2 - 30 years	584	(412)	172
<b>Total</b>			<b>\$5,400</b>	<b>(\$3,002)</b>	<b>\$2,398</b>

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2004 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	\$567	(\$219)	\$348
Furniture, fixtures and equipment	S/L	2 - 20 years	2,480	(1,601)	879
Construction in progress	N/A	N/A	158	0	158
Land and land improvements	N/A	N/A	10	0	10
ADP software	S/L	2 - 10 years	354	(142)	212
Assets under capital lease	S/L	2 - 25 years	129	(51)	78
Leasehold improvements	S/L	2 - 25 years	417	(184)	233
Other	S/L	2 - 30 years	1,165	(338)	827
<b>Total</b>			<b>\$5,280</b>	<b>(\$2,535)</b>	<b>\$2,745</b>

Treasury leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties. The service life ranges are large due to Treasury's diversity of held plant, property, and equipment.

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

### 13. Non-Entity Assets

As of September 30, 2005 and September 30, 2004, non-entity assets consisted of the following (in millions):

	2005	2004
<b>Intra-governmental Assets:</b>		
Fund Balance (Note 2)	\$776	\$834
Loans and Interest Receivable (Note 3)	200,534	185,103
Accounts Receivable and Related Interest	501	543
Advances to the Black Lung Trust Fund (Note 4)	9,186	8,741
Due from the General Fund (Note 4)	7,978,081	7,420,492
<b>Total Non-Entity Intra-governmental Assets</b>	<b>\$8,189,078</b>	<b>\$7,615,713</b>
Cash, Foreign Currency and Other Monetary Assets (Note 5)	\$28,956	\$31,294
Gold & Silver Reserves (Note 6)	10,933	10,933
Loans and Interest Receivable (Note 3)	606	941
Tax, Other, and Related Interest Receivable, Net (Note 10)	21,337	20,442
Miscellaneous Assets	161	3
<b>Total Non-Entity Assets</b>	<b>\$8,251,071</b>	<b>\$7,679,326</b>

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

### 14. Federal Debt & Interest Payable

Treasury is responsible for administering the federal debt on behalf of the U.S. government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt managed by Treasury does not include debt issued by other governmental agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development. The federal debt as of September 30, 2005 and September 30, 2004 was as follows (in millions):

<b>Intra-governmental</b>	<b>FY 2005</b>	<b>FY 2004</b>
Beginning Balance	\$3,056,484	\$2,843,770
New Borrowings/Repayments	240,626	212,714
<b>Subtotal at Par Value</b>	<b>\$3,297,110</b>	<b>\$3,056,484</b>
Premium/Discount	14,597	(739)
Interest Payable Covered by Budgetary Resources	43,198	42,204
<b>Total</b>	<b>\$3,354,905</b>	<b>\$3,097,949</b>

<b>Owed to the Public</b>	<b>FY 2005</b>	<b>FY 2004</b>
Beginning Balance	\$4,307,345	\$3,924,090
New Borrowings/Repayments	293,894	383,255
<b>Subtotal at Par Value</b>	<b>\$4,601,239</b>	<b>\$4,307,345</b>
Premium/Discount	(35,532)	(34,778)
Interest Payable Covered by Budgetary Resources	34,961	32,735
<b>Total</b>	<b>\$4,600,668</b>	<b>\$4,305,302</b>

Debt held by the public approximates the U.S. government's competition with other sectors in the credit markets. In contrast, debt held by federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e. excess of receipts over disbursements plus accrued interest) that have been used to finance general government operations.

#### ***Federal Debt held by Other Federal Agencies***

Certain federal agencies are allowed to invest excess funds in debt securities issued by Treasury on behalf of the U.S. government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. government. The vast majority is non-marketable securities issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for debt held by the federal entities in FY 2005 was 5.2 % (5.4 % in FY 2004).

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt, at par value (not including interest receivable), owed to federal agencies as of September 30, 2005 and September 30, 2004 was as follows (in millions):

	<b>FY 2005</b>	<b>FY 2004</b>
Social Security Administration*	\$1,809,422	\$1,635,398
Office of Personnel Management*	688,767	670,741
Department of Defense Agencies	234,916	217,541
Department of Health and Human Services	296,658	283,851
All Other Federal Entities - Consolidated	267,347	248,953
<b>Total Federal Debt Held by Federal Entities</b>	<b>\$3,297,110</b>	<b>\$3,056,484</b>

The above balances do not include premium/discount and interest payable.

\* These amounts include marketable Treasury securities as well as non-marketable debt securities as follows (in millions):

	<b>Non-Marketable Debt Securities</b>	<b>Marketable Securities**</b>	<b>2005 Total</b>
Civil Service Retirement and Disability Fund, Par Value	\$646,750	\$0	\$646,750
Federal Disability Insurance Trust Fund, Par Value	\$193,263	\$0	\$193,263

\*\* The marketable securities were called on February 15, 2005, and the proceeds were rolled over as investments in GAS securities.

	<b>Non-Marketable Debt Securities</b>	<b>Marketable Securities</b>	<b>2004 Total</b>
Civil Service Retirement and Disability Fund, Par Value	\$631,749	\$111	\$631,860
Federal Disability Insurance Trust Fund, Par Value	\$182,769	\$30	\$182,799

### ***Federal Debt Held by the Public***

As of September 30, 2005 and September 30, 2004, Federal Debt held by the Public consisted of the following:

<b>(at par value, in millions)</b>	<b>Term</b>	<b>Average Interest Rates</b>	<b>2005</b>
<b>Marketable:</b>			
Treasury Bills	1 Year or Less	3.4%	\$910,323
Treasury Notes	Over 1 Year - 10 Years	3.7%	2,328,212
Treasury Bonds	Over 10 Years	7.9%	520,507
Treasury Inflation Protected Securities (TIPS)	More than 5 Years	2.4%	307,011
<b>Total Marketable</b>			<b>\$4,066,053</b>
Non-Marketable	On Demand to Over 10 Years	4.9%	535,186
<b>Total Federal Debt (Public)</b>			<b>\$4,601,239</b>

<b>(at par value, in millions)</b>	<b>Term</b>	<b>Average Interest Rates</b>	<b>2004</b>
<b>Marketable:</b>			
Treasury Bills	1 Year or Less	1.6%	\$961,449
Treasury Notes	Over 1 Year - 10 Years	3.5%	2,109,494
Treasury Bonds	Over 10 Years	8.0%	551,904
Treasury Inflation Protected Securities (TIPS)	More than 5 Years	2.8%	223,008
<b>Total Marketable</b>			<b>\$3,845,855</b>
Non-Marketable	On Demand to Over 10 Years	5.1%	461,490
<b>Total Federal Debt (Public)</b>			<b>\$4,307,345</b>

The above balances do not include premium/discount and interest payable.

Treasury issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding as of September 30, 2005 and 2004, respectively. Treasury bills are issued with a term of one year or less.

Treasury issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding as of September 30, 2005 and 2004. Treasury notes are issued with a term of over one year to 10 years and Treasury bonds are issued with a term of more than 10 years. Treasury also issues inflation-indexed securities (TIPS) that have interest and redemption payments, which are tied to the Consumer Price Index, the leading measurement of inflation. TIPS are issued with a term of more than five years. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal.



**Other Debt and Interest Payable**

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 4.62 % to 5.62 %, and the maturity dates range from June 30, 2009 to June 30, 2019. Borrowings began in 2005.

**15. Liability for Loan Guarantees**

The liability for loan guarantees is associated with the Air Transportation Stabilization Program which guarantees loans to assist air carriers that suffered losses as a result of the terrorist attacks on the United States that occurred on September 11, 2001.

Liabilities for loan guarantees represent the present value of future projected cash outflows from the Department, net of inflows, such as fees, and other collections. Related details for FY 2005 and FY 2004 are provided below.

(In Millions)	2005	2004
<b>Loan Guaranteed</b>		
Face value of loans outstanding	\$879	\$1,255
Amount guaranteed by the government	799	1,122
Loans disbursed	0	30
<b>Defaulted Guaranteed Loan</b>		
Loan Amount	\$125	\$0
Subsidy transferred from liability	103	0
Subsidy reestimate	(3)	0
<b>Subsidy Expense</b>		
Components of Current Year Subsidy:		
Defaults, Net of Recoveries	\$0	2
Fees	0	(5)
Reestimates**	(143)	330
<b>Administrative Expenses</b>	<b>\$5</b>	<b>\$2</b>
<b>Schedule for Reconciling Loan Guarantee Liability Balances:</b>	<b>2005</b>	<b>2004</b>
Beginning balance of the liability for loan guarantee liability	\$724	\$353
Other subsidy costs	0	(2)
	724	351
Payment of defaulted loan	(124)	0
Loan guarantee modifications	0	(39)
Net defaulted loan assets	22	0
Fees received	69	68
Interest accumulation on the liability balance	7	14
<b>Ending balance of the loan guarantee liability before reestimates</b>	<b>698</b>	<b>394</b>
Reestimate of subsidy	(143)	330
<b>Ending balance of loan guarantee liability*</b>	<b>\$555</b>	<b>\$724</b>

\*This amount is included in "Other Liabilities with the Public" (Note 18).

\*\* The reduction in the subsidy expense in FY 2005 is associated with two guaranteed loans that were paid off.

## 16. D.C. Pensions Liability

Pursuant to Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, Treasury became responsible for certain District of Columbia retirement plans. The Act was intended to relieve the District of Columbia Government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. Prior to December 23, 2004, the Act established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund), the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund), and the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund).

The purpose of the Trust Fund was to make federal benefit payments and pay necessary administrative expenses for the District of Columbia Police Officers, Firefighters, and Teachers Retirement Plans for benefits earned based upon service on or before June 30, 1997. The purpose of the Judicial Retirement Fund was to make federal benefit payments and pay necessary administrative expenses of the Judges' Retirement Plan for all benefits earned. The purpose of the Supplemental Fund was to accumulate funds to finance Federal Benefit Payments and necessary administrative expenses for the Police Officers, Firefighters, and Teachers Retirement Plans after funds in the Trust Fund were depleted.

On December 23, 2004, the President signed into law the District of Columbia Retirement Protection Improvement Act of 2004. This amendment to the Act terminated the Trust Fund and the Supplemental Fund and transferred the assets to the D.C. Teachers, Police Officers and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) effective as of October 1, 2004.

Treasury is required to make annual amortized payments from the General Fund of the U.S. government to the Judicial Retirement Fund and as of FY 2005, the D.C. Federal Pension Fund (prior to FY 2005, payments were made to the Supplemental Fund.) The amount paid into the D.C. Federal Pension Fund from the General Fund of the U.S. government was \$277 million during FY 2005. The Supplemental Fund received \$270 million from the General Fund of the U.S. government during FY 2004. The amount paid into the Judicial Retirement Fund from the General Fund of the U.S. government was \$7.0 million during FY 2005 (and \$7.5 million during FY 2004).

As of September 30, 2005, the unobligated budgetary resources of the two funds were approximately \$3.6 billion, and the pension liability was \$8.5 billion, resulting in an unfunded liability of \$4.9 billion. (As of September 30, 2004, the assets of the three funds were approximately \$4 billion, and the pension liability was \$8.4 billion, resulting in an unfunded liability of \$4.4 billion.) The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long term assumptions selected by Treasury. In FY 2005, the assumption for the annual rate of investment return was 6% for the Judicial Fund and 4.8% for the D.C. Federal Pension Fund with a gradual increase to 6% by FY 2011 and the annual rate of inflation and cost-of-living adjustments were 3%. In FY 2004, the assumption for the annual rate of investment return and the annual rate of inflation and cost-of-living adjustments were 6% and 3%, respectively. In FY 2005, the assumption for the annual rate of salary increases was 6.5% for police officers and firefighters, 5.5% for teachers, and 3.5% for judges. In FY 2004, the assumption for the annual rate of salary increases was 6.5% for police officers and firefighters, 5.5% for teachers, and 3.5% for judges. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

## 17. Commitments and Contingencies

Treasury is subject to contingent liabilities which include litigation cases. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a materially adverse effect on the financial statements, except for the litigation described below.

Treasury is a party in various administrative proceedings, legal actions, and claims brought by or against it. At September 30, 2005 and 2004, no claims were reported in which a loss is probable, and no contingencies existed relative to proceedings and claims for which it is reasonably possible that a loss may be incurred.

### ***Pending Legal Actions***

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Based on the information provided by legal counsel and in the opinion of management, the ultimate resolution of the following legal actions, for which a range of potential loss could not be determined, may materially affect Treasury's financial position or results. These specific cases are summarized as follows:

***Cobell v. Norton (formerly Cobell v. Babbitt):*** Native Americans allege that the Departments of Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. The plaintiffs have not made claims for specific dollar amounts in the Federal district court proceedings, but in public statements have asserted that the class is owed \$27.487 billion.

***Tribal Trust Fund Cases:*** Numerous cases have been filed in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases for damages which do not name Treasury as a defendant. It is probable that additional tribes may file claims. It is not possible at this time to determine the number of suits that may be filed or the amount of damages that may be claimed.

***Cruz v. United States, de la Torre v. United States, Barba v. United States and Chavez v. United States:*** These are claims that Mexican workers who were employed in the United States, beginning in 1942, did not receive funds which were withheld from the workers, nor did they receive an accounting for such funds.

***Ferreiro v. United States:*** Plaintiffs claim allegedly past due civil service retirement benefits relating to individuals' employment by the U.S. government in Cuba prior to 1963.

The Department also had employment cases (e.g., discrimination, Equal Employment Opportunity Commission, Merit System Protection Board, etc.) in which a loss is reasonably possible, but for which a range of potential loss could not be determined.

### ***Possible Legal Actions***

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In 2005 an association of banks presented to the Department a written letter and legal memorandum asserting claims related to certain Iraqi accounts of its member banks that were vested pursuant to Executive Order 13290 of 2003. This letter is silent regarding the amount of their claim. However, representatives of the association stated in a 2004 meeting they are entitled to compensation totaling approximately \$ 1.4 billion. As no case has been filed, an opinion regarding the likelihood of unfavorable outcome is not practicable.

### ***Other Contingencies***

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***Multilateral Development Banks (MDBs):*** Treasury has subscribed to capital for certain MDBs, portions of which are callable under certain limited circumstances to meet the obligations of the respective MDBs. There has never been, nor is there anticipated, a call on Treasury's subscriptions. As of September 30, 2005 and September 30, 2004, U.S. callable capital in MDBs was as follows (in millions):

	2005	2004
African Development Bank	\$1,428	\$1,348
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,800	1,555
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	22,642	22,642
Multilateral Investment Guarantee Agency	285	285
North American Development Bank	1,275	1,275
<b>Total</b>	<b>\$62,028</b>	<b>\$61,703</b>

**Terrorism Risk Insurance Program:** The Terrorism Risk Insurance Act of 2002 provided Treasury an appropriation to compensate insurance companies for commercial property and casualty insurance losses resulting from certified acts of terrorism. Under the program, the U.S. government is responsible for paying 90 % of the insured losses arising from future acts of terrorism above the applicable insurer deductibles and below the annual cap of \$100 billion. Any claims would be paid from permanent, indefinite budget authority and would not require subsequent appropriations. The Act sunsets on December 31, 2005. The Terrorism Risk Insurance Program is activated upon the certification of an “act of terrorism” by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General.

## 18. Liabilities

### *Liabilities Not Covered by Budgetary and Other Resources*

As of September 30, 2005 and September 30, 2004, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2005	2004
<b>Intra-governmental Liabilities Not Covered by Budgetary &amp; Other Resources:</b>		
Federal Debt Principal, Premium/Discount (Note 14)	\$3,311,707	\$3,055,745
Other Intra-governmental Liabilities	97	313
<b>Total Intra-governmental Liabilities Not Covered by Budgetary &amp; Other Resources</b>	<b>\$3,311,804</b>	<b>\$3,056,058</b>
Federal Debt Principal, Premium/Discount (Note 14)	4,565,707	4,272,567
D.C. Pension Liability (Note 16)	4,851	4,420
Other Liabilities	1,072	963
<b>Total Liabilities Not Covered by Budgetary &amp; Other Resources</b>	<b>\$7,883,434</b>	<b>\$7,334,008</b>

### *Other Liabilities with the Public*

Total “Other Liabilities” displayed on the Balance Sheet consists of both liabilities that are covered and not covered by budgetary resources. The amounts displayed of \$4,665 million and \$4,146 million, respectively, at September 30, 2005, and September 30, 2004 consisted of the following (in millions):

	2005	2004
Actuarial Liability for the Federal Workers Compensation Program (FECA)	\$504	\$680
Liability for Deposit Funds (Funds Held by the Federal Government for Others) & Suspense Accounts	843	365
ATSB Loan Guarantee Liabilities (Note 15)	555	724
Accrued Funded Payroll and Benefits	326	297
Capital Lease Liabilities	26	54
Accounts Payable & Other Accrued Liabilities	2,411	2,026
<b>Total</b>	<b>\$4,665</b>	<b>\$4,146</b>

## 19. Net Position

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the net results of operations since inception, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and (c) expenses for contingent liabilities.

The amount reported as “appropriations received” are appropriated from Treasury General Fund of the U.S. government receipts, such as income taxes, that are not earmarked by law for a specific purpose. This amount will not necessarily agree with the “appropriation received” amount reported on the Statement of Budgetary Resources (SBR) because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated and earmarked receipts are recoded as “appropriations received” on the SBR, but are recognized as exchange or non-exchange revenue (i.e. typically in special and non-revolving trust funds) and reported on the Statement of Changes in Net Position in accordance with SFFAS No.7.

The amount reported as “Transfers to the General Fund and Other” on the Consolidated Statement of Changes in Net Position under “Other Financing Sources” mainly represents the distribution of interest revenue to the General Fund of the U.S. Government of \$12,034 million and \$12,655 million, for the years ended September 30, 2005 and September 30, 2004, respectively. The interest revenue is accrued on inter-agency loans held by Treasury on behalf of the U.S. Government. A corresponding balance is reported on the Consolidated Statement of Net Cost under “Federal Costs: Less Interest Revenue from Loans.” The amount reported on the Consolidated Statement of Net Cost is reduced by eliminations with Treasury bureaus.

Treasury also includes seigniorage in “Transfers to the General Fund and Other.” Seigniorage is the face value of newly minted circulating coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the U.S. government. The distribution is also included in “Transfers to the General Fund and Other.” In any given year, the amount recognized as seigniorage may differ with the amount distributed by an insignificant amount.

Seigniorage in the amounts of \$745 million and \$586 million was recognized, respectively, for the years ended September 30, 2005 and September 30, 2004.

## 20. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations

Treasury's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of Treasury's organizational structure and operations requires that supporting schedules for Net Cost be included in the notes to the financial statements. These supporting schedules provide consolidating information, which fully displays the costs of each sub-organization (Departmental Offices and each operating bureau).

The classification of sub-organizations has been determined in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to Treasury-wide programs is the result of using the following cost assignment methods: (1) direct costs; (2) cause and effect; and (3) cost allocation.

Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

Treasury's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred as a result of assets and liabilities managed on behalf of the U.S. government. These costs are not reflected as program costs related to Treasury's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury sub organizations.

Other federal costs for the years ended September 30, 2005 and 2004 consisted of the following (in millions):

	2005	2004
Temporary State Fiscal Relief/Assistance Fund	\$0	\$5,000
Credit Reform Interest on Uninvested Funds (Intra-governmental)	4,405	3,698
Resolution Funding Corporation	2,130	2,187
Judgments Claims and Contract Disputes	973	746
Corporation for Public Broadcasting	466	437
Legal Services Corporation	299	301
Refunds of Moneys Erroneously Received	27	5
Presidential Election Campaign	0	178
All Other Payments	373	363
<b>Total</b>	<b>\$8,673</b>	<b>\$12,915</b>

The Temporary State Fiscal Relief /Assistance Fund was established in FY 2003 under Public Law 108-27 and expired at the end of FY 2004.

***Pricing Policies – Exchange Revenues – Reimbursable Services***

A portion of the earned revenue displayed on Treasury’s Statement of Net Cost is generated by the provision of goods or services to the public or to other Federal entities.

Exchange revenues resulting from work performed for other Treasury sub-organizations or federal entities represent reimbursements for the full costs incurred by the performing entity. Reimbursable work between federal entities is subject to the Economy Act (31 U.S.C. 1535) or other statutes authorizing reimbursement. Prices associated with revenue earned from the public are based on recovery of full cost or are set at a market price. Treasury does not incur losses on the provision of goods or services on a reimbursable basis.

The tables on the following pages present Treasury’s earned revenues, gross costs, and net cost of operations by program and by responsibility segment (in millions):

20. Supporting Net Cost Schedule by Strategic Plan Goal (In Millions):

Treasury Sub-organization	Economic Program		Financial Program		Management Program		2005 Totals
	Promote Prosperous U.S. & World Economies	Promote Stable U.S. and World Economies	Preserve the Integrity of Financial Systems	Manage the U.S. Government's Finances Effectively	Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury		
Bureau of Engraving and Printing	\$0	\$0	\$34	\$0	\$0	\$0	34
Bureau of the Public Debt	0	0	0	312	0	0	312
Departmental Offices	137	1,783	192	(1,206)	211	211	1,117
Financial Crimes Enforcement Network	0	0	90	0	0	0	90
Financial Management Service	0	0	0	872	0	0	872
Internal Revenue Service	0	0	192	11,268	0	0	11,460
U.S. Mint	0	0	(31)	0	0	0	(31)
Office of the Comptroller of the Currency	(12)	0	(64)	0	0	0	(76)
Office of Thrift Supervision	(2)	0	(12)	0	0	0	(14)
Alcohol and Tobacco Tax and Trade Bureau	0	44	0	42	0	0	86
<b>Combined Goal Net Cost</b>	<b>\$123</b>	<b>\$1,827</b>	<b>\$401</b>	<b>\$11,288</b>	<b>\$211</b>	<b>\$13,850</b>	
Eliminations & Adjustments		334		(596)	206		(56)
<b>Consolidated Program Net Cost</b>		<b>\$2,284</b>		<b>\$11,093</b>	<b>\$417</b>	<b>\$13,794</b>	

(continued)



20. Supporting Net Cost Schedule by Strategic Plan Goal (In Millions):

Treasury Sub-organization	Economic Program		Financial Program		Management Program		2004 Totals
	Promote Prosperous U.S. & World Economies	Promote Stable U.S. and World Economies	Preserve the Integrity of Financial Systems	Manage the U.S. Government's Finances Effectively	Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury		
Bureau of Engraving and Printing	\$0	\$0	\$44	\$0	\$0	\$44	\$44
Bureau of the Public Debt	0	0	0	315	0	315	315
Departmental Offices	135	1,021	177	(457)	212	1,088	1,088
Financial Crimes Enforcement Network	0	0	56	0	0	56	56
Financial Management Service	0	0	0	710	0	710	710
Internal Revenue Service	0	0	186	10,213	0	10,399	10,399
U.S. Mint	0	0	(53)	0	0	(53)	(53)
Office of the Comptroller of the Currency	(6)	0	(19)	0	0	(25)	(25)
Office of Thrift Supervision	0	0	1	0	0	1	1
Alcohol and Tobacco Tax and Trade Bureau	0	53	0	24	0	77	77
<b>Combined Goal Net Cost</b>	<b>\$129</b>	<b>\$1,074</b>	<b>\$392</b>	<b>\$10,805</b>	<b>\$212</b>	<b>\$12,612</b>	<b>\$12,612</b>
Eliminations & Adjustments		129		(1,171)	210	(832)	(832)
<b>Consolidated Program Net Cost</b>		<b>\$1,332</b>		<b>\$10,026</b>	<b>\$422</b>	<b>\$11,780</b>	<b>\$11,780</b>

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

For FYE September 30, 2005	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations/ Adjustments	9/30/2005 Consolidated
<b>Program Costs:</b>													
<b>Economic Program:</b>													
Intragovernmental Gross Costs	\$0	\$0	\$669	\$0	\$0	\$0	\$0	\$12	\$2	\$16	\$699	(\$11)	\$688
Less: Earned Revenue	0	0	(346)	0	0	0	0	(3)	(1)	0	(350)	345	(5)
Intragovernmental Net Costs	0	0	323	0	0	0	0	9	1	16	349	334	683
Gross Costs with the public	0	0	2,260	0	0	0	0	72	17	29	2,378	0	2,378
Less: Earned Revenue	0	0	(663)	0	0	0	0	(93)	(20)	(1)	(777)	0	(777)
Net Costs with the public	0	0	1,597	0	0	0	0	(21)	(3)	28	1,601	0	1,601
<b>Net Cost: Economic Program</b>	<b>0</b>	<b>0</b>	<b>1,920</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(12)</b>	<b>(2)</b>	<b>44</b>	<b>1,950</b>	<b>334</b>	<b>2,284</b>
<b>Financial Program:</b>													
Intragovernmental Gross Costs	82	74	905	49	166	3,856	55	57	22	15	5,281	(1,423)	3,858
Less: Earned Revenue	(21)	(7)	(2,688)	(1)	(133)	(118)	(7)	(14)	(9)	(1)	(2,998)	827	(2,171)
Intragovernmental Net Costs	61	67	(1,783)	48	33	3,738	48	43	13	15	2,283	(596)	1,687
Gross Costs with the public	464	248	768	42	840	7,879	941	360	152	28	11,722	0	11,722
Less: Earned Revenue	(491)	(3)	1	0	(1)	(157)	(1,020)	(467)	(177)	(1)	(2,316)	0	(2,316)
Net Costs with the public	(27)	245	769	42	839	7,722	(79)	(107)	(25)	27	9,406	0	9,406
<b>Net Cost: Financial Program</b>	<b>34</b>	<b>312</b>	<b>(1,014)</b>	<b>90</b>	<b>872</b>	<b>11,460</b>	<b>(31)</b>	<b>(64)</b>	<b>(12)</b>	<b>42</b>	<b>11,689</b>	<b>(596)</b>	<b>11,093</b>
<b>Management Program:</b>													
Intragovernmental Gross Costs	0	0	124	0	0	0	0	0	0	0	124	(19)	105
Less: Earned Revenue	0	0	(964)	0	0	0	0	0	0	0	(964)	225	(739)
Intragovernmental Net Costs	0	0	(840)	0	0	0	0	0	0	0	(840)	206	(634)
Gross Costs with the public	0	0	1,051	0	0	0	0	0	0	0	1,051	0	1,051
Less: Earned Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Costs with the public	0	0	1,051	0	0	0	0	0	0	0	1,051	0	1,051
<b>Net Cost: Management Program</b>	<b>0</b>	<b>0</b>	<b>211</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>211</b>	<b>206</b>	<b>417</b>
<b>Total Program Costs, Net</b>	<b>\$34</b>	<b>\$312</b>	<b>\$1,117</b>	<b>\$90</b>	<b>\$872</b>	<b>\$11,460</b>	<b>(\$31)</b>	<b>(\$76)</b>	<b>(\$14)</b>	<b>\$86</b>	<b>\$13,850</b>	<b>(\$56)</b>	<b>\$13,794</b>

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

For FYE September 30, 2004	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations/ Adjustments	9/30/2004 Consolidated
<b>Program Costs:</b>													
<b>Economic Program:</b>													
	\$0	\$0	\$68	\$0	\$0	\$0	\$0	\$11	\$2	\$22	\$103	(\$9)	\$94
Intragovernmental Gross Costs			(139)					(2)	(1)	0	(142)	138	(4)
Less: Earned Revenue			(71)					9	1	22	(39)	129	90
Intragovernmental Net Costs													
Gross Costs with the public	0	0	2,808	0	0	0	0	69	16	32	2,925	0	2,925
Less: Earned Revenue	0	0	(1,581)	0	0	0	0	(84)	(17)	(1)	(1,683)	0	(1,683)
Net Costs with the public	0	0	1,227	0	0	0	0	(15)	(1)	31	1,242	0	1,242
<b>Net Cost: Economic Program</b>	<b>0</b>	<b>0</b>	<b>1,156</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(6)</b>	<b>0</b>	<b>53</b>	<b>1,203</b>	<b>129</b>	<b>1,332</b>
<b>Financial Program:</b>													
Intragovernmental Gross Costs	86	77	1,433	22	167	3,374	55	56	21	10	5,301	(1,446)	3,855
Less: Earned Revenue	(23)	(6)	(2,390)	(1)	(128)	(123)	(6)	(10)	(7)	0	(2,694)	275	(2,419)
Intragovernmental Net Costs	63	71	(957)	21	39	3,251	49	46	14	10	2,607	(1,171)	1,436
Gross Costs with the public	483	247	685	36	671	7,311	956	337	142	14	10,882	0	10,882
Less: Earned Revenue	(502)	(3)	(8)	(1)	0	(163)	(1,058)	(402)	(155)	0	(2,292)	0	(2,292)
Net Costs with the public	(19)	244	677	35	671	7,148	(102)	(65)	(13)	14	8,590	0	8,590
<b>Net Cost: Financial Program</b>	<b>44</b>	<b>315</b>	<b>(280)</b>	<b>56</b>	<b>710</b>	<b>10,399</b>	<b>(53)</b>	<b>(19)</b>	<b>1</b>	<b>24</b>	<b>11,197</b>	<b>(1,171)</b>	<b>10,026</b>
<b>Management Program:</b>													
Intragovernmental Gross Costs	0	0	113	0	0	0	0	0	0	0	113	(16)	97
Less: Earned Revenue	0	0	(746)	0	0	0	0	0	0	0	(746)	226	(520)
Intragovernmental Net Costs	0	0	(633)	0	0	0	0	0	0	0	(633)	210	(423)
Gross Costs with the public	0	0	850	0	0	0	0	0	0	0	850	0	850
Less: Earned Revenue	0	0	(5)	0	0	0	0	0	0	0	(5)	0	(5)
Net Costs with the public	0	0	845	0	0	0	0	0	0	0	845	0	845
<b>Net Cost: Management Program</b>	<b>0</b>	<b>0</b>	<b>212</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>212</b>	<b>210</b>	<b>422</b>
<b>Total Program Costs, Net</b>	<b>\$44</b>	<b>\$315</b>	<b>\$1,088</b>	<b>\$56</b>	<b>\$710</b>	<b>\$10,399</b>	<b>(\$53)</b>	<b>(\$25)</b>	<b>\$1</b>	<b>\$77</b>	<b>\$12,612</b>	<b>(\$832)</b>	<b>\$11,780</b>

## 21. Additional Information Related to the Statement of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statement of Budgetary Resources (per OMB Circular A-136, “*Financial Reporting Requirements.*”) The information for the fiscal years ended September 30, 2005 and September 30, 2004 was as follows (in millions):

	2005	2004
Net Amount of Budgetary Resources Obligated for Undelivered Orders	\$44,896	\$37,557
Available Borrowing and Contract Authority at the end of the period	5,669	5,720
Adjustments During the Reporting Period to Budgetary Resources, Available at the Beginning of the Year	1	59
<b>Apportionment Categories of Obligations Incurred</b>	<b>2005</b>	<b>2004</b>
<b>Obligations Incurred</b>		
Direct - Category A	\$6,457	\$12,117
Direct - Category B	13,704	13,210
Direct - Exempt from Apportionment	364,692	331,719
<b>Total Direct</b>	<b>384,853</b>	<b>357,046</b>
Reimbursable - Category B	2,872	2,815
Reimbursable - Exempt from Apportionment	937	924
<b>Total Reimbursable</b>	<b>3,809</b>	<b>3,739</b>
<b>Total Direct and Reimbursable</b>	<b>\$388,662</b>	<b>\$360,785</b>

The *Budget of the United States* (also known as the President’s Budget), with actual numbers for FY 2005, was not published at the time that these financial statements were issued. The President’s Budget is expected to be published in January 2006. It will be available from the United States Government Printing Office.

For FY 2004 reporting, Treasury had a temporary waiver from the Office of Management and Budget (OMB) with regard to reporting certain distributed offsetting receipts. Upon further review, OMB and Treasury determined that certain offsetting receipts that are distributed and credited to Treasury should be reported beginning in FY 2005. As a result, “Offsetting Receipts” of \$15,649 reported on the Statement of Budgetary Resources (SBR), and \$15,677 included in the Statement of Financing as “Other” in Budgetary Offsetting Collections, includes these additional offsetting receipts required to be reported in FY 2005 in accordance with guidance provided by OMB.

The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2004 Performance and Accountability Report and the actual FY 2004 balances included in the FY 2006 President’s Budget (PB).

### Reconciliation of FY 2004 Statement of Budgetary Resources to the 2006 President's Budget (In Millions)

	Budgetary Resources	Outlays	Offsetting Receipts
Statement of Budgetary Resource	\$430,697	\$346,410	\$1,828
<b>Included in the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):</b>			
IRS non-entity tax credit payments (1)	47,195	47,195	
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	336	336	
Non-Treasury offsetting receipts included in Treasury chapter of PB (2)			13,519
Treasury offsetting receipts considered to be "General Fund" transactions for reporting purposes (3)			1,798
Other			69
<b>Subtotal</b>	<b>47,531</b>	<b>47,531</b>	<b>15,386</b>
<b>Included in the SBR but not in the PB:</b>			
Treasury resources shown in non-Treasury chapters of the PB, included in SBR (4)	(53,045)	(3,371)	
Offsetting collections net of collections shown in PB Treasury offsetting receipts	(5,811)		
Treasury offsetting receipts shown in other chapters of PB, part of which is in the SBR			271
Unobligated Balance carried forward, recoveries of prior year funds and expired accounts	(2,495)		
Exchange Stabilization Fund resources not shown in PB	(23,649)	1,041	
Other	(253)	296	(1)
<b>Subtotal</b>	<b>(85,253)</b>	<b>(2,034)</b>	<b>270</b>
<b>President's Budget Amounts*</b>	<b>\$392,975</b>	<b>\$391,907</b>	<b>\$17,484</b>

1. These are primarily Earned Income Tax Credit and Child Tax Credit payments that are reported with refunds as custodial activities in Treasury's financial statements, and thus are not reported as budgetary resources.
2. These are other agencies' receipt accounts that are managed by those agencies and that Treasury believes should be reported in those agencies' financial statements.
3. These are receipt accounts that Treasury manages on behalf of other agencies, and are considered to be "General Fund" of the U.S. government receipts, rather than receipts of the Treasury reporting entity.
4. The largest of these is Treasury's International Assistance Programs (over \$49 billion).

\* Per President's Budget for FY 2006 - Budgetary Resources and Outlays are from the Analytical Perspective, and Offsetting Receipts are from the Appendix.

NOTE: The reporting for the items described in notes 2 and 3 above was under review by OMB during FY 2005, and will be revised in future years to reflect additional OMB guidance.

### ***Legal Arrangements Affecting Use of Unobligated Balances***

The use of unobligated balances is restricted based on annual legislation requirements or enabling authorities. Funds are presumed to be available for only one fiscal year unless otherwise noted in the annual appropriation language. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. In those situations, the restricted funding will be temporarily unavailable until such time as the reasons for the restriction have been satisfied or legislation has been enacted to remove the restriction.

Amounts in expired fund symbols are not available for new obligations, but may be used to adjust obligations and make disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

## **22. Collection and Disposition of Custodial Revenue**

The Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, was as follows for the fiscal years ended September 30, 2005 and September 30, 2004 (in millions):

	Tax Year				2005 Collections
	2005	2004	2003	Pre-2003	
Individual Income and FICA Taxes	\$1,211,866	\$620,914	\$13,873	\$18,034	\$1,864,687
Corporate Income Taxes	209,398	83,098	1,178	13,195	306,869
Estate and Gift Taxes	77	16,616	1,278	7,634	25,605
Excise Taxes	52,330	18,954	104	582	71,970
Railroad Retirement Taxes	3,464	1,071	1	3	4,539
Unemployment Taxes	4,915	1,890	37	106	6,948
Federal Reserve Earnings	14,208	5,089	0	0	19,297
Fines, Penalties, Interest & Other Revenue	3,192	360	0	0	3,552
<b>Subtotal</b>	<b>1,499,450</b>	<b>747,992</b>	<b>16,471</b>	<b>39,554</b>	<b>2,303,467</b>
Less Amounts Collected for Non-Federal Entities					(454)
<b>Total</b>					<b>\$2,303,013</b>

	Tax Year				
	2004	2003	2002	Pre-2002	2004 Collections
Individual Income and FICA Taxes	\$1,128,068	\$540,956	\$13,156	\$13,032	\$1,695,212
Corporate Income Taxes	150,572	67,310	1,082	11,413	230,377
Estate and Gift Taxes	85	16,891	1,088	7,516	25,580
Excise Taxes	50,465	18,551	96	440	69,552
Railroad Retirement Taxes	3,356	1,063	0	2	4,421
Unemployment Taxes	4,943	1,641	35	99	6,718
Federal Reserve Earnings	13,088	6,564	0	0	19,652
Fines, Penalties, Interest & Other Revenue	2,388	68	0	0	2,456
<b>Subtotal</b>	<b>1,352,965</b>	<b>653,044</b>	<b>15,457</b>	<b>32,502</b>	<b>2,053,968</b>
Less Amounts Collected for Non-Federal Entities					(612)
<b>Total</b>					<b>\$2,053,356</b>

Amounts reported for Corporate Income Taxes collected in FY 2005 include corporate taxes of \$9 billion for tax year 2006. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2004 include corporate taxes of \$7 billion for tax year 2005.) Individual Income and FICA Taxes, includes \$68 billion in payroll taxes collected from other federal agencies. Of this amount, \$11 billion represents the portion paid by the employers. (The comparable amounts for FY 2004 are \$63 billion in payroll taxes collected from other federal agencies and \$11 billion paid by the employers.)

#### ***Amounts Provided to Fund the Federal Government***

For the fiscal years ended September 30, 2005 and September 30, 2004, collections of custodial revenue transferred to other entities were as follows (in millions):

	2005	2004
General Fund	\$2,035,673	\$1,774,704
Department of Interior	226	216
<b>Total</b>	<b>\$2,035,899</b>	<b>\$1,774,920</b>

### ***Federal Tax Refunds Paid***

Refund activity, broken out by revenue type and by tax year, was as follows for the fiscal years ended September 30, 2005 and September 30, 2004 (in millions):

	<b>Tax Year</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>Pre-2003</b>	<b>2005 Refunds</b>
Individual Income and FICA Taxes	\$586	\$211,102	\$12,842	\$5,489	\$230,019
Corporate Income Taxes	970	7,167	5,500	21,458	35,095
Estate and Gift Taxes	0	257	373	253	883
Excise Taxes	329	337	46	283	995
Railroad Retirement Taxes	0	2	0	2	4
Unemployment Taxes	1	73	13	31	118
Fines, Penalties, Interest & Other Revenue	0	0	0	0	0
<b>Total</b>	<b>\$1,886</b>	<b>\$218,938</b>	<b>\$18,774</b>	<b>\$27,516</b>	<b>\$267,114</b>

	<b>Tax Year</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>Pre-2003</b>	<b>2005 Refunds</b>
Individual Income and FICA Taxes	\$583	\$209,916	\$12,569	\$6,966	\$230,034
Corporate Income Taxes	1,448	8,931	6,646	29,540	46,565
Estate and Gift Taxes	0	228	310	245	783
Excise Taxes	265	359	62	184	870
Railroad Retirement Taxes	0	1	1	4	6
Unemployment Taxes	0	71	15	43	129
Fines, Penalties, Interest & Other Revenue	49	0	0	0	49
<b>Total</b>	<b>\$2,345</b>	<b>\$219,506</b>	<b>\$19,603</b>	<b>\$36,982</b>	<b>\$278,436</b>

### ***Federal Tax Refunds Payable***

As of September 30, 2005 and September 30, 2004, refunds payable to taxpayers consisted of the following (in millions):

	<b>2005</b>	<b>2004</b>
Alcohol and Tobacco Tax and Trade Bureau	6	7
Internal Revenue Service	1,946	1,801
<b>Total</b>	<b>\$1,952</b>	<b>\$1,808</b>



# Required Supplemental Information (Unaudited)

## Introduction

This section provides the Required Supplemental Information as prescribed by Office of Management and Budget (OMB) Circular A-136, “*Financial Reporting Requirements*.”

## Segment Information

OMB Circular A-136, “*Financial Reporting Requirements*.” requires the reporting of each franchise fund and other intra-governmental support revolving fund that is not separately reported on the agency’s principal statements. The following tables represent the Treasury’s Franchise Fund activities and the Working Capital Fund activities.

### *Franchise Fund*

The Treasury Department Appropriation Act of 1997 (P.L. 104-208), as amended, provides the current authority for the Treasury Franchise Fund. The Department’s Franchise Fund is a fee-for-service organization that is fully reimbursable and competitive. The fund currently consists of three business activities: 1) Financial Management and Administrative Support, 2) Financial Systems, Consulting and Training, and 3) Consolidated/Integrated Administrative Management.

The following table presents the financial position of the Franchise Fund as of September 30, 2005 and September 30, 2004 (in millions):

	2005	2004
Fund Balance with Treasury	\$84	\$65
Accounts Receivable	119	84
Property, Plant and Equipment	2	3
<b>Total Assets</b>	<b>\$205</b>	<b>\$152</b>
Accounts Payable	27	\$16
Other Liabilities	122	91
<b>Total Liabilities</b>	<b>149</b>	<b>107</b>
<b>Cumulative Results of Operations</b>	<b>56</b>	<b>45</b>
<b>Total Liabilities and Net Position</b>	<b>\$205</b>	<b>\$152</b>

The following tables present the revenues, financing sources and costs by business activity (in millions):

	<b>Consolidated/Integrated Admin. Management</b>	<b>Financial Systems, Consulting and Training</b>	<b>Financial Management Admin. Support Services</b>	<b>2005 Total</b>
Costs	\$688	\$12	\$73	\$773
Less: Earned Revenue	(697)	(13)	(70)	(780)
Net Cost	(9)	(1)	3	(7)
Other Financing Sources	(1)	(1)	(3)	(5)
<b>Total</b>	<b>(\$10)</b>	<b>(\$2)</b>	<b>\$0</b>	<b>(\$12)</b>

	<b>Consolidated/Integrated Admin. Management</b>	<b>Financial Systems, Consulting and Training</b>	<b>Financial Management Admin. Support Services</b>	<b>2004 Total</b>
Costs	\$471	\$11	\$69	\$551
Less: Earned Revenue	(480)	(13)	(65)	(558)
Net Cost	(9)	(2)	4	(7)
Other Financing Sources	0	0	(2)	(2)
<b>Total</b>	<b>(\$9)</b>	<b>(\$2)</b>	<b>\$2</b>	<b>(\$9)</b>

### **Working Capital Fund**

The Department's Working Capital Fund (within Departmental Offices) is a fee-for-service organization that is fully reimbursable.

Program services are provided to various Treasury bureaus and include telecommunications, payroll/personnel systems, printing, and other.

The following table presents the financial position of the Working Capital Fund for the years ended September 30, 2005 and September 30, 2004 (in millions):

	<b>2005</b>	<b>2004</b>
Fund Balance with Treasury	\$144	\$181
Accounts Receivable	1	1
Property, Plant and Equipment	7	12
Other Assets	2	1
<b>Total Assets</b>	<b>\$154</b>	<b>\$195</b>
Accounts Payable	\$4	\$7
Other Liabilities	156	188
<b>Total Liabilities</b>	<b>160</b>	<b>195</b>
<b>Cumulative Results of Operations</b>	<b>(6)</b>	<b>0</b>
<b>Total Liabilities and Net Position</b>	<b>\$154</b>	<b>\$195</b>
<b>Total Costs</b>	<b>\$210</b>	<b>\$210</b>
Exchange Revenue	(204)	(210)
<b>Excess of Costs Over Revenues and Financing Sources</b>	<b>\$6</b>	<b>\$0</b>

## Other Claims for Refunds

The Department has estimated that \$23 billion may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is \$11.9 billion and by Appeals is \$11.1 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

## Unpaid Assessments

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in the Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the federal government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2005 were as follows (in billions):

Gross Unpaid Assessments	\$230
Less: Compliance Assessments and Write-offs	(142)
<b>Net Amount</b>	<b>\$88</b>

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling \$13 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

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

Of the \$230 billion of unpaid assessments, \$98 billion represents write-offs. The unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered federal taxes receivable. Assessments with little or no future collection potential are called write-offs.

Of the \$230 billion balance of unpaid assessments, \$142 billion represents compliance assessments and write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt or defunct taxpayers, including many failed financial institutions liquidated by the Federal Deposit Insurance Corporation (FDIC) and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires. In addition, \$44 billion of the unpaid assessment balance represents amounts that have not been agreed to by either the taxpayer or a court. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered federal taxes receivable.

Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (In Millions)

	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol and Tobacco Tax and Trade Bureau	Total	Adjustments	Combined	9/30/2005 Combined
<b>Budgetary Resources</b>														
Budget Authority:														
Appropriations Received	\$0	\$355,526	\$2,846	\$73	\$10,628	\$10,411	\$0	\$0	\$0	\$83	\$379,567	\$0	\$379,567	
Borrowing Authority	0	0	331	0	0	0	0	0	0	0	331	0	331	
Net Transfers (+ or -)	0	(2)	101	0	0	0	0	0	0	0	99	0	99	
Unobligated Balance:														
Beginning of Period	95	10	68,457	12	144	570	55	399	169	1	69,912	0	69,912	
Net Transfers (+ or -)	0	0	(629)	0	0	0	0	0	0	0	(629)	0	(629)	
Spending Authority from Offsetting Collections:														
Earned:														
Collected	510	10	3,577	3	178	164	1,037	596	206	2	6,283	3	6,286	
Receivable from Federal Sources	2	0	36	0	2	(3)	4	(1)	0	(1)	39	(3)	36	
Change in Unfilled Customer Orders:														
Advance Received	3	0	(39)	0	0	0	0	0	7	0	(29)	0	(29)	
Without Advance														
From Federal Sources	0	0	(76)	(2)	(3)	0	0	0	0	0	(81)	0	(81)	
Subtotal	\$515	\$10	\$3,498	\$1	\$177	\$161	\$1,041	\$595	\$213	\$1	\$6,212	\$0	\$6,212	
Recoveries of Prior Year Obligations	0	10	1,194	1	11	60	0	0	6	4	1,286	0	1,286	
Temporarily Not Available	0	(5)	1,962	0	0	0	0	0	0	0	1,957	0	1,957	
Pursuant to Public Law	0	(2,855)	(1,351)	(1)	(1,024)	(126)	(45)	0	0	(1)	(5,403)	0	(5,403)	
Permanently Not Available														
<b>Total Budgetary Resources</b>	<b>\$610</b>	<b>\$352,694</b>	<b>\$76,409</b>	<b>\$86</b>	<b>\$9,936</b>	<b>\$11,076</b>	<b>\$1,051</b>	<b>\$994</b>	<b>\$388</b>	<b>\$88</b>	<b>\$453,332</b>	<b>\$0</b>	<b>\$453,332</b>	
<b>Status Of Budgetary Resources</b>														
Obligations Incurred:														
Direct	\$0	\$352,673	\$12,050	\$76	\$9,539	\$10,430	\$0	\$0	\$0	\$85	\$384,853	\$0	\$384,853	
Reimbursable	489	10	1,307	1	173	156	989	487	193	1	3,806	3	3,809	
Subtotal	\$489	\$352,683	\$13,357	\$77	\$9,712	\$10,586	\$989	\$487	\$193	\$86	\$388,659	\$3	\$388,662	
Unobligated Balance:														
Apportioned	121	6	13,965	8	160	252	62	0	0	1	14,575	(3)	14,572	
Exempt from Apportionment	0	3	39,329	0	50	0	0	507	195	0	40,084	0	40,084	
Unobligated Balance Not Available	0	2	9,758	1	14	238	0	0	0	1	10,014	0	10,014	
<b>Total Status Of Budgetary Resources</b>	<b>\$610</b>	<b>\$352,694</b>	<b>\$76,409</b>	<b>\$86</b>	<b>\$9,936</b>	<b>\$11,076</b>	<b>\$1,051</b>	<b>\$994</b>	<b>\$388</b>	<b>\$88</b>	<b>\$453,332</b>	<b>\$0</b>	<b>\$453,332</b>	
<b>Relationship Of Obligations To Outlays</b>														
Obligated Balance, Net:														
Beginning of Period	\$74	\$99	\$39,268	\$11	\$434	\$1,161	\$267	\$81	\$27	\$24	\$41,446	\$0	\$41,446	
Obligated Balance, Net, End of Period:	(47)	0	(128)	0	(3)	(17)	(15)	(5)	0	0	(215)	4	(211)	
Accounts Receivable														
Unfilled Customer Orders	0	(1)	(404)	0	(27)	0	0	0	0	0	(432)	0	(432)	
from Federal Sources	0	28	43,612	15	90	940	0	19	4	14	44,722	0	44,722	
Accounts Payable	106	41	345	8	219	584	233	80	36	7	1,659	0	1,659	
Outlays:														
Disbursements	\$500	\$352,703	\$8,046	\$65	\$9,857	\$10,183	\$1,035	\$474	\$175	\$86	\$383,124	\$4	\$383,128	
Collections	(513)	(10)	(3,536)	(3)	(178)	(165)	(1,037)	(596)	(214)	(2)	(6,254)	(4)	(6,258)	
Subtotal	(\$13)	\$352,693	\$4,510	\$62	\$9,679	\$10,018	(\$2)	(\$122)	(\$39)	\$84	\$376,870	\$0	\$376,870	
Less: Offsetting Receipts	0	(13,282)	(957)	0	(1,317)	(93)	0	0	0	0	(15,649)	0	(15,649)	
<b>NET OUTLAYS</b>	<b>(\$13)</b>	<b>\$339,411</b>	<b>\$3,553</b>	<b>\$62</b>	<b>\$8,362</b>	<b>\$9,925</b>	<b>(\$2)</b>	<b>(\$122)</b>	<b>(\$39)</b>	<b>\$84</b>	<b>\$361,221</b>	<b>\$0</b>	<b>\$361,221</b>	

## **Deferred Maintenance**

In FY 2005, the Department had no deferred maintenance to report on vehicles, buildings, and structures owned by the Department.

Treasury bureaus use a specific methodology in determining deferred maintenance. This procedure includes reviewing equipment, building, and other structure logistic reports. Upon completion of this review, logistic personnel use a condition assessment survey to determine the status of referenced assets. A five level rating scale (excellent, good, fair, poor, and very poor) is used for assessment purposes. Bureau logistic personnel subsequently identify maintenance not performed as scheduled and establish future performance dates.

## Intra-governmental Assets, Liabilities, Revenues &amp; Costs, &amp; Transfers In/Out (in millions)

Intra-governmental Assets (In Millions)					
	Due from the General Fund	Loans and Interest Receivable	Advances to the Black Lung Trust Fund	Accounts Receivable and Related Interest	Other Assets
1200-Department of Agriculture		\$83,515		\$11	0
1300-Department of Commerce		358		1	
1400-Department of the Interior		1,221		80	\$26
1500-Department of Justice		20		3	5
1600-Department of Labor			\$9,186	1	
1800-United States Postal Service				1	
1900-Department of State		1		3	
2700-Federal Communications Commission		1,274			
2800-Social Security Administration				3	
3300-Smithsonian Institution		20		0	
3600-Department of Veterans Affairs		2,191		36	
4700-General Services Administration		2,240		144	
5100-Federal Deposit Insurance Corporation				1	
6000-Railroad Retirement Board		3,042			
6400-Tennessee Valley Authority		1			
6800-Environmental Protection Agency		22		21	1
6900-Department of Transportation		953		1	
7000-Department of Homeland Security		228		10	
7200-Agency for International Development		423		3	
7300-Small Business Administration		7,736		1	1
7500-Department of Health & Human Services				28	
8000-National Aeronautics & Space Admin.					
8300-Export-Import Bank of the United States		5,848			
8600-Department of Housing & Urban Development		8,922		1	
8900-Department of Energy		2,790		54	
9100-Department of Education		104,599			
9799-DOD Agencies		467		219	3
9900-General Fund (Trader Only)	7,978,081				
9500-Independent Agencies		2,620		3	4
Other				1	
<b>TOTALS</b>	<b>\$7,978,081</b>	<b>\$228,491</b>	<b>\$9,186</b>	<b>\$626</b>	<b>\$40</b>

See Intra-governmental liabilities on next page and Financial Statements Note 4.

See the Department's Balance Sheet for "Fund Balance with Treasury."

**Intra-governmental Assets, Liabilities, Revenues & Costs, & Transfers In/Out:**

<b>Intra-governmental Liabilities (In Millions)</b>				
	<b>Due to the General Fund</b>	<b>Federal Debt and Interest Payable</b>	<b>Other Debt and Interest Payable</b>	<b>Other Liabilities</b>
1200-Department of Agriculture		\$71		
1400-Department of the Interior		7,391		
1500-Department of Justice		1,039		\$16
1600-Department of Labor		55,639		130
1602-Pension Benefit Guaranty Corporation		16,646		
1800-United States Postal Service		1,218		5
1900-Department of State		13,579		21
2400-Office of Personnel Management		697,887	\$14,164	43
2500-National Credit Union Administration		6,537		
2700-Federal Communications Commission		3,905		
2800-Social Security Administration		1,832,893		
3600-Department of Veterans Affairs		13,286		1
4700-General Services Administration				10
5100-Federal Deposit Insurance Corporation		50,735		
6000-Railroad Retirement Board		2,102		
6800-Environmental Protection Agency		4,811		
6900-Department of Transportation		18,974		
7000-Department of Homeland Security		743		22
7200-Agency for International Development				7
7300-Small Business Administration				
7500-Department of Health & Human Services		300,663		13
7800-Farm Credit Administration		19		
7802-Farm Credit Insurance Corporation		1,993		
8000-National Aeronautics & Space Admin.		18		
8600-Department of Housing & Urban Development		30,715		1
8900-Department of Energy		23,834		
9100-Department of Education				4
9799-DOD Agencies		263,342		5
9900-General Fund	\$273,551			144
9500-Independent Agencies		6,865		3
0000-Unknown				(3)
<b>Totals</b>	<b>\$273,551</b>	<b>\$3,354,905</b>	<b>\$14,164</b>	<b>\$422</b>

See Intra-governmental assets on previous page and Financial Statements Note 4. .



**Intra-governmental Assets, Liabilities, Revenues & Costs, & Transfers In/Out:**

<b>Intra-governmental Earned Revenues from Trade Transactions (In Millions)</b>	
	<b>Earned Trade Revenue</b>
1200-Department of Agriculture	\$13
1300-Department of Commerce	5
1400-Department of the Interior	11
1500-Department of Justice	91
1600-Department of Labor	3
1800-United States Postal Service	18
1900-Department of State	7
2400-Office of Personnel Management	2
2800-Social Security Administration	99
3600-Department of Veterans Affairs	25
4700-General Services Administration	3
5000-Securities & Exchange Commission	4
5100-Federal Deposit Insurance Corporation	4
6000-Railroad Retirement Board	1
6800-Environmental Protection Agency	1
6900-Department of Transportation	6
7000-Department of Homeland Security	57
7200-Agency for International Development	29
7300-Small Business Administration	0
7500-Department of Health & Human Services	86
8000-National Aeronautics & Space Admin.	2
8600-Department of Housing & Urban Development	11
8900-Department of Energy	3
9100-Department of Education	1
9799-DOD Agencies	473
9500-Independent Agencies	18
<b>Totals</b>	<b>\$973</b>

<b>Intra-governmental Non-Exchange Revenues—Transfers In/Out (In Millions)</b>		
	<b>Transferred In</b>	<b>Transferred Out</b>
4700-General Services Administration	\$4	(\$4)
7000-Department of Homeland Security	0	(16)
9900-General Fund	0	(117)
<b>TOTALS</b>	<b>\$4</b>	<b>(\$137)</b>

## Required Supplemental Stewardship Information (Unaudited)

This section provides Required Supplemental Stewardship Information as prescribed by OMB Circular A-136, “Financial Reporting Requirements.”

### Stewardship Property, Plant, and Equipment – Heritage Assets

These heritage assets include the Treasury Department building and the Treasury Annex building.

	Heritage Assets	Land
Beginning Balance	1	1
Additions/Deletions	0	0
<b>Ending Balance</b>	<b>1</b>	<b>1</b>

No deferred maintenance was reported on these multi-use heritage assets.

## Other Accompanying Information (Unaudited)

This section provides Other Accompanying Information as prescribed by OMB Circular A-136, “*Financial Reporting Requirements*.”

### Tax Gap

The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The Service currently projects, based on compliance data from the 1980s, that the annual Federal gross tax gap is somewhere between \$312 billion and \$353 billion. The tax gap arises from three types of noncompliance: not filing timely tax returns (the nonfiling gap), underreporting the correct amount of tax on timely-filed returns (the underreporting gap), and not paying on time the full amount reported on timely-filed returns (the underpayment gap).

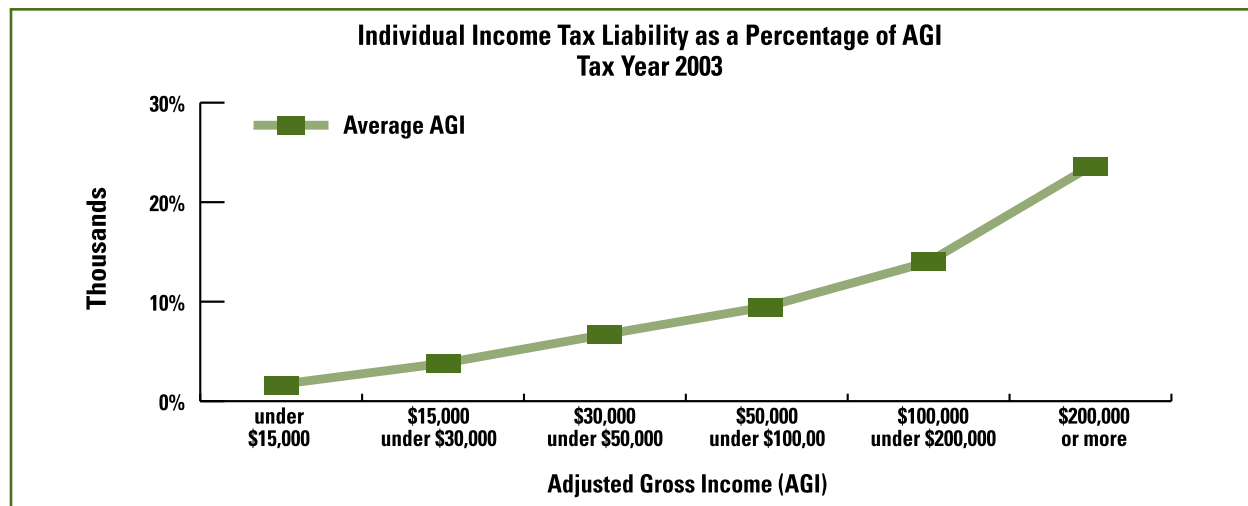
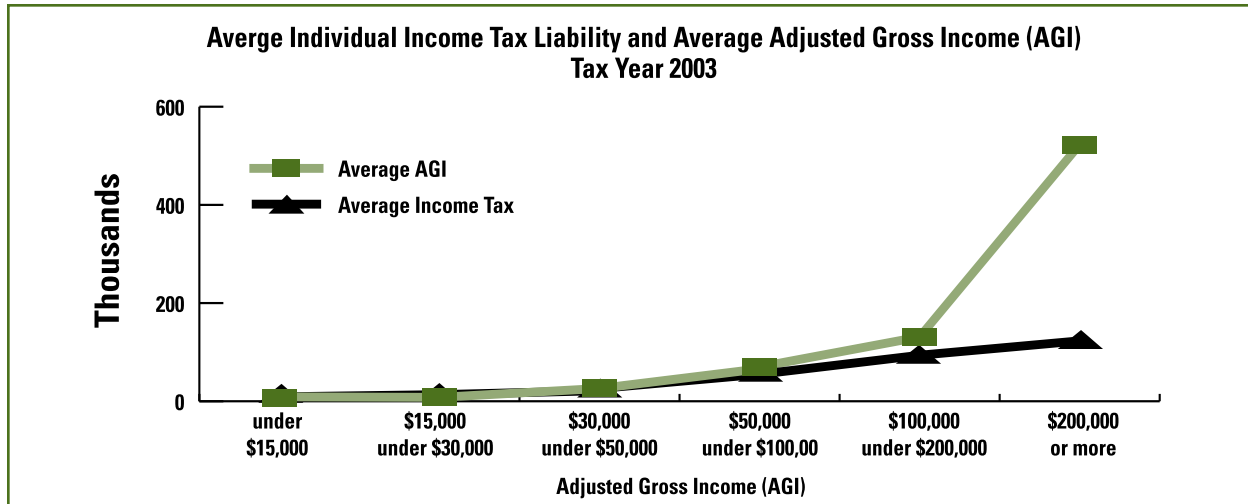
The collection gap is the cumulative amount of assessed tax, penalties, and interest that the Service expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the Service’s balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

### Tax Burden

(All figures are estimates and based on samples provided by the Statistics of Income (SOI) Office)

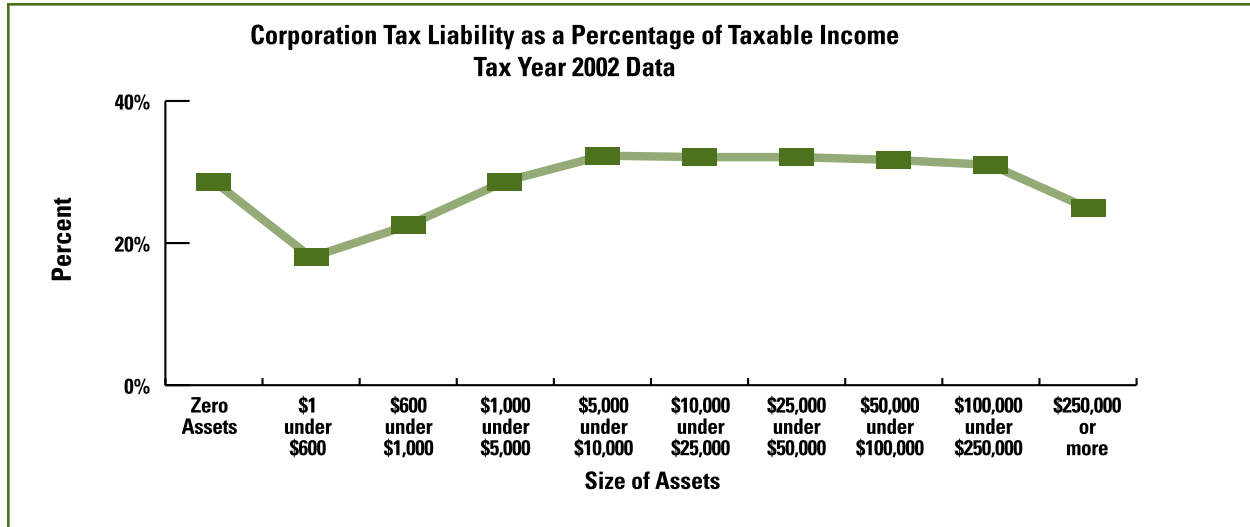
The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The graphs below present the latest available information on income tax and adjusted gross income (AGI) for individuals by AGI level and for corporations by size of assets. For individuals, the information illustrates, in percentage terms, the tax burden borne by varying AGI levels. For corporations, the information illustrates, in percentage terms, the tax burden borne by these entities by various sizes of their total assets. The graphs are only representative of more detailed data and analysis available from the Statistics of Income (SOI) office.

### Individual Income Tax Returns (Tax Year 2003 Data)



Adjusted gross income (AGI)	Number of taxable returns (1) (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole dollars)	Income tax as a percentage of AGI
Under \$15,000	37,985	211,227	3,645	5,560	96	1.7%
\$15,000 under \$30,000	29,739	653,834	24,728	21,987	832	3.8%
\$30,000 under \$50,000	24,469	954,681	64,430	39,015	2,633	6.7%
\$50,000 under \$100,000	26,935	1,889,302	178,640	70,142	6,632	9.5%
\$100,000 under \$200,000	8,902	1,174,675	164,509	131,966	18,481	14.0%
\$200,000 or more	2,541	1,329,254	314,073	523,154	123,610	23.6%
<b>Total</b>	<b>130,571</b>	<b>6,212,973</b>	<b>750,025</b>			

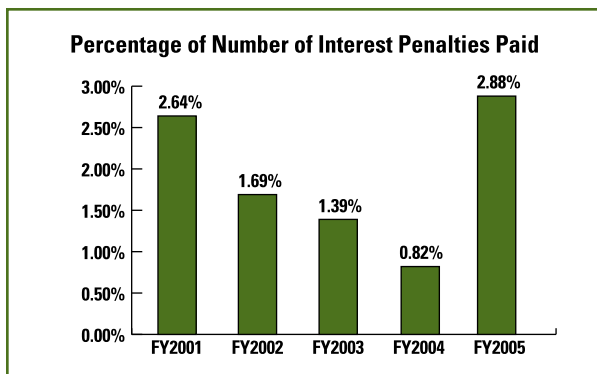
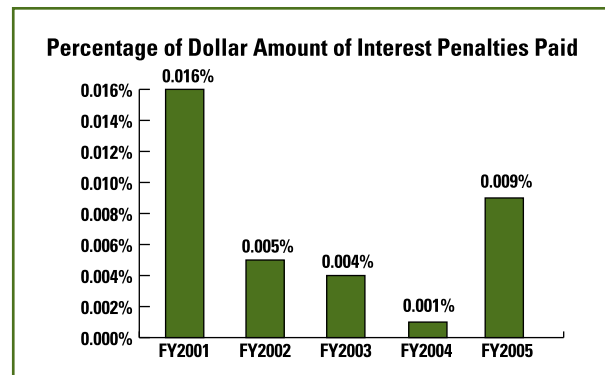
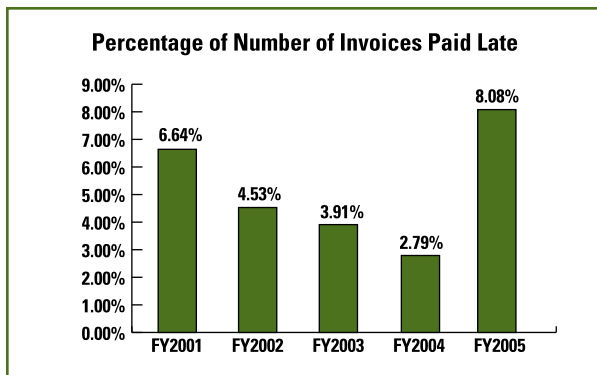
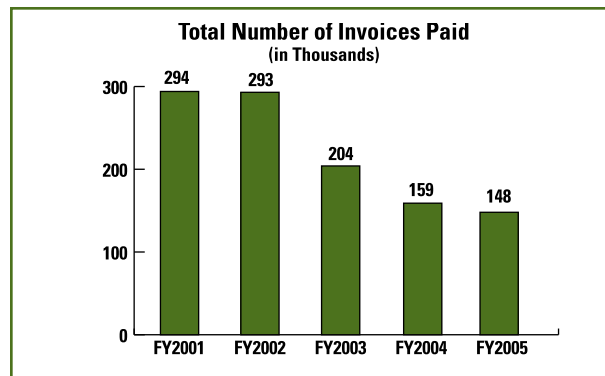
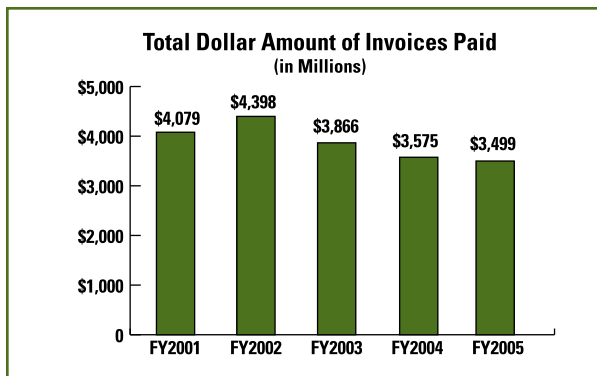
Corporation Income Tax Returns (Tax Year 2002 Data)



Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	8,045	2,311	28.7%
\$1 under \$500	8,072	1,453	18.0%
\$500 under \$1,000	3,745	843	22.5%
\$1,000 under \$5,000	11,750	3,377	28.7%
\$5,000 under \$10,000	6,413	2,073	32.3%
\$10,000 under \$25,000	9,358	3,007	32.1%
\$25,000 under \$50,000	8,640	2,774	32.1%
\$50,000 under \$100,000	10,090	3,198	31.7%
\$100,000 under \$250,000	21,072	6,524	31.0%
\$250,000 or more	513,369	128,052	24.9%
<b>Total</b>	<b>600,554</b>	<b>153,612</b>	<b>25.6%</b>

## Prompt Payment

The Prompt Payment Act requires federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a monthly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems. The number of late payments and the amount of interest penalties paid increased in FY 2005 are mostly due to the implementation of new financial system in the Internal Revenue Service.



OFFICE OF  
INSPECTOR GENERALDEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

October 24, 2005

**MEMORANDUM FOR SECRETARY SNOW****FROM:**Harold Damelin  
Inspector General

**SUBJECT:**Management and Performance Challenges Facing  
the Department of the Treasury

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges facing the Department of the Treasury, for inclusion in the Department's annual performance and accountability report.

Last year we identified six challenges that we believed seriously impeded the Department's ability to conduct its program responsibilities and ensure the integrity of its operations. This year, we are removing one challenge, *Management of Classified and Other Sensitive Information*, based on the Department's actions to strengthen policies, controls, and training on the proper handling of sensitive information. However, continued management attention to this area is needed. While some progress on the other five challenges has been made, we continue to believe that they represent significant risks to the Department. The five challenges are summarized as follows:

## Challenge 1 - Corporate Management

The increasing emphasis on consolidated agency-wide reporting and accountability, as embodied in the management reform legislation of the past decade and the President's Management Agenda, has underscored the need for effective corporate management at Treasury. With nine bureaus and many program offices, Treasury is a highly decentralized organization. Treasury needs to provide effective corporate leadership in resolving serious deficiencies at the bureau level that adversely impact the performance of Treasury as a whole. In particular, Treasury needs to assert strong leadership and supervision over the Internal Revenue Service (IRS) to resolve longstanding material weaknesses and system deficiencies that

Page 2

continue to inhibit the timely and reliable information necessary to effectively manage IRS operations. Since the IRS is such a large component, the ability of Treasury to meet its management goals and objectives is heavily dependent on major progress at the IRS. Treasury also needs to ensure consistency, cohesiveness, and economy among all bureaus in achieving Treasury's goals and objectives. Specific challenges in this area include establishing clear lines of accountability between corporate and bureau level management, providing enterprise solutions for core business activities, ensuring consistent application of accounting principles, and providing effective oversight of information technology investments and security. There has been little progress in corporate management during the past year, due in part to the fact that several key executive positions were vacant for a significant part of the year and have just recently been filled.

#### Challenge 2 - Management of Capital Investments

Treasury needs to better manage large, multiyear acquisitions of systems and other capital investments. Last year, we reported that the Department has incurred significant cost escalations in its HR Connect system and Treasury and Annex Repair and Restoration project. We also reported that another major capital investment that we plan to focus on in the coming years was the Department's transition from the Treasury Communication System to the Treasury Communications Enterprise (TCE). In this regard, we have an on-going audit of the business case for this investment. However, the transition to TCE has been delayed due in part to a successful protest of the bid award, and the Department changing course on how it plans to address the bid protest decision.

#### Challenge 3 - Information Security

The Department faces serious challenges in bringing its systems into compliance with information technology security policies, procedures, standards, and guidelines. In our fiscal year 2005 Federal Information Security Management Act (FISMA) evaluation, we continued to report that the Department has significant deficiencies in information security that constitute substantial non-compliance with the FISMA requirements. A core issue continues to be the need to establish and maintain a system inventory. We reported last year that Treasury's system inventory was not accurate, complete, or consistently reported.



Page 3

In our fiscal year 2005 FISMA evaluation, we reported that Treasury is still in the process of gathering data to develop its system inventory. In addition to the need for a system inventory, our FY 2005 FISMA report identified deficiencies in certification and accreditation, contractor oversight, plans of action and milestones, tracking corrective actions, training, and security configuration policies. The Department has made some progress in addressing information security issues during the past year; however, major improvements are still needed in order to meet information security requirements.

#### Challenge 4 - Linking Resources to Results

The Department generally has not developed and incorporated managerial cost accounting into its business activities; and, therefore, financial resources cannot be adequately linked to operating results. This inhibits comprehensive program performance reporting and meaningful cost benefit analyses of the Department's programs and operations. It could also result in inaccurate or incomplete cost information in evaluating competitive sourcing activities. Managerial cost accounting is designed to provide reliable and timely information on the full cost of programs, activities and outputs, and should be a fundamental part of a financial management system. Cost information is needed by federal executives and stakeholders in making decisions about allocating resources and evaluating program performance. It is also needed by program managers to improve operating economy and efficiency. The Department has made progress during the past year by introducing more efficiency measures in its performance reporting; however, it needs to make underlying systemic changes to integrate cost accounting with financial and performance reporting.

#### Challenge 5 - Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA), but largely relies on other Treasury and non-Treasury regulatory agencies to enforce the requirements of the BSA, including the enhanced terrorist financing provisions in the USA PATRIOT Act. Past audits and a series of Congressional hearings have surfaced regulatory gaps in either the detection of BSA violations or its timely enforcement. The Department continued efforts to strengthen BSA administration and taken significant enforcement

Page 4

actions against several financial institutions. As reported last year, the Department created the Office of Terrorism and Financial Intelligence (TFI). Additionally, FinCEN, which reports to TFI, created an Office of Compliance to improve BSA oversight and coordination with financial institution regulators. FinCEN also entered into a memorandum of understanding (MOU) with the five federal banking regulators to enhance communication and coordination, and now has similar agreements in place with the IRS and many states. While recent audit work by our office found that the federal banking regulators have provided information to FinCEN in a timely manner as prescribed by the MOU, it is still too soon to assess the effectiveness of these agreements to achieve improved BSA compliance by financial institutions. In response to other recent work by our office, FinCEN is taking action to improve the data quality of suspicious activity reporting, encourage greater e-filing of BSA reports, and enhance its money services business registration program. This management challenge will continue to be a major focus of our audit program, and we currently have audit work on-going at TFI, FinCEN, the Office of Foreign Assets Control, and the Office of the Comptroller of the Currency.

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

cc: Sandra L. Pack  
Assistant Secretary for Management  
and Chief Financial Officer



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 15, 2005

**MEMORANDUM FOR HAROLD DAMELIN  
INSPECTOR GENERAL**

**FROM:** John W. Snow *John W. Snow*

**SUBJECT:** Response to Management and Performance Challenges Facing  
the Department of the Treasury

I am responding to your October 24, 2005, memorandum describing the Department of the Treasury's management and performance challenges.

Thank you for acknowledging the Department's success in remediating one of last year's challenges, *Management of Classified and Other Sensitive Information*. The Department continues to strengthen controls in this area.

Our Fiscal Year (FY) 2005 Performance and Accountability Report describes actions that Treasury took during FY 2005 to address the management and performance challenges identified at the end of FY 2004. This memorandum provides information on the actions that we plan to take during FY 2006 to address each management and performance challenge identified in your memorandum.

**Corporate Management**

The Department is committed to exercising strong corporate leadership over all components of the Treasury Department -- through the policy offices' supervisory and oversight relationship with our bureaus, as well as through the discipline of the traditional management functions such as human resources, information technology, procurement, budget, strategic planning, and accounting. With nearly a full complement of senior officials now in office at Treasury, our ability to demonstrate the corporate management emphasis that you discuss in your memo has been greatly enhanced.

Notwithstanding the decentralization inherent in nine bureaus with different individual missions and organizational structures, we have several forums and work processes through which we identify and resolve corporate Treasury issues and through which we focus on preventing and overcoming material weaknesses and reportable conditions. These include but are not limited to the Chief Human Capital Officers' Council, the Chief Information Officers' Council, the Chief Financial Officers' Council, regular bureau heads' meetings, Departmental policy decisions reflected in the formulation and execution of annual appropriations, articulation of the Department's major goals and strategies through development of the Department's strategic plan, and the role of the Deputy Secretary as the senior performance official in evaluating and

-2-

approving SES performance ratings, pay adjustments, and bonuses for all Treasury senior executives.

### **Management of Capital Investments**

Treasury will continue its disciplined management of major information technology (IT) investments and ensure that cost, schedule and performance goals are met. Treasury has an established IT governance and capital planning and investment control (CPIC) program which includes quarterly reviews of the Department's IT investment portfolio. During the first quarter of FY 2006, Treasury will implement the "Evaluate" Phase of the CPIC process, the fourth and final outstanding required phase for Capital Planning. In this phase, Post-Implementation Reviews are performed on investments that recently have moved into the steady-state phase of their life-cycles to determine whether these systems meet goals and expectations. Steady-State Reviews also are performed on systems that have been in the steady-state phase for over five years to determine whether they continue to meet requirements and, if not, whether they need to be replaced.

With the completion of its deployment in May 2004 and the subsequent transition to a steady-state phase in FY 2005, HR Connect no longer is expending investment dollars. Program expenditures will be straight-lined for FY 2006 through FY 2012, consistent with an operations and maintenance phase. HR Connect will be funded going forward by bureau contributions through the Department's working capital fund. In another example of the Department's effort to contain program costs, Treasury sought and obtained designation of HR Connect as one of the five HR Line of Business (HR LoB) Shared Service Centers that provide HR-IT solutions and services to other federal agencies. Treasury will continue to pursue HR LoB cross-servicing activities which, in turn, will drive greater economies of scale by reducing operating costs for all customers.

Treasury also will continue to pursue the Treasury Communications Enterprise (TCE) contract acquisition. The vision for TCE is to implement an enterprise-wide telecommunications infrastructure for wide area network services and to provide a platform that will support current and future requirements. The sustained protest of the TCE bid award delayed the TCE project, but the acquisition and transition will be pursued under an aggressive schedule during FY 2006. Treasury continues to work with the OIG regarding the current ongoing audit of TCE.

### **Information Security**

Treasury continues to improve its inventory and certification and accreditation (C&A) process for information systems. Treasury is initiating efforts to obtain an enterprise compliance tool to measure and report on key Federal Information Security Management Act (FISMA) reportable statistics, which we anticipate will improve Department-wide security reporting in FY 2006 and beyond. Furthermore, to address IG findings and recommendations, Treasury plans to conduct oversight security reviews to focus on C&A quality and quality of FISMA plans of action and

-3-

milestones (POA&M). The Department also is working through the Cyber Security Sub-Council to develop Department-wide approaches for addressing security deficiencies.

### **Linking Resources to Results**

Treasury appreciates the need to develop managerial cost accounting capabilities; however, there are significant challenges and costs associated with installing managerial cost accounting systems. During FY 2006, we will focus our efforts on the development of cost accounting capabilities at the bureau level and Treasury will provide additional oversight in the implementation of bureau managerial cost accounting capabilities. Treasury made significant progress in FY 2005 in better linking and integrating budget, financial, and performance data. As a result of these efforts, Treasury maintained its “Yellow” President’s Management Agenda (PMA) status score and came within two criteria of receiving a green rating in the fourth quarter of FY 2005. For FY 2006, Treasury will focus on moving to green in the PMA by adding marginal cost metrics for all of its mission areas. Treasury plans to develop a more robust planning process, including using performance information to assess progress of past goals, setting measurable priorities and reporting progress in subsequent planning cycles, and leveraging existing tools that were developed in FY 2005 (dashboard, improved suite of performance measures, SES Organization assessments).

### **Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement**

Treasury’s banking regulatory agencies are working closely together to abate money laundering and terrorist financing. Treasury, through the Financial Crimes Enforcement Network (FinCEN), is taking action to complete fourteen recommendations provided in recent audit reports. Six of the recommendations already have been completed. In FY 2006, Treasury will work to seek input on critical data fields from the Bank Secrecy Act Advisory Group, to develop criteria for determining an acceptable data quality level, and to sample duplicate records to assess whether the duplicates affect statistical summaries of the data. Additionally, FinCEN’s new Office of Compliance will continue to notify the appropriate federal regulator when they discover systemic or pervasive data quality issues within an institution.

We look forward to working with you in addressing these challenges in the future.

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INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

October 27, 2005

MEMORANDUM FOR SECRETARY SNOW

FROM:

J. Russell George  
Inspector General

SUBJECT:

Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2006

The Reports Consolidation Act of 2000<sup>1</sup> requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2005*, our perspective on the most serious management and performance challenges currently confronting the Internal Revenue Service (IRS).

The TIGTA's assessment of the major IRS management challenge areas for Fiscal Year (FY) 2006 has not changed substantially from the prior year. While the IRS has continued to address each challenge area, we were unable to remove any challenge area at this time. We have, however, used two subcategories, Computerized Systems and Business Structure, to further describe the challenge of modernization of the IRS. We believe these both play a crucial part in the modernization efforts. We have also rephrased one challenge, "Using Performance and Financial Information for Program and Budget Decisions," to more accurately portray our concerns. The ten current challenges, in order of priority, are:

**Modernization of the Internal Revenue Service**

Modernization of the IRS includes both computer systems modernization and business structure (reorganization) modernization. Although both issues have their own sets of challenges, they must both succeed to fully modernize the IRS.

**Computerized Systems**

Business Systems Modernization (BSM) involves integrating thousands of hardware and software components over 15 years. The program is in its seventh year and has allocated approximately \$1.9 billion for contractor and integrator activities. The

<sup>1</sup> 31 U.S.C. § 3516(d).

IRS and its contractors have deployed projects that provide value to taxpayers and have built the infrastructure needed to support these projects. However, since the start of the modernization effort, the BSM program has experienced cost overruns and schedule delays in its project development and deployment. Over the past three fiscal years, our annual BSM program assessments have cited four primary challenges that the IRS and its contractors must meet to achieve program success: 1) implement planned improvements in key management processes and commit the necessary resources to enable success; 2) manage the increasing complexity and risks of the BSM program; 3) maintain the continuity of strategic direction with experienced leadership; and 4) ensure contractor performance and accountability are effectively managed. In the past year, we reported that weaknesses continue to exist in critical program management and system development processes.

### **Business Structure**

The IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>2</sup> mandated that the IRS reorganize to better meet the needs of taxpayers. On October 1, 2004, the Small Business/Self-Employed (SB/SE) Division Customer Account Services (CAS) operating unit realigned to the Wage and Investment Income (W&I) Division CAS function. As a result of this merger, the IRS' W&I Division will be the only division responsible for processing tax returns, both individual and business. While there are similarities between individual and business tax returns, there are also many differences. For example, the mix of electronic and paper returns for businesses is much different than that for individuals. Additionally, large corporations and tax exempt organizations will soon be required to file tax returns electronically, while individuals have the option to file either electronically or via paper. The IRS is also continuing with its plan to consolidate individual tax returns processing into fewer sites. Changes such as these present challenges to the IRS to ensure tax returns are processed effectively and efficiently.

### **Tax Compliance Initiatives**

The completion of the initial phases of the National Research Project (NRP) allowed the IRS recently to release an updated estimate of the tax gap.<sup>3</sup> As a result of the NRP, the IRS now estimates that taxpayers with self-employment income underreport between \$51 billion and \$56 billion in employment tax. The IRS recently received authority and will begin testing the use of contract staff to work some collection cases. It is too early to tell if the contract resources will be able to resolve a significant number of cases or whether they will continue to go unresolved. During the last few years, the IRS has been implementing reengineering suggestions aimed at increasing effectiveness of

<sup>2</sup> PUB. L. NO. 105-206, 112 STAT. 685 (CODIFIED AS AMENDED IN SCATTERED SECTIONS OF 2 U.S.C., 5 U.S.C., 5 U.S.C. APP., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., AND 49 U.S.C.).

<sup>3</sup> THE IRS HAS INITIATED THE NATIONAL RESEARCH PROGRAM TO MEASURE TAXPAYERS' VOLUNTARY COMPLIANCE, TO BETTER APPROXIMATE THE TAX GAP, AND TO DEVELOP UPDATED FORMULAS TO SELECT NONCOMPLIANT RETURNS FOR EXAMINATION. THE FIRST PHASE OF THIS PROGRAM ADDRESSES REPORTING COMPLIANCE FOR INDIVIDUAL TAXPAYERS, AND DATA FROM THIS PHASE WERE USED TO PRODUCE THE RECENTLY UPDATED ESTIMATES OF THIS PORTION OF THE TAX GAP.



enforcement efforts. We have conducted several reviews of these initiatives; however, it is too early to evaluate the full impact.

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

The IRS relies upon critical computer systems to account for more than \$2 trillion in revenue annually. Significant disaster recovery program weaknesses continue to be unresolved. These recurring weaknesses include: modernization systems being placed in production without a disaster recovery capability; insufficient disaster recovery capacity; roles and responsibilities not being assigned and employees not being trained; and annual tests not being conducted or not being effective. In addition, control weaknesses, such as failure to close user accounts when employees leave the IRS, inadequate documentation of user access authorizations, and insufficient documentation that employees have acknowledged their security responsibilities, continued to exist, even with the implementation of a new automated system to authorize system access. These weaknesses continue to occur because managers and system administrators have not adhered to the system procedures.

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

Through the years, the Federal tax system has become more complex, less transparent, and is frequently revised. The scope and complexity of the Internal Revenue Code make it virtually certain that taxpayers will face procedural, technical and bureaucratic obstacles in meeting their tax obligations. For example, in 2001, the Joint Committee on Taxation conducted a study on the complexity of the tax law and found that, at that time, the tax code consisted of nearly 1.4 million words. There were 693 sections of the code applicable to individuals, 1,501 sections applicable to businesses, and 445 sections applicable to tax exempt organizations, employee plans, and governments. At that time, a taxpayer filing an individual income tax return (Form 1040) could be faced with a 79 line return, 144 pages of instructions, 11 schedules totaling 443 lines (including instructions), 19 separate worksheets embedded in the instructions, and the possibility of having to file numerous other forms. For the 2005 tax filing season, the IRS estimates it should take, on average, over 19 hours to complete and file a Form 1040 and the associated Schedule A.

Although the IRS has consistently and commendably sought to ease the process for all taxpayers, each tax season brings new problems. The complexities of the tax law affect the ability of the IRS to administer the nation's tax system. The IRS' efforts to provide assistance to taxpayers are hampered because of these complexities.

### **Using Performance and Financial Information for Program and Budget Decisions**

Measuring the IRS' productivity, the efficiency with which inputs are used to produce outputs, is difficult.<sup>4</sup> The IRS has made some progress, but using performance and

<sup>4</sup> GOVERNMENT ACCOUNTABILITY OFFICE, PUB. NO. 05-671, TAX ADMINISTRATION: IRS CAN IMPROVE ITS PRODUCTIVITY MEASURES BY USING ALTERNATIVE METHODS (JULY 2005).

financial information for program and budget decisions is still a major challenge. The absence of accurate and complete management information hinders the IRS' ability to make appropriate decisions when determining the locations and services it provides taxpayers seeking face-to-face assistance. The IRS' financial statements and related activities continue to be of concern to IRS stakeholders. In its audit of the IRS' FY 2004 financial statements, the Government Accountability Office (GAO) concluded that the records were fairly presented in all material respects.<sup>5</sup> The GAO, however, identified some continuing serious deficiencies in the IRS' financial systems. Without a financial management system that can produce timely, accurate and useful information needed for day-to-day decisions, the IRS' financial stewardship responsibilities continue to be one of the most serious challenges facing IRS management.

### **Providing Quality Taxpayer Service Operations**

Each year, millions of taxpayers contact the IRS seeking assistance in understanding the tax law and in meeting their tax obligations by either calling the various toll-free telephone assistance lines, accessing the IRS Internet site or visiting an IRS Taxpayer Assistance Center (TAC). Walk-in assistance has proven to be particularly helpful for lower-income taxpayers and those with limited or no English language proficiency.<sup>6</sup> The IRS discontinued its TeleFile service, used by nearly 4 million taxpayers, in August 2005. Earlier this year, the IRS stated that it planned to close 68 TACs, to reduce costs and create efficiencies while maintaining a commitment to customer service. Currently, the IRS has suspended the closure of the 68 TACs pending further study. The TIGTA is reviewing the methodology used to select the TACs for closure. The Small Business/Self-Employed (SB/SE) Division Taxpayer Education and Communication (TEC) organization has made significant progress in reaching out to the small business taxpayer community to educate small business taxpayers on their tax and compliance responsibilities. However, the TEC organization needs to better market its products, especially for business taxpayers who are not served by the tax practitioner community.

### **Erroneous and Improper Payments**

An improper payment is any payment that should not have been made or that was made in an incorrect amount under a statutory, contractual, administrative or other legally applicable requirement. For the IRS, improper and erroneous payments are generally associated with erroneous refunds and filing fraud issues as well as vendor or contractor overpayments. Some tax credits, such as the Earned Income Tax Credit (EITC), and the Education Credit, provide opportunities for abuse in income tax claims. In Tax Year (TY) 2003, the IRS reported that approximately 21.7 million taxpayers received EITC totaling \$38.1 billion. The IRS estimated that between 27 percent and 32 percent of the \$31 billion in EITC claimed on TY 1999 returns should not have been

<sup>5</sup> GOVERNMENT ACCOUNTABILITY OFFICE, PUBL. NO. 05-103, FINANCIAL AUDIT: IRS'S FISCAL YEARS 2004 AND 2003 FINANCIAL STATEMENT (NOV. 10, 2004).

<sup>6</sup> IRS OVERSIGHT BOARD, FY2006 IRS BUDGET SPECIAL REPORT (MARCH 2005).

paid.<sup>7</sup> Single taxpayers with no dependents are receiving a “dual benefit” by claiming both the tuition and fees deduction, and education credits. We reported this condition during the 2004 filing season, and in the 2005 filing season, we identified 18,776 single taxpayers claiming no dependents who were allowed both an education credit, and a tuition and fees deduction because the IRS had yet to initiate action to identify and disallow “dual benefits.” Our analysis showed that these taxpayers claimed education credits of more than \$13 million, and tuition and fees deductions of nearly \$39 million. TIGTA reviews have also identified payment issues in the contract area. For example, a recent report on a contract to support the IRS’ modernization efforts identified questionable award fees of more than \$2 million and questionable charges, which consisted of unsupported, unreasonable, and inaccurately recorded charges.

### **Taxpayer Protection and Rights**

The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of RRA 98. Audit reports TIGTA issued in FY 2005 found the IRS was in full compliance with the following taxpayer rights provisions:

- *Notice of Levy*
- *Restrictions on the Use of Enforcement Statistics to Evaluate Employees*
- *Fair Debt Collection Practices Act Violations*

The IRS, however, did not remove all *Illegal Tax Protester Designations* from its records, did not always address all *Collection Due Process* issues, and sometimes improperly *Denied Taxpayer Requests for Information*. In addition, the IRS did not always properly notify taxpayers in situations involving:

- *Notice of Lien*
- *Seizures*
- *Assessment Statute of Limitations*

IRS management information systems do not track specific cases so neither the TIGTA nor the IRS could evaluate the IRS’ compliance with certain RRA 98 provisions. The TIGTA issued reports on two of the subject RRA 98 provisions:

- *Restrictions on Directly Contacting Taxpayers Instead of Authorized Representatives*
- *Separated or Divorced Joint Filer Requests*

### **Processing Returns and Implementing Tax Law Changes During the Tax Filing Season**

The IRS had a successful 2005 filing season, timely processing over 117.5 million individual income tax returns (including 66.6 million processed electronically) that were received through May 27, 2005. This was the first year that more than half of all

<sup>7</sup> TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2005-40-093, THE EARNED INCOME TAX CREDIT INCOME VERIFICATION TEST WAS PROPERLY CONDUCTED (2005).

taxpayers filed an electronic return. Key tax law changes for the 2005 filing season were generally correctly implemented. However, the TIGTA identified some tax law changes that were not effectively implemented during the 2005 filing season, which may cause taxpayers to lose entitlements or receive erroneous tax credits. For example, military taxpayers may not be receiving the full amount of EITC they are entitled to and not all taxpayers are benefiting from the new sales tax deduction. Also, some taxpayers are being allowed erroneous education credits, and taxpayers are receiving “dual benefit” by claiming both the tuition and fees deduction and education credits.

### **Human Capital**

The IRS continues to be challenged with traditional workforce issues, such as training, recruitment and employee retention, along with issues specific to the IRS. These issues include reorganizations and potential restructuring from competitive sourcing results. For example, according to its FY 2006 strategic assessment, the Large and Mid-Size Business Division (LMSB) is continuing to lose highly skilled technical employees, primarily through retirement, and it is replacing fewer technical employees than those who have separated. The loss of human capital, combined with the increasing complexity of LMSB examinations, will have a negative effect on audit coverage and business results. Additionally, the IRS Tax Exempt and Government Entities Division has indicated that current staffing is still not sufficient to adequately cover the volume of calls received.<sup>8</sup> Although the IRS has training assessment and development procedures, these procedures are generally not followed by its operating divisions. While each operating division followed its own processes, they were generally not able to provide documentation to substantiate whether assessments were performed.

These are the ten major IRS management challenge issues for FY 2006. The TIGTA's Office of Audit's [FY 2006 Annual Audit Plan](#) categorizes the planned audits by these issues. If you have questions or wish to discuss our views on these management and performance challenges in greater detail, please contact me at (202) 622-6500.

cc: Assistant Secretary for Management and Chief Financial Officer  
Commissioner of Internal Revenue

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<sup>8</sup>TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION, REF. NO. 2005-10-149, THE INTERNAL REVENUE SERVICE DOES NOT ADEQUATELY ASSESS THE EFFECTIVENESS OF ITS TRAINING (2005).



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 15, 2005

MEMORANDUM FOR J. RUSSELL GEORGE  
TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

FROM: John W. Snow *John W. Snow*

SUBJECT: Response to Management and Performance Challenges Facing  
the Department of the Treasury

I am responding to your October 27, 2005, memorandum describing the Department of the Treasury's management and performance challenges.

Our Fiscal Year (FY) 2005 Performance and Accountability Report describes actions that Treasury took during FY 2005 to address the management and performance challenges identified at the end of FY 2004. This memorandum provides detailed information on the actions that we plan to take during FY 2006 to address each management and performance challenge identified in your memorandum.

**Modernization of the Internal Revenue Service**

The IRS's FY 2006 modernization portfolio will focus on the delivery of three major tax administration projects: the Customer Account Data Engine (CADE), Modernized e-File (MeF), and Filing and Payment Compliance. Each of these tax administration projects will address a core IRS strategic priority. Program operations will continue to focus on improving program performance, improving and streamlining management process disciplines, and ensuring the delivery of projects on time, on budget, and on scope by taking a greater ownership and leadership role in managing the IRS's modernization program.

**Tax Compliance Initiatives**

Reducing the tax gap is the IRS's most significant challenge. In FY 2006, the IRS will focus its analysis of tax information and data from its recent compliance study to better define and quantify the tax gap and to focus its enforcement resources on corrosive activities conducted by corporations, high income taxpayers and other major contributors to the tax gap. Targeting high-risk taxpayers will improve IRS efficiency and reduce the burden on compliant taxpayers.

The IRS will direct enforcement activities to increase audits of high-income taxpayers and corporations, focusing more attention on abusive shelters and launching more criminal

-2-

investigations. Beyond the direct revenues generated by increasing audits, collection, and criminal investigations, enforcement efforts will have a deterrent effect on those who might be tempted to skirt their tax obligations. One of the IRS's enforcement priorities is deterring and preventing abusive tax avoidance transactions or tax motivated transactions that are corrosive to the equity and the fairness of the tax laws for all taxpayers. Tax shelter promoters continue to modify schemes, making it difficult to detect patterns and identify participants on a timely basis. Because these types of transactions present unacceptable tax avoidance behavior, the IRS will continue its efforts to identify them in a timely manner and to make the public aware of the IRS's concerns.

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

The IRS plans to conduct certification and accreditation activities to meet government-wide guidelines and to complete the development of an enterprise-wide strategy for information technology systems disaster recovery. In addition, the IRS plans to enhance its Federal Information Security Management Act (FISMA) compliance by further increasing IRS business owner participation in all areas including monitoring, review, mitigation and reporting activities. To address its related material weakness, the IRS plans to test the contingency and disaster recovery plans for all of its major (high risk impact) information systems in FY 2006.

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

In November 2005, the Advisory Panel on Federal Tax Reform issued to Treasury a report containing revenue neutral options for reforming the Federal Internal Revenue Code. This report also included options to simplify the tax laws to reduce the costs of compliance and to make it easier for taxpayers to plan for the future and manage their affairs.

In addition, the IRS has several initiatives underway which include pursuing the feasibility of a Unified Family Credit that will combine the provisions of the Earned Income Tax Credit, Child Tax Credit, and Dependency Exemption, further reducing taxpayer compliance burdens associated with claiming these provisions. Another initiative includes proposed legislation for issuing regulations that would extend the due date for individual electronic filers to file and pay individual taxes by April 30, and expand the authority of IRS to require businesses (including corporations, partnerships and other business entities) and exempt organizations to file their returns electronically.

### **Using Performance and Financial Information for Program and Budget Decisions**

The IRS will continue to analyze cost data obtained through its newly developed Integrated Financial System in order to develop further robust cost-based performance measures for its

-3-

major programs. The IRS also plans to introduce a suite of enterprise-wide goals which link directly to the IRS Strategic Plan.

### **Providing Quality Taxpayer Service Operations**

The IRS plans to continue conducting surveys and focus groups to obtain feedback from taxpayers and tax practitioners about ways to improve tax forms, instructions and publications. In addition, the IRS plans to improve the quality and clarity of computer-generated notices issued to taxpayers to reduce the number of telephone contacts and make it easier for taxpayers to understand and comply with their tax requirements. During FY 2006, the IRS will continue to seek alternative, less costly ways to address the challenge of improving taxpayer service including the following: balancing accessibility and ease of use to reduce taxpayer burden in complying with the tax laws through continued research and evaluation of taxpayer service needs, priorities, and preferences for obtaining information or services. The IRS will seek opportunities to invest in technology, process improvement, and training to achieve a consistent quality of service with reduced unit delivery costs.

### **Erroneous and Improper Payments**

The IRS plans to develop and distribute materials educating taxpayers and practitioners on the Earned Income Tax Credit (EITC) and Education Credit eligibility rules and compliance issues. Minimizing the number of taxpayers who claim these credits erroneously, or in the case of the Education credit, claim dual benefits, is key to accurate reporting and the reduction of erroneous payments. The IRS also plans to enhance its methodology to improve the selection, assignment, and examination of returns where these credits are claimed to identify those taxpayer groups that are at higher risk of noncompliance in order to target education and outreach.

### **Enforcement of Tax Laws**

The IRS plans to bolster the collection program. Legislation approved in FY 2005 to authorize the IRS to enter into contracts for Private Debt Collection will allow the development and deployment of a system to enter into three contracts and implement a limited program. The IRS also plans to use computer models to identify cases with a high or low propensity to pay or to be unproductive. A separate enforcement initiative to Attack Corrosive Non-Compliance Activity driving the Tax Gap provides resources to increase coverage on a growing number of high-risk compliance problems and to address the largest portion of the tax gap – the underreporting of tax. Leveraging new workload selection systems and case building approaches from continuing reengineering efforts will result in increased collections.

### **Taxpayer Protection and Rights**

The IRS has several initiatives planned or underway for FY 2006 including the development and implementation of the Taxpayer Rights Impact Statement to help the IRS incorporate an awareness and consideration of taxpayer rights into its program planning and implementation. In addition, the IRS continues with its systems modernization efforts to enhance its security program to avoid unauthorized access to taxpayer information.

### **Processing Returns and Implementing Tax Law Changes During the Tax Filing Season**

The IRS has actions underway or planned for this area in FY 2006 which include piloting an automated adjustment document to make a change or correction to a taxpayer account, reducing adjustment time, and increasing the quality of adjustments. In addition, completing deployment of the Transcript Delivery System will improve efficiency and provide a “one-click” method of servicing requests from taxpayers for critical tax and financial information necessary for home purchase and educational financial assistance applications. During FY 2006, the IRS will expand CADE, increasing the number of returns processed and moving toward making CADE the single authoritative repository for account and return data, replacing the IRS’s antiquated Master File. In addition, MeF will become the primary interface for all business filings, which is expected to remedy IRS’s legacy electronic filing limitations. The IRS also is considering mandating e-filing for certain groups, by regulation or legislation, to ensure increased e-filing. The Administration’s proposal to extend the April filing date for electronically-filed tax returns to April 30, if enacted, also may increase electronic filing. The IRS will develop additional strategies to induce more taxpayers and preparers to take the next step and file electronically.

### **Human Capital**

The IRS has several actions planned, including completing the development of the Human Capital Strategic Plan to address its workforce issues. Other activities include the continued selective use of Voluntary Employee Retirement Authority (early-outs) and Voluntary Separation Incentive Payments (buyouts) to support organizational restructuring and workforce reshaping initiatives.

We look forward to working with you in addressing these challenges in the future.



## **FY 2005 Activities to Address Previously Identified Management Challenges and High-Risk Areas**

This section identifies the actions taken to address the major management challenges and high-risk areas facing the Department of Treasury and its bureaus as previously identified by the Office of Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), and the Government Accountability Office (GAO).

### **Strengthening Information Systems Security (GAO, OIG, TIGTA)**

During FY 2005, Treasury demonstrated considerable progress in the remediation of Information Technology (IT) security weaknesses and conducted a Security Program review of all Treasury bureaus. In compliance with Treasury's new IT Security Policy, all bureaus submitted action plans for implementing the new policy over the next year. Treasury's FY 2005 Federal Information Security Management Act (FISMA) report to OMB stated that 95% of the Department's systems were certified and accredited (C&A). This accomplishment exceeded the Treasury President's Management Agenda (PMA) goal of certifying and accrediting 80% of its systems by the end of FY 2005. For the material weakness associated with the Office of the Chief Information Officer (OCIO), one component of the material weakness was closed and OCIO is continuing to work towards closing and/or downgrading the remaining two issues. A related Internal Revenue Service (IRS) carryover material weakness is still in the process of being corrected, although progress was achieved in FY 2005.

For FY 2006, Treasury has planned oversight security reviews to address issues of C&A quality, Plan of Action & Milestones quality/completeness, and is seeking to hire a qualified candidate to focus upon FISMA reporting/compliance and security configuration management efforts, respectively. In addition, Treasury is also working through our Cyber Security Sub-Council to develop Department-wide approaches to address security deficiencies.

### **Improvements are Needed in Linking Resources to Performance Results (GAO, OIG, TIGTA)**

Treasury made significant progress in FY 2005 in better linking and integrating budget, financial, and performance data. As a result of these efforts, Treasury maintained its Yellow President's Management Agenda's (PMA) status score, and came within two criteria of receiving a green rating in the fourth quarter.

Treasury evaluated each of its 330+ performance measures from the FY 2004 PAR with key bureau analysts, resulting in 64% of the measures being eliminated for corporate reporting, in part because the measures did not adequately strengthen the linkage. In addition, Treasury recorded a 36% improvement over the prior year in total base of the Program Assessment Rating Tooled (PARTed) programs receiving a passing score (defined as adequate or better). In FY2005, seven Treasury programs were PARTed and all seven received a score from OMB of moderately effective or effective. The PART review results demonstrate progress toward budget, performance and financial integration. Further, for the second year, Treasury issued the Senior Executive Service (SES)

organization Assessment which emphasizes the linkage of budget, performance and finance, and in part, determines the ratings of Treasury's senior executives.

For FY 2006, Treasury plans to focus efforts on developing a more robust planning process. Goals of the new process include using performance information to assess progress of past goals, to set measurable priorities and report progress in subsequent planning cycles, and to leverage existing tools developed in FY2005 (dashboard, improved suite of performance measures, SES Organization assessments). Treasury is focused on moving to green in the PMA by adding marginal cost metrics for all of its mission areas; as of September 30, 2005, approximately 80% of Treasury's program budget dollars met the PMA requirement.

### **Management of Capital Investments (OIG)**

For FY 2005, Treasury established an information technology (IT) governance and capital planning and investment control (CPIC) program which included quarterly reviews of the Department's IT investment portfolio. Focus during the year was on developing and implementing the processes for the 'select' and 'control' phases. Treasury also applied more rigor around the sufficiency of the Exhibit 300 submissions for its 55 major investments and developed a protocol for standardizing the documentation required for our over 200 minor systems.

For FY 2006, Treasury will continue its efforts to promote a disciplined management of major IT investments by ensuring that they meet cost, schedule and performance goals.

### **Management of Classified and Other Sensitive Information (OIG)**

For Fiscal Year 2005, Treasury has actively promoted security education and training on classification management and recognizing classified and sensitive information. Training was provided to bureau security officers to use/adapt for their own needs.

Treasury joined the newly-formed Information Security Officers' Working Group (IISOWG) of civilian agencies to represent Treasury interests. Treasury's experiences and concerns are shared as individual agencies discuss multiple solutions for problem solving and sharing information security protective techniques and abilities. The IISOWG has opened a new venue for sharing ideas among other agencies. Treasury hosted the second meeting and the IISOWG now meets on a routine basis. As a result of Treasury's efforts in this area, the OIG has removed this management challenge.

### **Corporate Management (OIG)**

During FY 2005, the Department has been proactive in addressing the material weaknesses situations both at the IRS and the FMS. In addition to maintaining very close liaison with IRS's CFO and CIO personnel, Departmental Offices (Management) staff regularly participated in the IRS's Financial and Management Controls Executive Steering Committee meetings, where each of the outstanding material weaknesses were reviewed by senior officials.

The complexity of the IRS programs and operations causes the effort of designing and implementing comprehensive information systems to be both costly and time-consuming. Despite many successes, implementation of systems that work as a cohesive functioning process has been slow, but we real progress continues to be made.

**Bring IRS Financial Management Systems into Compliance with FFMIA (GAO)**

In FY 2005, IRS implemented a new core financial system, the Integrated Financial System (IFS). Implementation of the new IFS system is expected to position IRS administrative financial activities so that they are substantially compliant with the Federal Financial Management Improvement Act (FFMIA). The degree of IRS compliance will be validated once GAO has completed the 2005 financial audit under the new system. The IRS will continue to report on remediation activities related to future releases of IFS, although at present, all future releases are on hold. For FY 2006, the IRS's Financial Management Information System (FMIS) enhancements are planned to be accomplished through four releases beginning in 2006 through 2008. The full funding requirements for the FMIS enhancements have been included in the FY 2007 E-300 submission.

The IRS has also developed and submitted a business case to determine if funding can be made available for an alternative plan to remediate the custodial financial weaknesses over the next several years. The Custodial Accounting Project (CAP) was officially shut down on January 18, 2005, due to budget constraints. Upon the shut down of CAP, the IRS has begun developing an alternative Custodial Detailed Data Base (CDDDB), a financial data warehouse that leverages existing legacy assets to address the critical GAO financial material weaknesses. CDDDB incrementally builds to FFMIA compliance. Each CDDDB release addresses one or more of the GAO material weaknesses in financial reporting. With full implementation of all CDDDB releases in FY 2007, the IRS expects to be compliant with FFMIA.

**Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement (OIG)**

Treasury's banking regulatory agencies are working in partnership with the credit union regulatory agency and the Financial Crimes Enforcement Network (FinCEN) to abate money laundering and terrorist financing. The approach the regulatory agencies have taken to achieve these goals is to ensure examination consistency and provide guidance to financial institutions for developing policies and programs to comply with anti-money laundering requirements.

The federal regulatory agencies and FinCEN executed an information sharing agreement in late 2004 to enhance implementation and communication regarding the Bank Secrecy Act (BSA). These agreements will provide oversight information needed to assess levels of BSA compliance in covered industries, and provide a framework for enhanced communication, collaboration and information sharing between Federal and State agencies. The agreements and resulting collaboration will result in more effective BSA administration. In addition, the OIG completed a follow-up review of Treasury's Suspicious Activity Report data quality. This review recognized the emphasis that Treasury placed on this issue and offered suggestions on how to improve this area. As a result, in FY 2006, Treasury will be working on fourteen suggested actions. These actions include seeking input on critical data fields from the Bank Secrecy Act Advisory Group and developing criteria for determining acceptable data quality level.

**Prepare Reliable Financial Statement for the U.S. Government (GAO)**

During FY 2005, Treasury completed the FY 2004 Financial Report (FR) three and a half months earlier than is required by the Government Management Reform Act of 1994. In FY 2004, agencies submitted their closing package data electronically for the first time through the Government-wide

Financial Report System (GFRS). The closing package process provides a direct link between the audited financial statements prepared by the agencies and the compilation of the FR. Agencies also submitted adjusted trial balance information electronically, using the Federal Agencies' Centralized Trial Balance System (FACTS I). FACTS I data was transmitted real-time to GFRS and served as the primary source of FR data for the non-material agencies and supporting detail information for the material agencies.

For FY 2006, Treasury continues its multi-year effort to rebuild the processes it uses to prepare the FR. In addition, Treasury continues to work closely with OMB in developing intra-governmental business rules.

### **Enforcement of Tax Laws (GAO)**

Treasury improved collection processes which resulted in increases in productivity, dollars collected, enforcement activity and customer satisfaction along with decreases of time between return filing and assignment and decrease of time between assignment and case closure. Adoption of clear guiding principles including revisions to key Internal Revenue Manual sections on enforcement activity, coupled with improved electronic research and guidance tools and enhancement of managerial consultations contributed to overall improvements.

In addition, Treasury partnered with 27 states to levy individual state refunds for outstanding federal income tax liabilities through the State Income Tax Levy Program. An encryption software purchase for states will allow transmission of levy payment into the Electronic Federal Tax Payment System. Further, as part of the Treasury's initiative in FY 2005, the Treasury continued several tests to evaluate new ways of reducing erroneous Earned Income Tax Credit (EITC) payments while maintaining participation by eligible taxpayers; such as the Misreporting Income (Automated Underreporter) Test. This test focused on improved selection methodologies and immediately proved successful.

Finally, Treasury is continuing to make the EITC easier to claim by eligible taxpayers. To reduce taxpayer burden, the Treasury is improving communications to taxpayers, making the credit clearer and easier to understand and providing potential claimants and their paid preparers with resources to help them determine whether they are eligible.

### **IRS's Business Systems Modernization Program (GAO, TIGTA)**

In FY 2005, IRS modernization efforts focused on key tax administration systems that will provide additional benefits to taxpayers. The Customer Account Data Engine (CADE) replaces the IRS's antiquated system called the Master File, which is the repository of taxpayer information. CADE allows faster refunds (CADE processes refunds on a daily basis), improved taxpayer service, faster issue detection, more timely account settlement, and a robust foundation for integrated and flexible modernized systems. More than 1.4 million returns were posted with more than \$427 million in refunds generated. Next year, CADE should be able to process over twice as many returns. It will be the single authoritative repository for account and return data.

Modernized e-File (MeF) deployed Form 7004 (filing extension for corporations) as well as Form 990PF (information return for private foundations). This allowed the IRS to establish regulations

requiring large corporations and tax-exempt organizations to electronically file their income tax or annual information returns.

The FY 2006 Modernization portfolio will focus on delivery of three major tax administration projects (highlighted below), along with infrastructure initiatives and continued improvement to program management operations.

- The IRS will expand CADE to increase the number of tax returns processed and taxpayers served, targeting 33 million returns to be processed during 2007.
- The Modernized e-File (MeF) continues engineering development to prepare for expanding taxpayer base served through combined Federal and State processing of tax returns. BSM also continues working on access capabilities for disabled taxpayers through e-Services upgrade of the PeopleSoft Commercial Off-the-Shelf application.
- The IRS will develop the first release of the Filing and Payment Compliance system to analyze tax collection cases to determine uncontested cases that no longer require direct IRS involvement and can be turned over to private collection agencies.

### **Tax Compliance Initiatives (TIGTA)**

This issue involves the administering of programs to deal with tax gap issues, especially those resulting from corporate and high-income individual taxpayers as well as domestic and off-shore tax and financial criminal activity.

In FY 2005, Treasury achieved several key actions in this area which include: (1) addressing key areas of noncompliance with enhanced enforcement of tax laws such as increased examinations of the small business corporate segment by 81%; (2) corporate audits increased 15%, significant given the size (over \$10 million) and complexity of these entities; (3) increased examination and collection on the high-income non-filer segment; and (4) partnered with states on abusive transactions leads.

In addition, Treasury released updated tax gap estimates for Individual Income Tax Reporting Compliance. Preliminary findings indicate that the gross tax gap was between \$312 billion and \$353 billion in Tax Year (TY) 2001. Underreporting noncompliance is the largest component of the tax gap and accounts for more than 80% of the total, with non-filing and underpayment at about 10% each.

Furthermore, Treasury delivered the final TY 2003 Voluntary Payment Compliance Rates (VPCR) by type of tax, tax year and operating division. The VPCR, which is the percentage of the total tax liability reported on timely-filed returns that is paid in a timely manner, provides a valid assessment of the overall level of payment compliance and facilitates the proper allocation of resources for enforcement activities.

Finally, Treasury focused criminal enforcement resources on key areas of noncompliance, including the promotion of abusive schemes such as offshore accounts to hide or improperly reduce income, the use of abusive corporate tax avoidance transactions, and high-income individuals underreporting of income and/or failure to file returns.

For FY 2006, Treasury's key plans in this area include upgrading the Bank Secrecy Act (BSA) workload database to provide a more complete record of these institutions and to better predict

which entities have a greater probability of non-compliance. In addition, the Treasury plans on chartering EITC research efforts to identify ways to reduce EITC erroneous payments, as well as identify trends in the diverse EITC taxpayer population. Treasury will use the results of these studies for strategic planning of the EITC program.

### **Complexity of the Tax Law (TIGTA)**

In FY 2005, key actions in this area included providing the Congress with legislative recommendations in the upcoming National Taxpayer Advocate Annual Report to Congress, including elimination of the Alternative Minimum Tax; simplification of provisions to encourage education; and simplification of provisions to encourage retirement savings.

During FY 2006, Treasury plans in this area include: continuing work on the revisions in the regulations under Internal Revenue Code 7216, relating to the use and disclosure of tax return information by tax returns preparers; examining the possibility of a Unified Family Credit that will combine the provisions of the EITC, Child Tax Credit, and Dependency Exemption, thereby further reducing taxpayer compliance burdens associated with claiming these provisions; and drafting a legislative proposal to issue regulations specifying returns that must be filed electronically. Also, expanding the scope of returns that are required to be filed electronically would help the IRS meet its 80% goal set by Congress.

### **Processing Returns and Implementing Tax Law Changes During the Tax Filing Season (TIGTA)**

During FY 2005, key actions in this area included: (1) setting a record for electronic filing, reaching nearly 68 million returns, an increase of approximately 11% from 2004; (2) developing secure access for taxpayers who file electronically to enable them to review their account electronically; and (3) ensuring the corporate filing season readiness process is operational for filing seasons 2005 and 2006 and covers all aspects of the filing season, including the Annual Readiness Certification.

Treasury's key actions planned for completion in FY 2006 includes: (1) pilot an automated adjustment document to make a change or correction to a taxpayer account, reducing adjustment time and increasing the quality of required adjustments; and (2) begin development of strategies to smoothly transition and consolidate the Philadelphia Submission Processing Center; and (3) complete deployment of Transcript Delivery System by December 2005.

### **Improving Service to Taxpayers - Providing Quality Customer Service Operations (TIGTA)**

During FY 2005, Treasury's key actions in this area included: (1) developed the electronic installment agreement initiative to enable taxpayers meeting certain criteria to request and set-up their own installment agreements over the Internet on IRS.gov; (2) enhanced research to maximize the best use of resources for the Volunteer Income Tax Assistance (VITA) site identification, partnership development and return preparation; (3) expanded Internet Refund-Fact of Filing to include Refund Trace and Change of Address capabilities for lost and/or stolen refunds; (4) improved and enhanced the availability of online services such as Internet Employer Identification Number (EIN), Centralized Authorization File, and Practitioner Priority Services; and (5) continued work with private industry providers to expand Free File.

For FY 2006, Treasury's plan includes: (1) implementing a national rural strategy that provides outreach, free tax return preparation and/or financial literacy education to rural America; (2) continuing to educate EITC taxpayers and assess the overall EITC marketing and awareness campaigns that target the eligible EITC non-claimant population; (3) expanding of Internet Refund Fact of Filing application to reduce toll-free demand and offer customers alternative methods of service; (4) developing a TeleFile and Internet electronic withdrawal (Direct Debit) application for notice payments; (5) developing an electronic funds withdrawal (Direct Debit) application for installment agreements; and (6) continuing to improve the quality and clarity of computer-generated notices issued to taxpayers to reduce the number of telephone contacts and make it easier for taxpayers to understand and comply with their tax requirements.

### **Taxpayer Protection and Rights (TIGTA)**

For FY 2005, key actions included: (1) reduced procedural barriers by making refinements to both third party notification and collection due process procedures; (2) administered an EITC survey as part of the EITC Qualifying Child Certification Test, consisting of questions regarding the time and cost associated with the certification and making an EITC claim; (3) reviewed IRS training to ensure that employees, particularly in compliance functions, are properly and regularly trained on the protection of taxpayer rights; (4) developed a new workload methodology that will focus on those areas of the filing population constituting the greatest increase in compliance risk with a high probability of unreported income. This strategy will promote fairness of our tax system by identifying potential noncompliance from taxpayers who would not otherwise be subject to matching document reviews; and (5) pursued abuses in the consumer credit counseling industry, targeting for audit 60 firms representing 50% of revenue in this industry.

During FY 2006, planned actions include: (1) focusing on taxpayer groups that are at higher risk of noncompliance to maintain confidence in the integrity of the tax administration program; (2) continuing to educate EITC taxpayers through partnerships with key stakeholders and a public service campaign; (3) advocating enforcement of existing penalties for paid preparers as well as the strengthening and enhancement of penalties by Congress; and (4) working with preparers to design a program that enables the majority of taxpayers to feel confident that their preparers are competent to prepare their taxes and that the IRS will take appropriate enforcement action on preparers when they perform negligently or recklessly.

### **Human Capital (TIGTA)**

During FY 2005, the IRS's key actions included the streamlining of its operations that resulted in moving personnel from non-enforcement to enforcement positions and cost savings from centralizing case processing. These efforts will be directed to enforcement hires for FY 2006. In addition, the IRS has drafted its 2005-2009 Human Capital Strategic Plan and will begin implementation, upon IRS Oversight board approval. Once approved, the plan will be the primary guidance vehicle for strategic management of human capital in the IRS and implemented an IRS-wide human capital governance structure, including representatives from the IRS business units, support functions and specialized units, that provides a forum for all IRS entities to jointly address and propose solutions to human capital issues and challenges resulting from the implementation of large-scale human capital programs, policies and initiatives. This ensures consistent and fair treatment of employees affected by workforce change initiatives.

To support workforce restructuring initiatives and to mitigate impact on employees involved in restructuring, the IRS used all available tools, including VERA (early outs) and VSIP (buyouts) and relocation bonuses throughout the year to support workforce restructuring initiatives and to mitigate impact on employees involved in restructuring. Further, the IRS implemented a multi-year recruitment and marketing strategy that included the expansion of the Internet employment website, a complete print media advertising campaign, market research and an extensive Internet media advertising campaign.

During FY 2006, the IRS plans to complete the development of the Human Capital Strategic Implementation Plan (HCSIP) which will identify specific human capital programs and initiatives for the next two years needed to execute the strategies and achieve the goals outlined in the Human Capital Strategic Plan. The IRS will conduct a study of all leadership courses (Executive Readiness Program, Senior Manager Course/Senior Manager Readiness Program, and Frontline Manager Course) to focus on delivering content in an effective and efficient manner as well as identifying and attracting “high talent” and “high potential” for leadership development. In addition, the HCSIP will provide accountability for performance of programs and initiatives through a systematic corporate monitoring and reporting process; and integrate the budget process with human capital strategies. In addition, the IRS plans to continue the selective use of Voluntary Employee Retirement Authority (early-outs) and Voluntary Separation Incentive Payments (buyouts) to support organizational restructuring and workforce reshaping initiatives.





## Appendices

- Appendix A: Full Report Of Treasury's FY 2005 Performance Measures
- Appendix B: Completeness and Reliability of Performance Data
- Appendix C: Improper Payments Information Act and Recovery Act
- Appendix D: Material Weaknesses, Audit Follow-up, and Financial Systems
- Appendix E: Organizational Structure
- Appendix F: PART Program Evaluations
- Appendix G: Glossary of Acronyms

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# Appendix A: Full Report of Treasury's FY 2005 Performance Measures by Focus and Strategic Goal

## FY 2005 PERFORMANCE SUMMARY

This section reports the results of Treasury's official performance measures by focus and strategic goal (and further by bureau/organization) for which targets were set in the FY 2005 Performance Plan (as presented in the FY 2006 Congressional Justification for Appropriations and Performance Plans). For each performance measure, there is a definition for the measure, performance levels and targets for three previous fiscal years (where available), the performance target and actual for the report year, and proposed performance targets for next fiscal year (where available). The report examines unrealized performance targets and presents actions for improvement.

The purpose of Treasury's strategic management effort is to develop effective performance measures to achieve the goals, objectives and activities that will improve results delivered to the American public. In its final performance plan for FY 2005 that the Department transmitted to Congress, as part of the FY 2006 budget, Treasury detailed its performance targets.

Overall, the Department established 126 performance targets in FY 2005. Of these, 13 are baseline, and 14 have no data available at the time of this report. Of the remaining 99 measures, Treasury met or exceeded 78 targets and did not meet 21 of its targets

FY 2005 Treasury-wide Performance Summary			
Total Measures	Targets Met	Targets Not Met	Other (Baseline & Not Available)
126	78 (62%)	21 (17%)	27 (21%)

### Definitions and Other Important Information:

**Determination of Official Measures** In FY 2005, Treasury began the process of improving its performance management system. The first stage was to focus performance management efforts to a streamlined set of key performance measures. A rigorous process is followed to maintain internal controls

on these measures, including what is ultimately approved as an official Treasury performance measure. The measures that follow are results of this improvement effort and process.

**Actuals** For most of the measures included in this report, the FY 2005 actual data is final. Some of the actual data for FY 2005 are estimates at the time of publication, which are indicated by a "\*". Actual data for these estimated measures will be presented in the FY 2007 Congressional Justification for Appropriations and the FY 2006 Performance and Accountability Report. The actual data for previous years throughout this report is the most current data available and may not reflect previous editions of the Performance and Accountability Report and the Congressional Justification.

**Targets** The targets shown for FY 2006 are proposed targets and are subject to change. The final targets will be presented from the FY 2007 Congressional Justification for Appropriations. Also included in this report are the previous year's final targets for each performance measure.

**Target Met?** For each fiscal year that there is a target and an actual number, the report tells the reader whether the target was met or not. If the target is met, "Y" will be shown. If the target was not met, "N" will be shown.

**Definition** All performance measures in this report have a detailed definition describing the measure and summarizes the calculation.

**Source** The basis of the data is included in this report.

**Future Plans/Explanation for Shortfall** If a performance target is not met, the report includes an explanation as to why Treasury did not meet its target, and what it plans to do to improve performance in the future. If a performance target is met, the report

includes what future plans Treasury has to either match FY05's performance, or improve its performance in future years.

**Not Available Targets** Some measures indicated as "Not Available" do not have actual data and will be discontinued in the FY 2006 Congressional Justification for Appropriations.

**Baselined Measures** There are 13 new FY 2005 measures included in this report. These measures are baselined (actuals determined) this year. Baselines facilitate target-setting in the future.

**Additional Information** Additional Information relating to Treasury's performance management can be found at <http://www.treas.gov/offices/management/budget/planningdocs/index.html>

**Legend**

*	Indicates actual FY 2005 data is estimated and is subject to change.
Oe	Outcome Measure
E	Efficiency Measure
Ot	Output/Workload Measure

## Goal: Promote Prosperous U.S. and World Economies

Objective: Stimulate Economic Growth and Job Creation

Community Development Financial Institutions Fund

<b>Measure: Administrative costs per number of New Markets Tax Credit (NMTC) applications processed (\$) (E)</b>					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target				Baseline	5390
Actual				5390	
Target Met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The cost per application for New Markets Tax Credit (NMTC) applications.					
<b>Source:</b> The Fund will analyze the cost of materials as well as staff time and contractor's time to determine the total fixed and variable cost per application.					
<b>Future Plans/Explanation for Shortfall:</b> In FY 2005, the Fund established the baseline cost of administering each NMTC application. A significant portion of this cost is driven by the number of applications in a particular year (or funding round). In the future, the Fund will concentrate on maintaining a rigorous, yet efficient review process for each application in order to contain the administrative costs. In addition, whenever possible, the Fund will use technology from the previous funding round to maximize efficiency and minimize costs. This previously developed technology will be used to streamline the application and review process for NMTC applications.					

<b>Measure: Administrative costs per number of Bank Enterprise Award (BEA) Applications processed (\$) (E)</b>					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target				Baseline	1280
Actual				1280	
Target Met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The fixed and variable cost per application for Bank Enterprise Award (BEA) applications.					
<b>Source:</b> The Fund will analyze the cost of materials as well as staff time and contractor's time to determine the total cost per application.					
<b>Future Plans/Explanation for Shortfall:</b> In FY 2005, the Fund established the baseline cost of administering each BEA application. A significant portion of this cost is driven by the number of applications in a particular year (or funding round). In the future, the Fund will concentrate on maintaining a rigorous, yet efficient review process for each application in order to contain the administrative costs. In addition, whenever possible, the Fund will use technology from the previous funding round to maximize efficiency and minimize costs. This previously developed technology will be used to streamline the application and review process for BEA applications.					

<b>Measure: 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 (Oe)</b>					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	40230	33830	5852	26995	36538
Actual	36275	9141	9212	23656	
Target Met?	N	N	Y	N	

**Definition:** An employee that works at least a 35-hour workweek is considered a full-time equivalent. In calculating the number of full-time equivalents, part-time employees are combined into full-time equivalents. For example, two part-time employees that each work 17.5 hours/week are combined to count as one full-time equivalent. Jobs maintained are jobs at the business at the time the loan or investment is made. Jobs created are new jobs created after the loan or investment is made. Jobs created and maintained serve as an important indicator of the economic vitality of underserved areas. Underserved communities are those that qualify as CDFI Program Target Markets (which include a specific geography called an Investment Area) or a specific community of people with demonstrated lack of access to credit, equity, or financial services called a Low-Income Targeted Population or an Other Targeted Population. Underserved communities are also those that qualify as NMTC Low Income Communities.

**Source:** Each Awardee and Allocatee collects and tracks transaction level data in its own management information system(s). The information is self-reported by awardees. Many track the number of jobs projected to be created. A smaller number collect annual information on actual number of jobs created. Some do not collect the data and respond “don’t know.” Each CDFI Financial Assistance (FA) awardee and NMTC Allocatee is required to complete a Transaction Level Report. CDFI awardees report full-time equivalent data in the Institution Level Report and Transaction Level Report, while NMTC Allocatees report full-time equivalent data in the Transaction Level Report only.

**Future Plans/Explanation for Shortfall:** The Fund did not achieve the goal of 26,995 full-time equivalent jobs expected for FY 2005. The primary factor in this shortfall is fewer awardees submitting required reports on time in FY 2005 than in previous years. In the future, the Fund intends to work more closely with awardees regarding the importance of reporting in a timely and accurate manner. In FY 2002 and prior periods, the Fund reported jobs created during the reporting period plus jobs maintained by all businesses in each CDFI’s portfolio, regardless of when the business was financed. This means that the same jobs are counted as maintained across the years. The FY 2003 target was set using this formula. During FY 2003, the Fund refined its definition of jobs maintained to count each job only once in the year the business is financed. This refinement lowered the actual result reported in FY 2003. In FY 2004, the Fund set the target based on the revised definition. The FY 2005 and FY 2006 targets use this same definition, but are significantly higher than the FY 2004 target because they include jobs to be created or maintained through the NMTC Program. The NMTC program is relatively new. NMTC performance data was included in FY 2004, but reported activity was minimal because it the program was in the start-up phase. In FY 2005, NMTC reported activity increased significantly.

**Measure: Administrative costs per Financial Assistance (FA) application processed (\$) (E)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target				Baseline	5130
Actual				5130	
Target Met?	N/A	N/A	N/A	Y	

**Definition:** The cost per application for Financial Assistance (FA) applications.

**Source:** The Fund will analyze the cost of materials as well as staff time and contractor’s time to determine the total fixed and variable cost per application.

**Future Plans/Explanation for Shortfall:** In FY 2005, the Fund established the baseline cost of administering each FA application. A significant portion of this cost is driven by the number of applications in a particular year (or funding round). In the future, the Fund will concentrate on maintaining a rigorous, yet efficient review process for each application in order to contain the administrative costs. In addition, whenever possible, the Fund will use technology from the previous funding round to maximize efficiency and minimize costs. This previously developed technology will be used to streamline the application and review process for FA applications.

**Measure: Administrative costs per number of Native American CDFI Assistance (NACA) applications processed. (\$) (E)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target				Baseline	10050
Actual				10050	
Target Met?	N/A	N/A	N/A	Y	

**Definition:** The Fund will determine the total cost associated with Native American CDFI Assistance (NACA) applications based on fixed and variable costs.

<p><b>Source:</b> The Fund will capture this information through budget documentation.</p> <p><b>Future Plans/Explanation for Shortfall:</b> In FY 2005, the Fund established the Baseline cost of administering each NACA application. A significant portion of this cost is driven by the number of applications in a particular year (or funding round). In the future, the Fund will concentrate on maintaining a rigorous, yet efficient review process for each application in order to contain the administrative costs. In addition, whenever possible, the Fund will use technology from the previous funding round to maximize efficiency and minimize costs.</p>
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<b>Measure: Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance. (in millions) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	1150	669	500	690
Actual	660	1623	1300	1800	
Target Met?	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<p><b>Definition:</b> This measure represents the dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance. For CDFIs, leverage is defined as the 1:1 non-federal match (as required by the CDFI Program), plus funds the CDFI is able to leverage with CDFI Fund Financial Assistance grant and equity dollars, plus dollars that the awardees' borrowers leverage for projects that the awardees invest in (i.e., if the total financing needed for a housing development is \$5 million, the awardee lends \$1 million for this development, and other investors lend the remaining \$4 million, then \$4 million is the project-level leverage).</p> <p><b>Source:</b> Financial Assistance award disbursements are made once CDFIs provide documentation showing that they have received or been committed matching funds. Disbursements of financial assistance are tracked by the Financial Manager and are used as the proxy for matching funds raised. The CDFI Program annual Institution Level Report captures the leverage ratio for financial assistance grants and equity dollars, as well as project-level leverage.</p> <p><b>Future Plans/Explanation for Shortfall:</b> The Fund exceeded the target of leveraging \$500 million in private dollars by more than 300%. The awardees have increased the ability to leverage debt by showing a higher ratio of liabilities to net assets. Furthermore, awardees have reported greater project leverage by partnering with other entities to finance projects. In the future, the Fund will set targets based on these higher actual leverage ratios to ensure that the targets are challenging yet realistic. The Fund established the proposed FY 2005 target of \$2 billion based on preliminary analysis of the FY 2004 data. Upon completing the analysis, the Fund determined that this target was too high. As a result, the final target was set at \$500,000 in early 2004.</p>					

<b>Measure: Increase in community development activities over prior year for all BEA program applicants (\$ in millions) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	307	134	81
Actual		138	307	103	
Target Met?	N/A	<b>Y</b>	<b>Y</b>	<b>N</b>	
<p><b>Definition:</b> This measures the Bank Enterprise Award (BEA) applicants' increase in qualified community development activities over prior year.</p> <p><b>Source:</b> Each BEA Program applicant is required to submit an application containing a Report of Transactions. The BEA Program Unit administers the BEA application. All reports are submitted electronically and the data is stored in the Fund's databases.</p> <p><b>Future Plans/Explanation for Shortfall:</b> Upon submitting the FY 2006 budget, the Fund planned to allocate \$5 million of its FY 2005 appropriation to BEA. The target for the measure was set at \$55 million. However, Congress set aside \$10 million for BEA and the Fund adjusted the target to \$134 million. In FY 2005, the Fund achieved a \$103 million increase in activities, falling short of the \$134 million target. The Fund awards BEA funds based on three priorities. Since FY 2003, the Fund has not been able to fund all three priorities due to increased demand and reduced funding. During these years, the Fund did not award any priority three requests. In addition, in FY 2003 the Fund instituted a \$1.5 million cap on awards followed by a \$500,000 cap in FY 2005. Seeing this trend, many 2005 applicants did not complete the priority three section of the application. Therefore, the Fund did not receive a complete account of increased activities. This, in turn, led the Fund to fall short of the target.</p>					

<b>Measure: Amount of investments in low-income communities that Community Development Entities (CDEs) have made with capital raised through their New Markets Tax Credit (NMTC) tax credit allocations (\$ in billions)(Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	1.4	2
Actual			.1	1.1	
Target Met?	N/A	N/A	Y	N	
<p><b>Definition:</b> Amount of investments in low-income communities that Community Development Entities (CDEs) have made with capital raised through their NMTC tax credit allocations. The Fund will report NMTC Qualified Low-Income Community Investments (QLICs) that are supported by NMTC Qualified Equity Investments (QEIs).</p>					
<p><b>Source:</b> The Fund will capture the data in the CDEs' annual Institution Level and Transaction Level Reports.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> CDEs did not complete the anticipated \$1.4 billion in QLICs, though they came close at \$1.1 billion. Given the newness of the NMTC Program, the Fund's FY 2005 target was based on less than one full year of historical data. The Fund now has nearly 2 years of data from which to project future targets. The Fund will analyze the increasing rate that allocatees raise equity and make qualified investments, and use this analysis to set more achievable future targets.</p>					

<b>Measure: Annual percentage increase in the total assets of Native CDFIs (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	35	33
Actual			39	103	
Target Met?	N/A	N/A	Y	Y	
<p><b>Definition:</b> Measure the percent change in total assets that Native CDFIs report from one year to the next. The Fund will calculate: <math>[\text{Total Assets in Current Year} - \text{Total Assets in Previous Year}] / [\text{Total Assets in Previous Year}]</math></p>					
<p><b>Source:</b> The Native CDFIs financial data is captured through the annual Institution Level Report.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> CDFIs that received the Fund's Native Initiative awards increased total assets by 103% between FY 2004 and FY 2005. The Fund exceeded the designated target of 35%. The Fund has a small number of Native CDFI that report from year-to-year (six in FY 2005), therefore, the performance of a single CDFI can have a great impact on the average change in assets. In FY 2005, a single CDFI increased its total assets by 350%, leading the Fund to significantly surpass the established target. While the Fund has limited control over the change in total assets of its awardees, the Fund can promote growth by continuing to provide financial and technical assistance to Native Awardees. The provision of such assistance will help ensure that the Fund meets its targets for this measure in the future.</p>					

## Departmental Offices

<b>Measure: US Real Gross Domestic Product (GDP) growth rate (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	N/A	3.5	3.6	3.4
Actual	1.3	2.5	4.5	3.6	
Target Met?	Y	Y	Y	Y	
<p><b>Definition:</b> Real GDP is the most comprehensive measure of economic activity and is compiled throughout the year to reflect developments in each calendar quarter.</p>					
<p><b>Source:</b> Data are provided by the Department of Commerce, Bureau of Economic Analysis (BEA).</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> Treasury will continue to work with its partners to ensure a growing and stable domestic economy.</p>					



<b>Measure: Number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaty (BIT) negotiations underway or completed (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				5	9
Actual				7	
Target Met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The number of international trade or investment agreements underway or completed during the period and the number of those that reflect commitments to high standards such as new commitments by a foreign government to open its financial services markets to U.S. providers. It includes bilateral agreements and multilateral undertakings (e.g., WTO) from which the U.S. benefits.					
<b>Source:</b> International Affairs staff and U.S. Trade Representative's office reporting.					
<b>Future Plans/Explanation for Shortfall:</b> Treasury expects the workload to increase in the near future. Treasury anticipates launching as many as four new FTAs/BITs in the fiscal year immediately ahead. Furthermore, there are seven FTAs/BITs from FY 2005 or earlier years that are still being negotiated. FTA/BIT negotiations can sometimes be wrapped up quickly, such as in the case with Australia. More normally, however, these negotiations stretch over many months and even into years, depending upon the complexity of the negotiations and the willingness of the participants to compromise. In addition to negotiating new agreements, a relatively new and increasingly important component of the workload deals with monitoring and enforcing agreements already in place.					

<b>Measure: The number of FTAs and BITs that reflect high standard commitments (Oe) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				5	Discontinued
Actual				7	
Target Met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The number of international trade or investment agreements underway or completed during the period and the number of those that reflect commitments to high standards such as that includes new commitments by a foreign government to open its financial services markets to U.S. providers. It includes bilateral agreements and multilateral undertakings (e.g., WTO) from which the U.S. benefits.					
<b>Source:</b> International Affairs staff and U.S. Trade Representative's office reporting.					
<b>Future Plans/Explanation for Shortfall:</b> This measure is being discontinued. Treasury is working to improve the performance measures within International Affairs.					

<b>Measure: U.S. unemployment rate (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	5.6	5.3	5.2
Actual		6.1	5.4	5.1	
Target Met?	N/A	Y	Y	Y	
<b>Definition:</b> The percentage of the U.S. labor force reported as unemployed in the last quarter of the reference fiscal year.					
<b>Source:</b> Data are collected from the U.S. Department of Labor, Bureau of Labor Statistics					
<b>Future Plans/Explanation for Shortfall:</b> Treasury will continue to work with its partners to ensure a growing and stable domestic economy.					

<b>Measure: Level of MDB grant financing and satisfactory results measurements (Grants as a % of AFDF FY Commitment) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	21	19.5	35
Actual		17	39.2	21.8	
Target Met?	N/A	Y	Y	Y	
<p><b>Definition:</b> The portion of resources provided to borrowers from each Multilateral Development Banks (MDB) in the form of grants and whether such grant financing contains a satisfactory results measurement framework. MDBs provide financial support and professional advice for economic and social development activities in developing countries.</p> <p><b>Source:</b> MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.</p> <p><b>Future Plans/Explanation for Shortfall:</b> Treasury successfully met its target to increase the number of grants with results-oriented measures in FY 2005. Staff will continue its efforts to encourage measurable performance.</p>					

<b>Measure: Level of MDB grant financing and satisfactory results measurements (African Development Bank/AFDF Grants) (in millions) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	65	216	870
Actual		240	65	46	
Target Met?	N/A	Y	Y	N	
<p><b>Definition:</b> Captures the portion of resources provided to borrowers from each Multilateral Development Banks (MDB) in the form of grants and whether such grant financing contains a satisfactory results measurement framework. MDA provide financial support and professional advice for economic and social development activities in developing countries.</p> <p><b>Source:</b> MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.</p> <p><b>Future Plans/Explanation for Shortfall:</b> The low number is a direct result of the difference in fiscal year definitions. The results in FY06 will correlate with the target.</p>					

<b>Measure: Level of MDB grant financing and satisfactory results measurements (World Bank/IDA Grants) [in millions] (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	1681	1728	3555
Actual		1233	1681	1925	
Target Met?	N/A	Y	Y	Y	
<p><b>Definition:</b> Captures the portion of resources provided to borrowers from each Multilateral Development Banks (MDB) in the form of grants and whether such grant financing contains a satisfactory results measurement framework. MDB provide financial support and professional advice for economic and social development activities in developing countries.</p> <p><b>Source:</b> MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.</p> <p><b>Future Plans/Explanation for Shortfall:</b> Treasury successfully met its target to increase the number of grants with results-oriented measures in FY 2005. Staff will continue its efforts to encourage measurable performance.</p>					

<b>Measure: Encourage movement towards flexible exchange rate regimes (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	4
Actual				3	
Target Met?	N/A	N/A	N/A	Y	
<p><b>Definition:</b> Encouraging large economies with fixed or rigid exchange rate regimes to adopt flexible exchange rate regimes is a key to addressing global imbalances and assuring sustained global growth. International Affairs staff engage in and support economic dialogue with these countries, such as China, and provide technical assistance and support so those countries will be able to transition from fixed to flexible regimes. This measure captures the work Treasury is doing to support the transition, and shows the number of actions Treasury has taken to encourage flexible exchange rate regimes.</p>					
<p><b>Source:</b> International Affairs staff tracks and accounts for actions undertaken during the reporting period.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> As a part of stimulating economic growth and job creation, Treasury will continue to press for greater exchange rate flexibility in China. As part of the performance goal of increasing free trade and cross border investment, Treasury will continue to press China for additional financial sector opening. Finally, as a part of the goal of increasing the efficiency of Treasury resource allocation, Treasury IA will establish the Treasury financial attaché office in Beijing.</p>					

<b>Measure: Level of MDB grant financing and satisfactory results measurements (Grants as a % of IDA FY Commitment) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	22.0	19.6	30.4
Actual		17	18.8	21.4	
Target Met?	N/A	Y	N	Y	
<p><b>Definition:</b> The portion of resources provided to borrowers from each Multilateral Development Banks (MDB) in the form of grants and whether such grant financing contains a satisfactory results measurement framework. MDB provide financial support and professional advice for economic and social development activities in developing countries.</p>					
<p><b>Source:</b> MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions. This information is measured on an annual basis.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> Treasury successfully met its target to increase the number of grants with results-oriented measures in FY 2005. Staff will continue its efforts to encourage measureable performance.</p>					

### Office of Comptroller of the Currency

<b>Measure: Percentage of licensing applications and notices completed within established timeframes. (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	95	95	95	95	95
Actual	96	97	96	96	
Target Met?	Y	Y	Y	Y	
<p><b>Definition:</b> This measure reflects the extent to which OCC meets its established timeframes for reaching decisions on licensing applications and notices. The OCC's timely and effective approval of corporate applications and notices contributes to the nation's economy by enabling national banks to engage in corporate transactions and introduce new financial products and services.</p>					
<p><b>Source:</b> The Chief Counsel's office uses the Corporate Activity Information System (CAIS) to identify applications completed during the fiscal year. For each filing, the actual decision date is compared to the target action date to determine whether the application was completed within established standards. The percentage is determined by comparing the number of licensing applications processed within the required timeframes to the total number of licensing applications processed during the fiscal year. The processing time is the number of calendar days from the date of OCC receipt to the date of OCC's decision. The established processing timeframe depends on the application type and if the application qualifies for expedited processing.</p>					

**Future Plans/Explanation for Shortfall:** OCC plans to maintain its high level of timeliness in completing licensing applications and notices by hiring qualified staff as vacancies arise; providing staff training through annual conferences and rotational assignments, revising licensing manuals to address new circumstances and changed policies; and maintaining frequent communications between Headquarters office management and licensing analysts and District Office staff.

## Office of Thrift Supervision

<b>Measure: Difference between the inflation rate and the OTS assessment rate increase (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	0	0	0	0	0
Actual	0	0	0	0	
Target Met?	Y	Y	Y	Y	
<p><b>Definition:</b> Without compromising responsibilities and the risk-based examination approach, OTS strives to efficiently manage its operations and budget to ensure that assessment rate increases do not exceed the inflation rate. However, if OTS believes that events require more personnel or other expenditures, OTS may increase assessments to raise the required resources. Annually, OTS analyzes its operating costs and compares them to the assessments it charges savings associations and holding companies in order to achieve a structure that keeps assessment rates as low as possible while providing OTS with the resources necessary for effective supervision. The assessment rate increases for savings associations have not exceeded the inflation rate for the past two years.</p>					
<p><b>Source:</b> OTS's current assessment rates are specified in OTS's Thrift Bulletins (the TB 48 series). OTS calculates this measure annually for its January assessment cycle or whenever a new assessment bulletin is issued. The percent increase in assessment rates is calculated and compared with the inflation rate as specified in OTS's Thrift Bulletins. The difference between the inflation rate and the assessment rate increase is targeted to be greater than or equal to zero.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> OTS plans to meet this target in 2006 based on its current revenue and expense projections. The anticipated assessment rate increase should be less than or equal to the inflation rate.</p>					

## Objective: Improve and Simplify the Tax Code

### Departmental Offices

<b>Measure: Average tax compliance cost for individuals and small businesses (\$) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target					Baseline
Actual					
Target Met?	N/A	N/A	N/A	N/A	
<p><b>Definition:</b> This measures the cost for individuals and small business to satisfy their tax obligations, including the amount of time spent filling out tax forms.</p>					
<p><b>Source:</b> IRS tax data</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The database has not yet been completed. Average tax compliance for small businesses should be available in FY 2006 and for individuals in FY 2007.</p>					

## Goal: Promote Stable U.S. and World Economies

Objective: Increase Citizens Economic Security

Departmental Offices

<b>Measure: On-time payment of federal loan guarantee fees and repayment of underlying loans by borrowers (ATSB loans) (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				100	100
Actual				100	
Target Met?	N/A	N/A	N/A	Y	
<p><b>Definition:</b> Federal credit instruments (loan guarantees) were made to air carriers who suffered loss and are in financial difficulty due to the September 11, 2001 terrorist attacks. Air Transportation Stabilization Board (ATSB) closely monitors a loan guarantee portfolio to determine the financial health of the borrowers and compliance with the terms of the loan agreements. This measure tracks the timely payment of fees and principal back to the U.S. Treasury. Borrowers must submit monthly and quarterly financial reports which are reviewed by the ATSB.</p>					
<p><b>Source:</b> Transaction data regarding guarantee fee payments come from the Financial Reporting Branch of Treasury’s Departmental Offices.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The ATSB continues to monitor the financial and operational performance of its borrowers through its monitoring activities and will work with its borrowers to ensure the timely payment of the guarantee fees owed to the ATSB. Additionally, the ATSB will continue to work with its bankrupt borrower and the bankruptcy courts to ensure the maximum recovery to the U.S. taxpayers form this loan.</p>					

<b>Measure: Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				90	90
Actual				78	
Target Met?	N/A	N/A	N/A	N	
<p><b>Definition:</b> This measure tracks efforts by International Affairs (IA) staff to monitor quality of IMF country programs and ensure the application of appropriately high standards. IA staff endeavors to review each country program and provide a synopsis and recommendation for action at least one week before each program is voted on by the IMF Board. The measure tracks the percentage of times the staff review is completed in a timely manner (at least one week before Board action) to allow for alterations in language if deemed necessary.</p>					
<p><b>Source:</b> International Affairs staff tracks and accounts for actions undertaken during the reporting period.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> This is the first year the Treasury staff is being measured for reviewing IMF programs. As such, a 78% review rate is progress. Treasury will continue to emphasize IMF effectiveness by reviewing 90% of its programs in FY 2006.</p>					

## Alcohol and Tobacco Tax and Trade Bureau

<b>Measure: Percentage of COLA approval applications processed within 9 calender days of receipt (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	60	30	35
Actual		57	60	50	
Target Met?	N/A	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> The percentage of Certificate of Label Applications (COLA) processed electronically and by paper within 9 days of receipt.					
<b>Source:</b> Data is captured thru the COLAs Online data base system. There are periodic statistical reports, searches, and queries that are generated.					
<b>Future Plans/Explanation for Shortfall:</b> TTB exceeded this goal and continue to review processes to help evaluate this goal. TTB will have a business process reengineering study performed in FY 2006 to help reach future improvements. Upon receiving the results of the business process reengineering study, TTB management will make any necessary adjustments to continue to improve this very important function.					

<b>Measure: Percent of electronically filed Certificate of Label Approval applications (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		10	7	16	18
Actual		3	10	20	
Target Met?	N/A	<b>N</b>	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> Calculated by dividing the number of e-filed applications by the total Certificate of Label Approval applications (COLA) submissions (paper and electronic).					
<b>Source:</b> Data is captured through the COLAs Online database system. There are periodic statistical reports, searches, and queries that are generated.					
<b>Future Plans/Explanation for Shortfall:</b> TTB exceeded this goal. TTB has been actively involved in educating industry members about COLAs on-line database systems which allows members to file COLAs electronically. TTB has increased its efforts to provide knowledge to industry members through conferences, etc. TTB will continue this education effort in FY 2006.					

## Objective: Improve the Stability of the International Financial System

### Departmental Offices

<b>Measure: Percentage of grant and loan proposals containing satisfactory frameworks for results measurement (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target					Baseline
Actual					
Target Met?	N/A	N/A	N/A	N/A	
<b>Definition:</b> The percentage of grant and loan project proposals that contain a satisfactory framework for measuring project results (such as outcome indicators, quantifiable and time-bound targets, etc.) This information is measured on an annual basis.					
<b>Source:</b> MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions					
<b>Future Plans/Explanation for Shortfall:</b> Once the baseline is available in FY 2006, FY 2007 target will be determined.					

## Goal: Preserve the Integrity of Financial Systems

**Objective: Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks**

### Departmental Offices

<b>Measure: Maintain the annual increase in the number of and significance to the foreign narcotics traffickers of new designated targets (Oe) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			136	136	Discontinued
Actual			136	504	
Target Met?	N/A	N/A	Y	Y	
<p><b>Definition:</b> Office of Foreign Assets Control (OFAC) systematically attacks the foreign drug cartels' networks of business investments and money laundering, especially their penetrations of the legitimate economy, by exposing, isolating, and impeding or incapacitating them, principally through denying them access to the U.S. financial and economic system. Narcotics designations (Specifically Designated Narcotics and Traffickers and KPA (Kingpin Act) Tier Is (top designations made under the Act) and Tier IIs (designations of those entities associated with the Tier I)) are a combination of major foreign drug traffickers (individuals and groups) and the persons (individuals and entities) that serve as their agents, straw men, operatives, front companies, money laundering connections, and penetrations into legitimate business. This is accomplished by investigation and research to determine who they are and to place them on the designation list.</p>					
<p><b>Source:</b> The evidence used to develop the designation cases is examined for sufficiency on a case-by-case basis internally and involving OFAC's legal counsel and the Justice Department.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> In FY2006 OFAC will be revising and redefining its measures, This measure will be discontinued in FY 2006.</p>					

### Financial Crimes Enforcement Network

<b>Measure: Percentage of customers finding FinCEN's analytic support valuable (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	75
Actual				73	
Target Met?	N/A	N/A	N/A	Y	
<p><b>Definition:</b> This performance measure, starting in FY 2005, combines data from surveys on strategic analytical products, investigative case reports, and investigative targets.</p>					
<p><b>Source:</b> Bi-annual surveys</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> FinCEN established this measure in FY 2005 to track the value to law enforcement of the FinCEN analytic products. It combines data from surveys on strategic analytical products, investigative case reports and investigative targets.</p>					

<b>Measure: Number of users directly accessing BSA data through FinCEN's Gateway process (Oe) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	900	1700	3000	Discontinued
Actual	898	1105	2181	3344	
Target Met?	Y	Y	Y	Y	

<b>Definition:</b> The number of individuals with current passwords who have accessed the Bank Secrecy Act data through the Secure Outreach network in the past 90 days.
<b>Source:</b> The list can be checked through the Profile function at the Detroit Computing Center
<b>Future Plans/Explanation for Shortfall:</b> In FY 2005, FinCEN observed an increase in law enforcement customers directly accessing BSA data through the web based system, meeting the FY 2005 target of 3,000 with 3,344 users. FinCEN achieved this increase by establishing Memoranda of Understanding with law enforcement that access the data and increasing outreach and training. In FY 2006, FinCEN will discontinue using this performance measure as an external budget measure. However, FinCEN will continue to track performance internally.

<b>Measure: Number of vulnerable industries covered by anti-money laundering regulations (Oe) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	7	11	15	Discontinued
Actual	10	10	10	11	
Target Met?	Y	Y	N	N	
<b>Definition:</b> The number of financial industries covered by the Bank Secrecy Act anti-money laundering reporting and record-keeping requirements					
<b>Source:</b> A list of industries is provided by FinCEN's Office of General Counsel					
<b>Future Plans/Explanation for Shortfall:</b> In FY 2005, FinCEN issued draft and final anti-money laundering regulations for vulnerable industries. Specifically, on June 9, 2005, FinCEN published the interim final rule for dealers in precious metals, precious stones, and jewels in the Federal Register. The interim rule requires dealers to implement anti-money laundering programs by January 1, 2006. Further, in February 2005, FinCEN completed the final regulation requiring certain insurance companies to establish anti-money laundering programs and transmitted the regulation to Treasury for review and clearance. Clearance at the Departmental level is a critical, yet time-consuming, step before publishing regulations. FinCEN prepared drafts of final regulations requiring securities investment advisers, commodity trading advisers, and unregistered investment companies to establish anti-money laundering programs and circulated them to the Securities and Exchange Commission and the Commodity Futures Trading Commission for review and comment. The descriptions above document some of the challenges FinCEN faced to finalize regulations. FinCEN did not meet the FY 2005 target of issuing final anti-money laundering program regulations covering 15 industries. FinCEN will work toward completion of the regulations for securities investment advisers, commodity trading advisers, and unregistered investment companies which require extensive consultation and coordination with both the Securities and Exchange Commission and the Commodity Futures Trading Commission. FinCEN will continue to work closely with policymakers and attorneys within Treasury to clear the pending insurance company regulation and any future regulation submissions.					

<b>Measure: Average time to process enforcement matters (in Years) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	1.8	1.5	1.2	1.1	1
Actual	1.5	1.3	1	1.3	
Target Met?	Y	Y	Y	N	
<b>Definition:</b> The average time to process an enforcement matter is determined from the date a case is referred from the Office of Compliance to the date the charging (or action) letter is issued.					
<b>Source:</b> The data for this measure is captured through an internal database that stores enforcement matters. The database records the date cases are received, the analyst assigned, the statute of limitations date, and the date each case was closed.					
<b>Future Plans/Explanation for Shortfall:</b> In 2005, FinCEN closed an unprecedented number, 76, of enforcement cases and eliminated the historic case backlog at FinCEN. Although FinCEN did not meet the FY 2005 performance measure of 1.1 years average time to process cases, the actual result of 1.3 years reflects focusing resources on eliminating the case backlog. In other words, as FinCEN closed cases that had been open for a long period of time, the average time increased. With the elimination of the case backlog, FinCEN will direct resources exclusively towards the timely, appropriate resolution of significant cases such as AmSouth Bank and Arab Bank. FinCEN processed the AmSouth Bank and Arab Bank cases in three months and eight months, respectively. Over the past year, FinCEN reorganized the Regulatory Policy and Programs Division, added additional resources, and developed case processing procedures to prevent developing a backlog in the future.					



## Treasury Forfeiture Fund

<b>Measure: Percent of forfeited cash proceeds resulting from high-impact cases (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	75	75	75	75	75
Actual	73	80.55	83.95	81	
Target Met?	N/A	Y	Y	Y	
<b>Definition:</b> A “high impact case” is a case resulting in a cash forfeiture equal to or greater than \$100,000. This measure is calculated by dividing the amount of cash forfeited in amounts equal to or greater than \$100,000 (as measured by individual deposits that are equal to or greater than \$100,000) divided by the total amount of cash forfeitures to the Fund (as of the end of the year, or other reporting period.)					
<b>Source:</b> The Treasury Forfeiture Fund is able to capture this data on a monthly basis and the source of the data is the Detailed Collection Report (DCR).					
<b>Future Plans/Explanation for Shortfall:</b> Fund management will continue to place a priority on funding those expense categories that emphasize “high impact” forfeitures. The success of this initiative is demonstrated by our performance against this measure and program expansion.					

## Objective: Execute the Nation’s Financial Sanctions Policies

## Departmental Offices

<b>Measure: Maintain turnaround time for license submissions with significantly increased workload. Requiring internal OFAC review with significantly increased workload (Days) (E) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				20	Discontinued
Actual				27.5	
Target Met?	N/A	N/A	N/A	N	
<b>Definition:</b> The number of business days to process a license application from the time it is received in the Licensing Division to the time the final determination is issued.					
<b>Source:</b> Database maintained by Office of Foreign Assets Control (OFAC).					
<b>Future Plans/Explanation for Shortfall:</b> OFAC’s shortfall in this area was due to reduced staffing in our licensing division. This measure is being discontinued and replaced with a more appropriate measure, turn-around time for license and interpretative submissions, in FY 2006.					

<b>Measure: Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40+9 recommendations (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	TBD
Actual				49	
Target Met?	N/A	N/A	N/A	Y	

**Definition:** Establishing FATF 40+9 international standards is the first step toward identifying and destroying terrorist networks and denying terrorist access to the international financial system. Without implementation of these standards throughout the world, terrorists will enter the international financial system at the point of least resistance, and preventative national efforts will be rendered less effective. In concert with the international community, Treasury is deploying a three-prong strategy that 1) objectively assesses all countries against the FATF 40+9, 2) provides capacity-building assistance for key countries in need and 3) isolates and punishes those countries and institutions that facilitate terrorist financing. TFI is working with international bodies like FATF, IMF (International Monetary Fund) and World Bank to ensure compliance. The IMF and World Bank have adopted the FATF 40+9 and they use those standards to assess countries for compliance.

**Source:** FATF, FATF-style regional bodies (FSRB), International Monetary Fund and World Bank data.

**Future Plans/Explanation for Shortfall:** Assessing compliance for the FATF 40+9 recommendations is crucial to identifying money laundering and terrorist financing vulnerabilities, and is one of the most effective levers to encourage reforms. Through participation by international bodies such as FATF, IMF, and World Bank, assessments for compliance with FATF's standards should become more widespread. Treasury will continue efforts to increase assessments and international cooperation. Growth in the number of countries assessed reflects increased acceptance of key international standards and should focus attention on key money laundering and terrorist financing issues and remaining implementation challenges. These issues and challenges should be targeted for technical assistance, which should promote greater Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) capabilities and greater vigilance in safeguarding the international financial system against illicit activity.

**Measure: Increase the number of international measures and bodies established internationally to protect the financial system from money laundering and terrorist financing (Ot) [DISCONTINUED FY 2006]**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target				Baseline	Discontinued
Actual				5	
Target Met?	N/A	N/A	N/A	Y	

**Definition:** Financial Action Task Force on Money Laundering (FATF) and the FATF style regional bodies (FSRBs) are the international bodies that hold members to FATF standards. At the end of FY04, such bodies existed in South America, the Caribbean, Africa, Europe and Asia Pacific. At the beginning of FY05, no such bodies existed for Central Asia, and in the Middle East/North Africa—two key regions in the fight against terrorism. This is a major achievement that will bring a range of critical jurisdictions under the financial standards of the international community.

**Source:** FATF data

**Future Plans/Explanation for Shortfall:** The result shown is as of August 31, 2005. This measure is being discontinued and being replaced with a suite of measures that better reflects Treasury's work in this program area.

**Measure: Maintain turnaround time for license submissions with significantly increased workload. b. Requiring Chief Counsel's and interagency review with significantly increased workload (Days) (E) [DISCONTINUED FY 2006]**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target				75	Discontinued
Actual				63	
Target Met?	N/A	N/A	N/A	N	

**Definition:** The number of business days to process a license application from the time it is received in the Licensing Division to the time the final determination is issued

**Source:** Database maintained by Office of Foreign Assets Control (OFAC).

**Future Plans/Explanation for Shortfall:** The measure is being discontinued and replaced with a more appropriate measure, Turnaround time for license and interpretative submissions, in FY2006.

<b>Measure: Increase the number of outreach engagements with the charitable and international financial communities (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	105
Actual				95	
Target Met?	N/A	N/A	N/A	Y	
<p><b>Definition:</b> Office of Terrorist Finance and Financial Crime (TFFC) outreach engagements allow it to assess first-hand domestic and international Anti-money Laundering and Combating the Financing of Terrorism (AML/CFT) practices by governments and private institutions alike and engage with these entities to ensure that they safeguard themselves and the financial system against illicit activity. When followed-up consistently, this outreach has proven to be one of our most efficacious tools for changing behavior, raising awareness, and improving capacity among foreign governments as well as domestic and foreign institutions with gaps in their AML/CFT programs.</p>					
<p><b>Source:</b> Data collected by the Department of Treasury's Office of Terrorism and Financial Intelligence (TFI); Terrorist Financing and Financial Crimes (TFFC).</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> Engagement with the international and charitable sectors has always played a key role in TFFC's work. Bilateral and multilateral engagements with the public and private sectors have enabled TFFC to promote and promulgate greater transparency and accountability in financial systems worldwide. In FY05, TFFC conducted 95 outreach engagements, leveraging a small staff to great effect. Looking ahead to FY06, the growth of TFFC along with the creation of a Director of Global Affairs position has focused and empowered TFFC to broaden and deepen these engagements yet further.</p>					

**Objective: Increase the Reliability of the U.S. Financial System**

**Bureau of Engraving & Printing**

<b>Measure: Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	99.9	99.9	99.9	99.9
Actual	100	99.9	100	99.9	
Target Met?	Y	Y	Y	Y	
<p><b>Definition:</b> A qualitative indicator reflecting the Bureau's ability to provide a quality product. All notes delivered to the Federal Reserve go through rigorous quality inspections. These inspections ensure that all counterfeit deterrent features, both overt and covert are functioning as designed.</p>					
<p><b>Source:</b> Quality inspections are performed at each Federal Reserve Bank. Any discrepancies found are reported to BEP on a per shipment basis.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The Bureau regularly meets with its primary customer, The Federal Reserve Board, to solicit feedback on its performance. Manufacturing costs and production targets were met in FY 2005.</p>					

<b>Measure: Security costs per 1000 notes delivered (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	5.95	6.25
Actual			5.95	5.75	
Target Met?	N/A	N/A	Y	Y	
<p><b>Definition:</b> An indicator reflecting the cost of providing effective and efficient product security and accountability. This standard is developed annually based on the past year's cost performance and anticipated cost increases. The formula used to calculate this measure is the total cost of security divided by the number of notes produced divided by 1000.</p>					
<p><b>Source:</b> Cost data is collected through BEP's accrual-based cost accounting system. This standard is developed annually based on the past year's cost performance and anticipated cost increases.</p>					

**Future Plans/Explanation for Shortfall:** The Bureau’s ability to provide effective and efficient product security and accountability during the manufacturing and delivery of currency notes to the Federal Reserve preserves the integrity of the Nation’s currency. Currency shipment discrepancies are prevented by a series of automated quality and accountability checks performed throughout the entire production process as well as a final verification prior to shipment to the customer.

**Measure: Manufacturing costs for currency (dollar costs per thousand notes produced) (\$) (E)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	25	31	35	31	32
Actual	30.03	29.14	28.06	28.83	
Target Met?	N	Y	Y	Y	

**Definition:** An indicator of currency manufacturing efficiency and effectiveness of program management. This standard is developed annually based on the past year’s performance, contracted price factors, and anticipated productivity improvements. Actual performance comparison against the standard depends on BEP’s ability to meet annual spoilage, efficiency, and capacity utilization goals established for this product line.

**Source:** Cost data is collected through BEP’s accrual-based cost accounting system.

**Future Plans/Explanation for Shortfall:** Through monthly reporting and analysis of cost performance data, program managers receive timely and effective feedback that they use to continually adjust and fine-tune production processes to achieve continuous improvement. Production managers have specific cost standards as a part of their annual performance plans.

**Measure: Currency shipment discrepancies per million notes (\$) (0e)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	.01	.01	.01	.01	.01
Actual	0	0	.01	0	
Target Met?	Y	Y	Y	Y	

**Definition:** A qualitative indicator reflecting BEP’s ability to provide effective product security and accountability. This measure refers to product overages or underages of as little as a single currency note in shipments of finished notes to the Federal Reserve Banks.

**Source:** The customer captures this data and report to BEP on a monthly basis.

**Future Plans/Explanation for Shortfall:** Currency shipment discrepancies are prevented by a series of automated quality and accountability checks performed throughout the entire production process as well as a final verification prior to shipment to the customer.

## Departmental Offices

**Measure: Release Federal Government-wide financial statements on time (0e)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	Met	Met	Met	Met	Met
Actual	Met	Met	Met	Met	
Target Met?	Y	Y	Y	Y	

**Definition:** This report is the audited consolidated financial report of the Federal Government required by the Government Management Reform Act.

**Source:** Data are collected from the audited financial results of all federal agencies and is audited by GAO.

**Future Plans/Explanation for Shortfall:** Treasury plans to continue to establish policies and procedures to release the Federal government-wide financial statements on time.

<b>Measure: Variance between estimated and actual receipts (annual forecast) (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			5	5	5
Actual			3.8	5	
Target Met?	N/A	N/A	Y	Y	
<p><b>Definition:</b> Percentage error measure the accuracy of the Mark receipts forecasts produced monthly by the Office of Fiscal Projections (OFP). It measures the relative amount of error or bias in OCDM's receipts forecasts.</p> <p><b>Source:</b> OFP within the Office of the Fiscal Assistant Secretary compiles receipts data by major categories (i.e., withheld income taxes, individual taxes, FICA, corporate, customs deposits, estate and excise) as well as by types of collection mechanisms (electronic and paper coupons). OFP is also responsible for forecasting the daily tax receipts in order to manage the Federal Government's cash flow. Data on monthly and daily federal tax receipts of actual and forecasts are compiled by the office and are used to report on the United States' monthly, weekly, and daily cash position in addition to determining the optimal financing for cash management.</p> <p><b>Future Plans/Explanation for Shortfall:</b> FY 2006, the tolerance will be no higher than 5% and more than likely will be decreased. To meet our performance measure, Domestic Finance will focus on two areas, which will result in a reduction in our forecast error. Beginning in FY 2006, key macro-economic indicators will be received from our colleagues in the Office of Macroeconomic Analysis, Office of the Assistant Secretary for Economic Policy on a monthly basis. These indicators will be compared against those upon which our current receipt forecast is based and updated, as needed. During the latter half of FY 2005, the Revenue Forecasting Work Group was reconstituted. This group includes representatives from the Office of Tax Analysis, the Office of the Assistant Secretary for Economic Policy and the Office of the Fiscal Assistant Secretary. It meets at least twice quarterly to identify recent trends in tax receipts based especially on monthly budget reporting and daily cash flows. The group will also identify changes in key macro-economic indicators, which could result in a re-estimate of the major budget receipt categories (e.g., withheld income and FICA taxes, corporation taxes, individual tax refunds, etc.).</p>					

<b>Measure: Increase the quantity and quality of information sharing of U.S. financial information between the federal government and the U.S. financial services sector institutions (reworded) (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		20	20	20	10
Actual		67	309	50	
Target Met?	N/A	Y	Y	Y	
<p><b>Definition:</b> The increase/decrease in usage by the financial services sector of the Financial Services Information Sharing and Analysis Center (FS-ISAC) by the number of financial sector institutions participating in the FS-ISAC at the end of each calendar year.</p> <p><b>Source:</b> FS-ISAC subscription list.</p> <p><b>Future Plans/Explanation for Shortfall:</b> The Office of Critical Infrastructure Protection and Compliance Policy in Domestic Finance has successfully encouraged the private sector to start up the Financial Sector-Information Sharing and Analysis Center. In FY 2003, it increased participation by 67% and in FY 2004 increased participation by 309%.</p>					

## United States Mint

<b>Measure: Order Fulfillment (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	TBD
Actual				94	
Target Met?	N/A	N/A	N/A	<b>Y</b>	
<p><b>Definition:</b> This measure will track order fulfillment in both the circulating and numismatic products. Each component will be scaled by its percentage of the total revenue to create an index. The formula for this measure is [(circulating shipments/circulating orders) (circulating revenue/total revenue) + (numismatic orders shipped within 7 days/numismatic orders requiring shipping) (numismatic revenue/total revenue)] The numismatic revenue and total revenue components exclude bullion revenue.</p>					
<p><b>Source:</b> United States Mint analysts maintain circulating orders and shipment data in a database. Numismatic orders data are pulled via a query from the United States Mint's order management system. Revenue data are from the accounting system.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The Order Fulfillment was 94% in FY 2005. This means that 94% of the United States Mint's revenue was earned from products that were shipped to the customer in a timely fashion. This is a new performance measure and will continue to be tracked for appropriateness and for setting future targets.</p>					

<b>Measure: Cost per 1000 Coin Equivalents (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	9.78	7.03	6.62
Actual		9.96	7.93	7.42	
Target Met?	N/A	<b>Y</b>	<b>Y</b>	<b>N</b>	
<p><b>Definition:</b> Cost per 1000 coin equivalents is the cost of production (conversion cost) divided by the number of products made. Conversion costs are controllable costs within manufacturing. Those costs include manufacturing payroll, non-payroll, and depreciation costs. To determine the coin equivalents, an equivalency factor is assigned to each circulating denomination and numismatic product based on the resources it takes to make the product (indexed against the resources it takes to make one product – the quarter). The production quantity for each product is multiplied by the equivalency factor, resulting in a coin equivalent quantity. Thus, all denominations and products are equalized to a quarter.</p>					
<p><b>Source:</b> Conversion costs are pulled from financial reports from the accounting system. Production data is pulled from the enterprise resource planning system via queries and converted to coin equivalents.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The Cost per 1,000 Coin equivalents during FY 2005 was \$7.42, an improvement of 6% from \$7.93 in FY 2004. The performance did not meet the target of \$7.03. The Mint had set an ambitious target for FY 2005 at \$7.03. This target (stretch goal) was an 11% decrease from the FY 2004 actual result and was set based upon forecasted volume and cost estimates. Differences in the actual volumes from forecast may impact the achievement of specific targets in any given year. Coin equivalent production increased to 19.9 billion in FY 2005 compared with 17.8 billion in FY 2004 (12%). The associated conversion cost increased at a lesser rate (4%) to \$147 million from \$141 million in FY 2004 due to cost cutting initiatives and process improvements. The United States Mint plans to continue to reduce conversion costs for given production volumes through further implementation of lean manufacturing techniques.</p>					

<b>Measure: Total Losses (\$) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	250,000	15,000
Actual			3,109	1,135	
Target Met?	N/A	N/A	Y	Y	
<p><b>Definition:</b> The United States Mint performs its protection function by minimizing the vulnerability to theft or unauthorized access to critical assets. The measure is comprised of the sum of three elements 1. Financial Losses: Losses that have been reported, investigated and verified as unrecoverable; from a. Strategic reserves (Theft of Treasury Reserves) b. Coining products (Theft from the production facilities) c. Sales of products to the public (Theft by fraud) d. Other losses (Other theft) 2. Productivity losses: The cost of intentional damage or destruction of United States Mint production capability and the cost to utilize alternative productivity as needed as a result of the intentional damage or destruction. 3. Intrusion losses: The cost to repair and/or recover from intentional intrusions into United States Mint facilities and systems, either physically or electronically.</p>					
<p><b>Source:</b> The United States Mint Police maintains a secure database of monthly reports on incidents included in the categories above. Any theft or fraud amount determined as unrecoverable is assessed on a case-by-case basis. In the event that cost information is needed, data on the value of United States Mint assets and costs are in the ERP system.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> Total Losses in FY 2005 were \$1,135 compared with \$3,109 in FY 2004. This performance were better than the target of \$250,000. Total Losses measures the results of fraud cases (e.g. credit card fraud during the purchase of Mint products by the public), theft cases, or intrusions that cause damage to Mint property. The result is from cases that have been investigated and closed during the fiscal year. The United States Mint also keeps track of exposure, or the dollar amount of open cases. As of September 2005, the exposure is \$276,295. The FY 2005 target was set based on prior exposure levels; the United States Mint has revised its future targets to be more in line with the recent actual performance.</p>					

<b>Measure: Cycle Time (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	150	53	53	67
Actual	112	73	85	69	
Target Met?	Y	Y	N	N	
<p><b>Definition:</b> Cycle time is the length of time from when material enters a production facility until it is delivered to the customer.</p>					
<p><b>Source:</b> Data for each element is pulled from the United States Mint's Enterprise Resource Planning system.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> As of September 2005 the United States Mint's cycle time was 69 days, an improvement of 16 days from 85 days as of September 2004. The targeted cycle time was 53 days. The primary cause for not reaching the target is the amount of dollar coin inventory maintained by the United States Mint. No new production of dollar coins is taking place for circulation; demand is currently being met by existing inventory. Measured without the dollar coin, Cycle Time improved to 48 days in FY 2005 compared with 55 days in FY 2004. The United States Mint plans to continue improving the cycle time of circulating coinage through further implementation of lean manufacturing techniques. The United States Mint is currently working with the Federal Reserve Banks, the armored carrier industry, and commercial banking industry to reduce and balance coin inventories. Initiatives include improving circulating coin inventory management by implementing a coin supply chain pilot with the Cleveland Federal Reserve district, and taking a broad look at opportunities to re engineer the manufacturing process and inventory handling.</p>					

<b>Measure: Protection Cost Per Square Foot (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	31.86	31.22
Actual			32.51	32.43	
Target Met?	N/A	N/A	Y	N	
<p><b>Definition:</b> Protection cost per square foot is the Protection operating costs divided by the area of usable space in square feet that the United States Mint Police protects. Usable space is defined as 90% of total square footage. The year-to-date result is then annualized on a straight-line basis.</p>					

**Source:** The Protection costs are automatically pulled from the United States Mint’s accounting system on a monthly basis. The square footage is relatively stable and is monitored by the Protection office and United States Mint management.

**Future Plans/Explanation for Shortfall:** Protection cost per square foot in FY 2005 was \$32.43, a slight improvement from \$32.51 in FY 2004. FY 2005 performance is 2% higher than the targeted \$31.86. Protection expenses are highly labor intensive, which results in continual upward pressure on costs. The Protection function requires that adequate staffing and coverage must be maintained at all times. The ability to apply downward pressure on costs is taken with a long-term view and must be tempered by the level of readiness necessary to fulfill the Protection mission. The United States Mint Protection office is analyzing future personnel needs and budget requirements in order to look for ways to keep costs manageable while maintaining adequate protection of assets and employees. Plans include efforts to leverage new technology to enhance security by automating entry and exit procedures at United States Mint facilities.

### Office of Comptroller of the Currency

**Measure: Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	Baseline	40	40	40	40
Actual	47	32	40	44	
Target Met?	Y	N	Y	Y	

**Definition:** This measure reflects the successful rehabilitation of problem national banks during the past twelve months. Problem banks can ultimately reach a point where rehabilitation is no longer feasible. The OCC’s early identification of and intervention with problem banks can lead to successful remediation of problem banks.

**Source:** The Supervisory Information office in OCC’s headquarters office uses Examiner View (EV) and the Supervisory Information System (SIS) to identify and compare the composite CAMELS ratings for problem banks from twelve months prior to the current period composite CAMELS ratings for the same banks. The percentage is determined by comparing the number of national banks that have upgraded composite CAMELS ratings of 1 or 2 from composite CAMELS ratings of 3, 4 or 5 to the total number of national banks that had composite CAMELS ratings of 3, 4 or 5 twelve months ago.

**Future Plans/Explanation for Shortfall:** To sustain this level of achievement, the OCC will execute its FY 2006 Bank Supervision Operating Plan that focuses on credit quality, allowance of loan and lease losses adequacy, off-balance-sheet activities, liquidity and interest rate risk management, consumer protection, and Bank Secrecy Act/Anti-money Laundering compliance. The OCC also will continue its recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

**Measure: Percentage of national banks that are well-capitalized (%) (Oe)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	Baseline	95	95	95	95
Actual	99	99	99	99*	
Target Met?	Y	Y	Y	Y	

**Definition:** This measure reflects whether the national banking system is well-capitalized at fiscal year-end. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.

**Source:** National banks file quarterly Reports of Condition and Income with the Federal Finance Institution Examination Council through the Federal Deposit Insurance Corporation’s data processing center. The Supervisory Information office reviews the Reports of Condition and Income (i.e., call reports) for each quarter to identify national banks that meet all of the criteria for a well-capitalized institution. The number of national banks at fiscal year-end is obtained from the Federal Reserve Board’s National Information Center database. The percentage is determined by comparing the number of national banks that meet all of the established criteria for being well-capitalized to the total number of national banks at fiscal year-end.



**Future Plans/Explanation for Shortfall:** To sustain this level of achievement, the OCC will execute its FY 2006 Bank Supervision Operating Plan that focuses on credit quality, allowance of loan and lease losses adequacy, off-balance-sheet activities, liquidity and interest rate risk management, consumer protection, and Bank Secrecy Act/Anti-money Laundering compliance. The OCC also will continue its recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

**Measure: Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target		94	94	94	94
Actual		96	96	94*	
Target Met?	N/A	Y	Y	Y	

**Definition:** This measure reflects the national banking system’s compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for assimilating and evaluating significant consumer compliance factors inherent in a bank. Each bank is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 in increasing order of supervisory concern.

**Source:** The Supervisory Information office identifies the number of banks with current consumer compliance ratings of 1 or 2 and the total number of national banks from Examiner View (EV) and Supervisory Information System (SIS) subject to consumer compliance examinations at fiscal year-end. The percentage is determined by comparing the number of national banks with current consumer compliance ratings of 1 or 2 to the total number of national banks subject to consumer compliance examinations at fiscal year-end.

**Future Plans/Explanation for Shortfall:** To sustain this level of achievement, the OCC will execute its FY 2006 Bank Supervision Operating Plan that focuses on credit quality, allowance of loan and lease losses adequacy, off-balance-sheet activities, liquidity and interest rate risk management, consumer protection, and Bank Secrecy Act/Anti-money Laundering compliance. The OCC also will continue its recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

**Measure: Percentage of national banks with composite CAMELS rating 1 or 2 (%) (Oe)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	Baseline	90	90	90	90
Actual	95	94	94	94*	
Target Met?	Y	Y	Y	Y	

**Definition:** This measure reflects the overall condition of the national banking system at fiscal year-end. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for assimilating and evaluating all significant financial, operational and compliance factors inherent in a bank. Evaluations are made on: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. The rating scale is 1 through 5 where 1 is the highest rating granted.

**Source:** The Supervisory Information office identifies the current composite ratings from Examiner View (EV) and Supervisory Information System (SIS) at fiscal year-end. The number of national banks at fiscal year-end is obtained from the Federal Reserve Board’s National Information Center database. The percentage is determined by comparing the number of national banks with current composite CAMELS ratings of 1 or 2 to the total number of national banks at fiscal year-end.

**Future Plans/Explanation for Shortfall:** To sustain this level of achievement, the OCC will execute its FY 2006 Bank Supervision Operating Plan that focuses on credit quality, allowance of loan and lease losses adequacy, off-balance-sheet activities, liquidity and interest rate risk management, consumer protection, and Bank Secrecy Act/Anti-money Laundering compliance. The OCC also will continue its recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

## Office of Thrift Supervision

<b>Measure: Percent of thrifts that are well capitalized (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	95	95	95
Actual		99.6	99.4	99.5	
Target Met?	N/A	Y	Y	Y	
<p><b>Definition:</b> Capital absorbs losses, promotes public confidence, and provides protection to depositors and the FDIC insurance funds. It provides a financial cushion that can allow a savings association to continue operating during periods of loss or other adverse conditions. The Federal Deposit Insurance Act established a system of prompt corrective action (PCA) that classifies insured depository institutions into five categories (well-capitalized; adequately capitalized; undercapitalized, significantly undercapitalized; and critically undercapitalized) based on their relative capital levels. The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the deposit insurance fund.</p>					
<p><b>Source:</b> PCA ratings are stored in the Examination Data System and can also be found in the Thrift Overview Report and off-site financial monitoring reports. OTS calculates this measure by dividing the number of savings associations that are well capitalized by the total number of OTS-regulated institutions.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The favorable economic environment, strong earnings and low levels of problem assets have helped individual thrifts maintain strong levels of capital. This measure gauges the relative health of the industry, and OTS adjusts its supervisory activities accordingly. OTS plans to retain the current performance target for 2006.</p>					

<b>Measure: Percent of thrifts with compliance examination ratings of 1 or 2 (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	90	90	90
Actual		94	94	94	
Target Met?	N/A	Y	Y	Y	
<p><b>Definition:</b> A uniform, interagency compliance rating system was first approved by the Federal Financial Institutions Examination Council (FFIEC) in 1980. The FFIEC rating system was designed to reflect, in a comprehensive and uniform fashion, the nature and extent of an association's compliance with consumer protection statutes and regulations. The OTS's implementation expands that coverage to encompass compliance with a number of other public interest regulations. Among these are the Bank Secrecy Act, Bank Protection Act, economic sanctions, and advertising. The Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern. OTS began to combine safety and soundness and compliance examinations in 2002 to attain exam efficiencies and to improve risk assessment. Using comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process.</p>					
<p><b>Source:</b> Compliance examination ratings are stored in the Examination Data System. OTS calculates this measure by dividing the number of OTS-regulated savings associations that received a compliance examination rating of 1 or 2 on their most recent examination by the total number of OTS-regulated savings associations that have been assigned a compliance examination rating.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The thrift industry is operating in a safe and sound manner and performing extremely well. OTS examines savings associations every 12-18 months for safety and soundness, compliance, and consumer protection laws. This measure gauges the relative health of the industry, and OTS adjusts its supervisory activities accordingly. OTS plans to retain the performance target for 2006.</p>					

<b>Measure: Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	90	90	90
Actual		93	93	94	
Target Met?	N/A	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<p><b>Definition:</b> On December 9, 1996, the Federal Financial Institutions Examination Council adopted the CAMELS rating system as the internal rating system to be used by the federal and state regulators for assessing the safety and soundness of financial institutions on a uniform basis. The CAMELS rating system puts increased emphasis on the quality of risk management practices. “CAMELS” stands for Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk. OTS assigns a composite CAMELS rating to savings associations at each examination and may adjust the rating between examinations if the association’s overall condition has changed. New savings associations are typically not assigned a composite CAMELS rating until the first examination. OTS adjusts the level of supervisory resources devoted to an association based on the composite rating. The CAMELS rating is based upon a scale of 1 through 5 in increasing order of supervisory concern.</p>					
<p><b>Source:</b> Composite CAMELS ratings are stored in and retrieved from the online Examination Data System. OTS calculates this measure by dividing the number of savings associations having a composite CAMELS rating of 1 or 2 by the total number of OTS-regulated savings associations that have been assigned a composite CAMELS rating.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The thrift industry is operating in a safe and sound manner and performing extremely well. OTS examines savings associations every 12-18 months for safety and soundness, compliance, and consumer protection laws. This measure gauges the relative health of the industry, and OTS adjusts its supervisory activities accordingly. OTS plans to retain the performance target for 2006, which is reasonable for the current economic environment.</p>					

<b>Measure: Percent of safety and soundness exams started as scheduled (%) (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	90	90	90
Actual		92	94	93	
Target Met?	N/A	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<p><b>Definition:</b> OTS examines savings associations every 12-18 months for safety and soundness, compliance, and consumer protection laws. OTS performs safety and soundness examinations of its regulated savings associations consistent with the requirements in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) as amended by the Riegle Community Development and Regulatory Improvement Act of 1994. When safety and soundness or compliance issues are identified during our risk-focused examinations, OTS acts promptly to ensure association management and directors institute corrective actions to address supervisory concerns. OTS staff often meets with the savings association’s board of directors after delivery of the Report of Examination to discuss findings and recommendations.</p>					
<p><b>Source:</b> When a savings association is examined, OTS staff enters into the Examination Data System the examination type, examination beginning and completion dates, report of examination mail date, and CAMELS or equivalent ratings. The percentage success rate for this measure is calculated by dividing the number of examinations that were started by the number of examinations that were scheduled to be started during the review period.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> The current performance target is considered a high standard given the rigidity of the law covering exam frequency. The FY 2006 budget enables OTS to continue tailoring supervisory examinations to the risk profile of the institutions, while effectively allocating resources to oversee and assess the safety and soundness and consumer compliance record of the thrift industry. OTS plans to retain the current target for 2006.</p>					

## Goal: Manage the Government's Finances Effectively

### Objective: Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law Financial Management Service

<b>Measure: Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (%) (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	75	85	90	92	93
Actual	93	92	99	97	
Target Met?	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> The measure tracks the percentage of the dollar volume of debt referred to the total dollar volume that is eligible for referral.					
<b>Source:</b> The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The referral data is contained in the program systems (TOP and DMSC). The referral data is loaded from the files received from Federal Program Agencies (AFPAs).					
<b>Future Plans/Explanation for Shortfall:</b> FMS has exceeded its FY 2005 performance goal. In FY 2006, FMS is targeted to receive 93% of the delinquent debt eligible to be referred to FMS for collection. Over the past few years, FMS has exceeded the performance target due to high-performing agency outreach and education efforts and improvements made to debt collection systems.					

<b>Measure: Amount of delinquent debt collected per \$1 spent (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				41.09	44.26
Actual				37*	
Target Met?	N/A	N/A	N/A	<b>N</b>	
<b>Definition:</b> This measure shows the efficiency of the Debt Collection program. The costs include all debt collection activities and all funding sources.					
<b>Source:</b> Collection of data and reporting on the cost of the debt collection program are performed on an annual basis.					
<b>Future Plans/Explanation for Shortfall:</b> FMS calculates its unit costs based on Activity Based Costing and the Debt Collection Activity absorbed additional indirect program costs in FY 2005. Although FMS did not meet its FY 2005 performance target, FMS increased delinquent debt collections from \$3.0 to over \$3.2 billion or 8 %. FMS will continue to improve efficiencies in debt collection to contain costs while optimizing the collection of delinquent debt.					

<b>Measure: Amount of delinquent debt collected through all available tools (Billions \$) (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	2.6	2.9	2.9	3	3.1
Actual	2.84	3.1	3	3.25	
Target Met?	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> This measure provides information on the total amount collected, in billions, through debt collection tools operated by Debt Management Services.					
<b>Source:</b> The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The collection data is generated by the program systems (TOP and DMSC) and is reported on a monthly basis. The tools include: tax refund offset, administrative offset, private collection agencies, demand letters, and credit bureau reporting. FMS also collects debt through the State debt program and tax levy.					
<b>Future Plans/Explanation for Shortfall:</b> FMS has met its FY 2005 performance goal. In FY 2006, FMS anticipates collecting \$3.1 billion in delinquent debt. This increase in the target is due in part to the large increase in the volume of the Federal Payment Levy Program levies.					

Internal Revenue Service

<b>Measure: Customer Service Representative (CSR) Level of Service (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	71.5	72	83	82	82
Actual	68	80	87	82.6	
Target Met?	N	Y	Y	Y	
<b>Definition:</b> The measure is reported as the percentage of taxpayers that are calling IRS toll-free services and speak to an assistor. A call is counted as successful when the taxpayer seeking assistance from a Customer Service Representative (CSR) is connected to, and speaks with, a CSR.					
<b>Source:</b> Enterprise Telephone Database (ETD)					
<b>Future Plans/Explanation for Shortfall:</b> The IRS will continue to properly staff toll free call sites in order to maintain the Customer Service Representative Level of Service target of 82% based on the number of calls it expects to answer.					

<b>Measure: Examination Coverage-Individual (%) (E) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				1.28	Discontinued
Actual				1.42	
Target Met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The sum of all individual returns closed for Field Examination, Office Examination, Correspondence Examination and Automated Underreporter programs divided by the total individual return filings for the prior calendar year.					
<b>Source:</b> The data comes from the Audit Information Management System (AIMS) closed case data base, the automated underreporter Management Information System for Top Level Executives (MISTLE) reports and Research projections for individual return filings.					
<b>Future Plans/Explanation for Shortfall:</b> The name of the measure will remain the same and a change in the methodology will occur in FY 2006. The IRS will use the National Research Program (NRP) results for developing improved analytics and workload identification and selection of the types of cases it selects for review and examination. Additionally, based on the NRP data, the IRS will highlight requisite skill sets and determine if a fundamental change in recruitment and training processes should be explored. Areas of emphasis include Abusive Promotions, High Income Taxpayers, Schedule C filers and Fraud.					

<b>Measure: Examination Quality – Office (Oe) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	74	76	75	77	Discontinued
Actual	71	76	76	81	
Target Met?	N	Y	Y	Y	
<b>Definition:</b> The score awarded to a reviewed Office Examination case by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards					
<b>Source:</b> Examination Quality Measurement System					
<b>Future Plans/Explanation for Shortfall:</b> The IRS will continue to focus on improving the quality of all facets of the examination process, including timeliness of actions, proper consideration of related and multi-year returns, appropriate use of income probes, and appropriate fraud indications are properly pursued and developed. In FY 2006, Field Examination is converting to the Embedded Quality (EQ) system of measuring quality. EQ directly links the examiners Critical Job Elements to the quality measurement system, improving the relationship between individual performance and organizational objectives.					

<b>Measure: Examination Efficiency – Individual (E) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				219	Discontinued
Actual				222	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The sum of all individual returns closed (Field Examination, Correspondence Examination and Automated Underreporter) divided by the total FTEs expended in relation to those individual returns.					
<b>Source:</b> The data comes from the Audit Information Management System (AIMS) closed case data base, the automated under-reporter Management Information System for Top Level Executives (MISTLE) reports and Exams time reporting system and the Integrated Financial System.					
<b>Future Plans/Explanation for Shortfall:</b> The name of the measure will remain the same and a change in the methodology will occur in FY 2006. Future strategies to improve performance include improvements to the work stream through better case identification and classification, including leveraging NRP data to improve Exam’s ability to select the best workload for examination. Emphasis will continue to be placed on multi-year non-compliance, reduced cycle time, streamlined automation and utilization of risk analysis/assessment in all business processes.					

<b>Measure: Examination Quality - Coordinated Industry (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	85	70	90	92
Actual	78	89	87	89	
Target met?	Y	Y	Y	N	
<b>Definition:</b> The average of the percentage of critical elements passed on Coordinated Industry cases reviewed.					
<b>Source:</b> The Large & Mid-Size Business (LMSB) Quality Measurement System (LQMS) database is used. This is Microsoft Access database. The database is maintained by the LQMS Programmer in Chicago.					
<b>Future Plans/Explanation for Shortfall:</b> The IRS did not meet its 2005 target despite renewed focus on identification of material issues during the planning process and documentation of them during the initial risk analysis. Root cause analysis revealed filing and compliance requirements for corporate directors and officers are not being verified and documented. In addition, procedures used during the examination are not being identified and documented during the planning process, a critical element of case quality. While improved from last year, adherence to the requirements outlined in the Administrative Procedures Document, continues to be a concern. Revenue Agents and managers are still failing to complete the document or provide a copy of the document to the reviewer during the opening review conference. Also, Examination teams need to ensure the taxpayer’s and the IRS’ position is fully documented in the case file. To facilitate immediate corrective action and eliminate recurring errors LQMS reviewers will provide written feedback on all reviewed cases to the case manager and agent who worked the examination. The feedback will detail the results for each quality element and will stress areas that warrant improvement so field teams will correct identified process deficiencies in future examinations. Specific tools have been developed to address quality improvement, such as media devices (training materials on compact disc) that highlight the necessary actions needed to improve quality and partnering opportunities with industry contacts, the training office and the Case Quality Improvement Council.					

<b>Measure: Collection Efficiency – units (E) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				497	Discontinued
Actual				510	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> Average number of cases disposed per collection full time position.					
<b>Source:</b> The data comes from the Collection Activity Report (CAR) and the Automated Financial System (AFS).					

**Future Plans/Explanation for Shortfall:** (The name of the measure will remain the same and a change in the methodology will occur in FY 2006.) To further reduce case cycle time, the IRS will focus on two key quality timeliness attributes: (1) reducing activity lapses and taking timely follow-up actions and (2) reengineering efforts being piloted such as a pre-populated financial statement and automated adjustments. In addition, a newly established Corporate Collection Governance Board of senior leaders from the collection operating units in the IRS will develop strategies and approaches to the collection activities including sponsoring a study on the effects of the collection notice stream.

<b>Measure: TEGE Determination Case Closures (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	190800	189000	141000	131700	112400
Actual	129680	171812	143877	126481	
Target met?	N	N	Y	N	
<b>Definition:</b> Cases established and closed on the Tax Exempt and Government Entities Determination System (EDS) regardless of type of case or type of closing (e.g. employee plan, exempt organization or government entity).					
<b>Source:</b> Tax Exempt and Government Entities (TE/GE) Determination System (EDS) Table 2A					
<b>Future Plans/Explanation for Shortfall:</b> The IRS fell short of its FY 2005 target due to increased responsibility for certain correspondence previously worked out of the call site and a substantial investment in training this year. To mitigate these impacts, the Exempt Organization office has taken steps to maximize the number of cases that can be closed on merit with minimal additional information requests. The IRS targeted additional resources late in FY 2005 to hire 26 new revenue agents. These new resources are expected to help offset the increased workload in FY 2006. The IRS is restructuring the Employee Plan determination letter process to stabilize the receipt flow. Although the mix of receipts will change annually, the new approach will dramatically reduce the workload swings previously experienced in this program, improving program management and eliminating the need to pull resources from enforcement activities to support determination work during peak periods. The IRS is also developing a new interactive application for determination requests that will improve the quality of determination requests and enable the electronic filing of these applications.					

<b>Measure: Customer Accuracy - Toll-Free Tax Law (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		87	85	82	83.5
Actual		82	80	89	
Target met?	N/A	N	N	Y	
<b>Definition:</b> The percentage of a live assistor giving the correct answer with the correct resolution to taxpayers' tax law inquiries. It measures how often the customer received the correct answer to their tax law inquiry and/or had their case resolved correctly based upon all available information and Internal Revenue Manual (IRM) required actions. This measure applies to all Tax Law inquiries on the toll-free lines.					
<b>Source:</b> Quality reviewers on the Centralized Quality staff complete a data collection instrument as calls are reviewed. Data is input to the Quality Review Database for product review and reporting.					
<b>Future Plans/Explanation for Shortfall:</b> The type and complexity of tax law questions changes each year as new and often complex tax laws are enacted.					

<b>Measure: Automated Collection System (ACS) Accuracy (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	88	88
Actual			89	88.5	
Target met?	N/A	N/A	Y	Y	
<b>Definition:</b> Captures the percent of taxpayers who receive the correct answer to their Automated Collection System (ACS) question.					

**Source:** The Centralized Quality Review System (CQRS) monitors the calls as they are reviewed. Data is input to the Quality Review Database for product review and reporting.

**Future Plans/Explanation for Shortfall:** The IRS' focus on process and performance reviews coupled with the feedback loop and identification of training needs will continue to drive accuracy scores up and help improve the taxpayer's experience.

**Measure: Percent of Business Returns Processed Electronically (%) (Oe)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target			Baseline	17	17.9
Actual			17.4	17.8	
Target met?	N/A	N/A	Y	Y	
<b>Definition:</b> The percentage of total number of business returns accepted electronically (posted to Business Master File) divided by the total returns received through all sources at IRS sites.					
<b>Source:</b> Data is extracted from the Business Masterfile and fed into the Business Measures Datamart database.					
<b>Future Plans/Explanation for Shortfall:</b> The IRS expects the percent of business filers to increase in the future due to increased marketing; expanded business e-file programs, including the acceptance of new forms and schedules attached to employer, estates and trusts, and partnership tax returns; acceptance of amended returns; and acceptance of the new annualized employment tax return.					

**Measure: Percent of Individual Returns Processed Electronically (%) (Oe)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	35	41	45	51	55.1
Actual	36	40	47	51.1	
Target met?	Y	N	Y	Y	
<b>Definition:</b> Number of electronically filed individual tax returns divided by the total individual returns filed. Includes all returns where electronic filing is permitted (practitioner e-file, Telefile, VITA [Volunteer Income Tax Assistance], On-Line Filing, Federal/State returns, etc.).					
<b>Source:</b> Electronic Tax Administration reports					
<b>Future Plans/Explanation for Shortfall:</b> E-file participation rates are expected to increase to over 55% in 2006, based on current experience, historical growth, increased advertising, marketing and expanded e-file programs, including free Internet filing through the Free File Alliance.					

**Measure: Timeliness of Critical Other Tax Products to the Public (%) (E)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target			Baseline	80	85
Actual			76	80	
Target met?	N/A	N/A	Y	Y	
<b>Definition:</b> The percentage of Critical Other Tax Products, paper and electronic, made available to the public timely. Critical Other Tax Products are business tax products, Tax Exempt and Government Entities and miscellaneous tax products. This measure contains two components: (1) percentage of paper tax products that meet the scheduled start to ship date within five business days of the actual start to ship date and (2) percentage of scheduled electronic tax products that is available on the Internet within five business days of the ok-to-print date. The intent is to have the tax products available to the public 30 days before the form is required to be filed.					
<b>Source:</b> Publishing Services Data (PSD) System					
<b>Future Plans/Explanation for Shortfall:</b> The IRS expects performance to increase for FY 2006. Standardized and measurable processes will be used to manage the quality and timeliness of tax product revision resulting from new or late legislation.					



<b>Measure: Timeliness of Critical Filing Season Tax Products to the Public (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			75	80	85
Actual			76	91.4	
Target met?	N/A	N/A	Y	Y	
<b>Definition:</b> The percentage of Critical Filing Season tax products made available to the public in a timely fashion. Critical Filing Season tax products are those forms, schedules, instructions, publications, tax packages and certain notices normally filed between January 1 through April 15 that are mailed to taxpayers. This measure contains two components: (1) percentage of paper tax products shipped no later than December 19 (December 27 for tax packages) and (2) the percentage of scheduled electronic tax products available on the Internet no later than the first five business days of January 2005.					
<b>Source:</b> Publishing Services Data (PSD) System					
<b>Future Plans/Explanation for Shortfall:</b> The IRS expects performance to increase for FY 2006 as a result of efficiencies from locating IRS employees on-site at print vendors' facilities to monitor the quality and timeliness of printed tax products and implementing tighter inventory control by holding managers to higher standards for better determining tax products publication status.					

<b>Measure: Customer Accuracy - Toll-free Accounts (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		88	89	89.8	91
Actual		88	89	91.5	
Target met?	N/A	Y	Y	Y	
<b>Definition:</b> Percentage of a live assistor giving the correct answer with the correct resolution to the taxpayer. It measures how often the customer received the correct answer to their account inquiry and/or had their case resolved correctly based upon all available information and Internal Revenue Manual (IRM) required actions.					
<b>Source:</b> Quality reviewers on the Centralized Quality staff complete a data collection instrument as calls are reviewed. Data is input to the Quality Review Database for product review and reporting.					
<b>Future Plans/Explanation for Shortfall:</b> Incremental improvement in performance is expected in FY 2006 and beyond with the implementation of Contact Recording deployment.					

<b>Measure: Percent of Eligible Taxpayers who File for EITC (Participation Rate)(%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	80	82
Actual			80	TBD	
Target met?	N/A	N/A	Y	N/A	
<b>Definition:</b> The number of taxpayers who actually claim the Earned Income Tax Credit (EITC) compared to the number of taxpayers who appear to be eligible for the EITC.					
<b>Source:</b> Individual Returns Transaction File data; Census Bureau Survey; 1999 EITC Compliance Study – EITC Audits.					
<b>Future Plans/Explanation for Shortfall:</b> For Calendar Year (CY) 2004, the IRS participation rate estimate of 80.0% is based on the regression model that is currently being refined. Data to calculate the actual results will be available after the close of CY 2005 for Tax Year 2004. The IRS is refining the methodology for estimating the percent of eligible taxpayers claiming EITC by developing an advanced regression alternative. The IRS is also working on an alternative methodology to compare current population data from the U.S. Census Bureau and EITC data. Once the analysis is complete, the IRS will assess each methodology and make a decision on the best method to use in estimating participation.					

<b>Measure: Criminal Investigations Completed (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	3280	3250	3400	3895	4380
Actual	3201	3766	4387	4104	
Target met?	N	Y	Y	Y	
<b>Definition:</b> Cumulative count of the number of all Subject Criminal Investigations (SCI) completed during the fiscal year by IRS Criminal Investigation Division. It includes investigations that resulted in a criminal prosecution recommendation to the Department of Justice as well as investigations that were discontinued due to a lack of evidence or to a finding that the original allegation was false.					
<b>Source:</b> Criminal Investigations Management Information System (CIMIS)					
<b>Future Plans/Explanation for Shortfall:</b> Criminal Investigation will continue to aggressively enforce the criminal statutes of the Internal Revenue Code (IRC), the Bank Secrecy Act and the anti-money laundering statutes by devoting resources and special emphasis on investigations that have a strong tax administration nexus. Criminal Investigation will maintain relationships with key shareholders to continue to improve the fraud referral program and to facilitate the identification of areas of non-compliance adversely impacting tax administration. Specific priorities encompass such serious or chronic compliance challenges as abusive tax schemes and shelters, high income non-filers, employment tax fraud and refund crimes. Furthermore, the critical national law enforcement priorities of Corporate Fraud and Terrorism continue to be important areas of emphasis. Through its Refund Crimes Program, CI will continue to identify and pursue fraudulent return preparer and questionable refund schemes involving individual as well as business returns. CI will also increase its efficiency in verifying wages and identifying questionable claims by fully utilizing the National New Hire Database (maintained by the Department of Health and Human Services).					

<b>Measure: Collection Coverage - Units (%) (E) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				32	Discontinued
Actual				39	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The volume of collection work disposed (closed) compared to the volume of collection work available.					
<b>Source:</b> The data comes from the Collection Activity Report (CAR).					
<b>Future Plans/Explanation for Shortfall:</b> The name of the measure will remain the same and a change in the methodology will occur in FY 2006. Building on more effective case selection and refinement of Business Master File (BMF) case selection criteria is expected to result in improvements in case cycle time, freeing up resources that will be devoted to casework. In addition, a newly established Corporate Collection Governance Board of senior leaders from collection operating units in the IRS will guide development of new strategies and approaches to collection techniques including sponsoring a study on the effects of the collection notice stream.					

<b>Measure: Field Collection Quality of Cases Handled in Person – (Oe) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	85.4	87	86	84	Discontinued
Actual	84	84	82	81	
Target met?	N	N	N	N	
<b>Definition:</b> The score awarded to a reviewed Collection case by a third-party reviewer who uses the Collection Quality Measurement System (CQMS) quality standards. CQMS composite score is computed based on 19 quality standards taken from the CQMS check sheet. Each standard has a value of four points. However, four of these standards have been designated as critical and are weighted more heavily. Failure to meet any one of the critical standard results in the deduction of 24 points from the overall composite score.					
<b>Source:</b> CQMS database					

**Future Plans/Explanation for Shortfall:** The IRS did not meet its FY 2005 target. Although performance improved in standards such as Publication One, Rights Notification and Case File Documentation, declines in other standards overshadowed gains. Also impacting the overall score was the IRS' emphasis on getting the inventory current by focusing on aged case inventories. Because older cases have increased chance for errors due to increased handling time, the need for repetitive actions such as re-issue of notices, and potential for more activity lapses, older cases adversely impact quality scores. The IRS is currently piloting the Embedded Quality (EQ) System to replace CQMS beginning in FY 2006. EQ creates a way of doing business that builds commitment and capability among all individuals to continually improve customer service, employee satisfaction and business results by aligning quality measures and individual performance. EQ standards are linked directly to employee Critical Job Elements (CJEs) enabling employees to see how individual performance impacts SBSE objectives. EQ results will be baselined during FY 2006. The IRS will place specific attention on quality attributes of setting clear action dates, setting clear expectations for taxpayers, timely follow-up actions and reducing activity lapses to improve quality and increase efficiency.

<b>Measure: Examination Quality - Industry (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	75	80	78	80
Actual	69	74	74	77	
Target met?	<b>Y</b>	N	N	N	
<b>Definition:</b> Average score of all Industry cases reviewed. The Quality Rating System consists of five standards – 4 technical and 1 administrative. Each standard is worth 20 points for a total score of 100.					
<b>Source:</b> The Large & Mid-Size Business (LMSB) Quality Measurement System (LQMS) database is used. This is Microsoft Access database. The database is maintained by the LQMS Programmer in Chicago.					
<b>Future Plans/Explanation for Shortfall:</b> The IRS did not meet its FY 2005 target due to several factors related to the examination planning process, specifically identification of material issues. Contributors to the lower rate include lack of documentation of the initial risk analysis in which material issues are considered and documentation of mandatory referrals to specialists. While improved from last year, the preparation and proper use of the Administrative Procedures Document (documentation regarding exam techniques such as interviews; reconciliation of books to tax returns; inspection of prior, subsequent and related tax returns; and tour of taxpayers' business) continues to be a concern. Revenue Agents and managers are not including the document in the case file or properly sign it as required. Preparation and inclusion of the No-Change report in the file when a case is closed without adjustment is an area that continues to affect quality scores. To facilitate immediate corrective action and eliminate recurring errors LQMS reviewers will provide written feedback on all reviewed cases to the case manager and agent who worked the examination. The written feedback provided will provide a detailed explanation of the results for each quality element and will stress areas that warrant improvement so field teams will correct identified process deficiencies in future examinations. Specific tools have been developed to address quality improvement, such as media devices (training materials on compact disc) that highlight the necessary actions needed to improve quality and identify partnering opportunities with industry contacts, the training office and the Case Quality Improvement Council.					

<b>Measure: Examination Coverage - Business (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				7.0	7
Actual				7.9	
Target met?	N/A	N/A	N/A	<b>Y</b>	
<b>Definition:</b> Large and Mid Size Business "customer base" returns (returns filed by large corporations), examined and closed during the current Fiscal Year, divided by filing of the same type returns for the preceding calendar year.					
<b>Source:</b> The number of returns examined and closed during the Fiscal Year is from the Audit Information Management System (AIMS) closed case database, accessed via A-CIS (an MS Access application). Filings are from Document 6186, which is issued by the Office of Research, Analysis and Statistics.					
<b>Future Plans/Explanation for Shortfall:</b> The IRS plans to expand examination coverage for corporations through innovative approaches such as pre-filing initiatives (such as the Compliance Assurance Process), Limited Issue Focus Examinations (LIFE) and the Currency Initiative. Through improved modeling and the use of targeted specialized teams, the IRS will focus its resources on the issues that pose the greatest compliance risk and begin to identify enterprises that appear to be non-compliant.					

<b>Measure: Examination Quality - Field (%) (Oe) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	71	75	78	80	Discontinued
Actual	74	75	78	84	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> The score awarded to a reviewed Field Examination case by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.					
<b>Source:</b> Monthly reports supplied from the EQMS database.					
<b>Future Plans/Explanation for Shortfall:</b> The IRS will continue to focus on improving the quality of all facets of the examination process, including timeliness of actions, proper consideration of related and multi-year returns, appropriate use of income probes, fraud indications are properly pursued and developed, and application of report writing procedures to improve future performance. In FY 2006, Field Examination is converting to the Embedded Quality (EQ) system of measuring quality. EQ directly links the examiners Critical Job Elements to the quality measurement system, improving the relationship between individual performance and organizational objectives.					

<b>Measure: Customer Contacts Resolved per Staff Year (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				7261	7283
Actual				7585	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> The number of Customer Contacts resolved in relation to time expended based on staff usage. Customer Contacts Resolved are derived from all telephone and paper inquiries received by Accounts Management, in which all required actions have been taken, and the taxpayer has been notified as appropriate. The measure includes all self-service, Internet-based applications, such as the "Where's My Refund?" service available on www.irs.gov.					
<b>Source:</b> Contacts resolved volumes are derived from internal telephone management systems and modernization project websites. Staff year data is extracted from the weekly Work Planning & Control report and consolidated and included in the weekly resource usage report.					
<b>Future Plans/Explanation for Shortfall:</b> The IRS expects performance to continue to increase as more taxpayers choose to use automated and electronic means to contact the IRS instead of traditional, less efficient methods such as paper correspondence and speaking to live assistors.					

### Alcohol and Tobacco Tax and Trade Bureau

<b>Measure: Ratio of taxes collected vs. resources expended (Ot) [DISCONTINUED FY 2006]</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		211	257	250	Discontinued
Actual		242	368	270.27	
Target met?	N/A	Y	Y	Y	
<b>Definition:</b> Represents the amount of taxes collected, divided by the amount of resources expended to collect such taxes.					
<b>Source:</b> Taxes collected is captured by the Federal Excise Tax database; expense data is maintained in Oracle Financials.					
<b>Future Plans/Explanation for Shortfall:</b> This is mostly driven by revenue. TTB has rewritten this measure. It will be shown as an improved measure, "Resource as a percentage of revenue," in the future. TTB will continue to audit the books of regulated industry based on our risk model to assure that industry members maintain compliance in paying federal excise taxes that are rightfully due. TTB has hired mostly CPAs to perform the audits which increases the professionalism. This measure will be discontinued in FY 2006.					

<b>Measure: Percentage of total tax receipts collected electronically (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Baseline	98	98	98	98
Actual	98	98	98	98	
Target met?	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> The portion of total tax collected from taxpayers via electronic funds transfer (EFT).					
<b>Source:</b> Data on tax payments made electronically are recorded in Cashlink (Deposit reporting and cash concentration system). The Revenue Accounting Unit retrieves the wire transfer information from Cashlink. The detail records are input into the Electronic Wire Transfer table using the Federal Excise Tax System.					
<b>Future Plans/Explanation for Shortfall:</b> This target was met. TTB has begun to consolidate two of its major databases into a single integrated system to promote greater efficiency and reduce costs. TTB expanded the use of the Pay.Gov program to allow all federal excise taxpayers to file and pay electronically. In FY 2006, further work will be done on integration of the system.					

<b>Measure: Percentage of Voluntary Compliance in filing tax payments timely and accurately (in terms of revenue) (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		Baseline	82	84	86
Actual		80	81.2	86.3	
Target met?	N/A	Y	N	Y	
<b>Definition:</b> The portion of total taxpayers that file payments on or before the scheduled due date, without notification of any delinquency.					
<b>Source:</b> Late filed tax payments are maintained in the Federal Excise Tax system (FET).					
<b>Future Plans/Explanation for Shortfall:</b> This measure is on target. TTB will continue to conduct industry meetings, etc. to help industry members comply. Also, TTB will use our risk model to evaluate the target audiences to audit. The risk model gives high ratings to the organizations that provide higher revenue. TTB has also recently come close to meeting our target for fully staffing our audit staff. TTB will continue to hire qualified auditors and currently has approximately 2/3 CPA's. TTB will continue to hire highly qualified auditors to perform these tasks (audits).					

**Objective: Manage Federal Debt Effectively and Efficiently**

**Bureau of Public Debt**

<b>Measure: Cost per federal funds investment transaction (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	88
Actual				85*	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> This performance measure divides the Federal funds investment costs, determined by an established cost allocation methodology, by the number of issues, redemptions, and interest payments for more than 200 trust funds, as well as the Treasury managed funds.					
<b>Source:</b> The automated investment accounting system captures and reports transaction counts. Costs are captured in our administrative accounting system.					
<b>Future Plans/Explanation for Shortfall:</b> The cost per Federal funds investment transaction was baselined in FY 2005 at \$85. The projection for FY 2006 includes increases for inflation.					

<b>Measure: Cost per TreasuryDirect online transaction (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	TBD
Actual				TBD	
Target met?	N/A	N/A	N/A	N/A	
<b>Definition:</b> This performance measure divides TreasuryDirect online transaction costs, determined by an established cost allocation methodology, by the number of TreasuryDirect online transactions.					
<b>Source:</b> Workload figures are captured from information stored in TreasuryDirect. Costs are captured in BPD's administrative accounting system.					
<b>Future Plans/Explanation for Shortfall:</b> Baseline data will be available in the FY 2007 Congressional Budget Submission.					

<b>Measure: Cost per TreasuryDirect assisted transaction (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	TBD
Actual				TBD	
Target met?	N/A	N/A	N/A	N/A	
<b>Definition:</b> This performance measure divides TreasuryDirect customer service transaction costs, determined by an established cost allocation methodology, by the number of customer requests assisted by a customer service representative.					
<b>Source:</b> For customer service transactions received by mail and for some requests received by phone or Internet, BPD obtains volumes from an automated tracking system. Simple phone and Internet requests are manually counted. Costs are captured in BPD's administrative accounting system.					
<b>Future Plans/Explanation for Shortfall:</b> Baseline data will be available in the FY 2007 Congressional Budget Submission.					

<b>Measure: Percentage of retail customer service transactions completed within 13 business days (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			90	90	90
Actual			92.5	88.7	
Target met?	N/A	N/A	Y	N	
<b>Definition:</b> The length of time to complete a customer service transaction is measured from the date each transaction is received to the date it is completed.					
<b>Source:</b> For customer service transactions received by mail and for some requests received by phone or Internet, BPD uses an automated tracking system that measures the length of time it takes to complete the transactions. Simple phone and Internet requests are manually tracked.					
<b>Future Plans/Explanation for Shortfall:</b> In FY 2005, BPD narrowly missed this goal by 1.3%, because abnormally high volumes of transaction requests and business process reengineering disrupted normal workflow. BPD expects to meet its customer service goal for FY 2006 as business practices are further refined.					

<b>Measure: Cost per debt financing operation (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	129321
Actual				119,261*	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> This performance measure divides debt financing operations costs, determined by an established cost allocation methodology, by the number of auctions and buybacks.					

<b>Source:</b> The number of debt financing operations is captured in the Auction Information Calendar (AIC) and the Auction Analysis System. Costs are captured in BPD's administrative accounting system.
<b>Future Plans/Explanation for Shortfall:</b> The cost per debt financing operation for auctioning more than \$4 trillion annually in Treasury securities was baselined in FY 2005 at \$119,261. The projection for FY 2006 includes the estimated cost of replacing the legacy auction system, an effort in the very early stages, as well as increases for inflation.

<b>Measure: Percent of auction results released in 2 minutes +/- 30 seconds (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			95	95	95
Actual			99.53	95	
Target met?	N/A	N/A	Y	Y	
<b>Definition:</b> This measures the elapsed time from the auction close to the public release of the auction results. The annual percentage of auctions meeting the release time target of 2 minutes plus or minus 30 seconds is calculated for the fiscal year.					
<b>Source:</b> BPD's automated auction processing systems					
<b>Future Plans/Explanation for Shortfall:</b> BPD expects to continue meeting this goal through a program of ongoing staff training and process improvements.					

### Departmental Offices

<b>Measure: Audit opinion received on government-wide financial statements (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	Met	Met	Met	Met	Met
Actual	Met	Met	Met	Met*	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> This is the independent audit opinion rendered on the financial statements by GAO. Treasury expects to receive a disclaimed audit opinion until FY 2007.					
<b>Source:</b> GAO is the statutorily prescribed auditor.					
<b>Future Plans/Explanation for Shortfall:</b> Audit opinion will be available on December 15, 2005. Treasury expects to receive a disclaimed audit opinion. Improvement of the audit result is dependent upon the Defense Department's (DoD) audit. DoD has stated that they do not expect to receive a clean audit opinion until FY 2007, at the earliest. Treasury will continue to ensure that the government-wide audit, with the exception of DoD is good.					

### Financial Management Service

<b>Measure: Unit cost to process a Federal revenue collection transaction (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	1.4	1.37
Actual			1.4	1.2	
Target met?	N/A	N/A	Y	Y	
<b>Definition:</b> The unit cost to process a revenue collection transaction.					
<b>Source:</b> The cost data is captured through an activity based costing process. The unit cost is the calculated ratio of total direct and indirect costs over total government-wide collection transactions.					
<b>Future Plans/Explanation for Shortfall:</b> FMS anticipates meeting our FY 2005 performance goal. In FY 2006, FMS will conclude the rebid of the Plastic Card Network, anticipating decreased collection fees and reviewing other collection tools to determine new efficiencies. FMS will also continue to expand electronic collection tools to other agencies in an effort to improve efficiency and keep costs low.					

**Objective: Make Collections and Payments on Time and Accurately,  
Optimizing Use of Electronic Mechanisms**

**Financial Management Service**

<b>Measure: Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately and on time (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	100	99,9999	100	100	100
Actual	100	99,9999	100	100	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> Accurately refers to the percentage of check and EFT payments that FMS makes which are not duplicate or double payments. On time means that FMS releases checks to the U.S. Postal Service and EFT payments to the Federal Reserve Bank such that normal delivery by them results in timely receipt by payees.					
<b>Source:</b> Accuracy data is captured through FMS' Regional Financial Centers which submit statistics on duplicate payments and data for the performance measure. The payments are balanced with payment certifications submitted to FMS by Federal Program Agencies. On time data on check and EFT volumes are captured monthly in a report from FMS' Production Reporting System.					
<b>Future Plans/Explanation for Shortfall:</b> FMS is on target to meet our FY 2005 performance goal. In FY 2006, FMS will continue to issue 100% of payments accurately and on-time. Assisting in this effort is implementation of the new Secure Payment System (SPS) which certifies check, ACH, or FedWire payments to recipients in a secure environment.					

<b>Measure: Percentage collected electronically of total dollar amount of Federal government receipts (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	80	80	81	82	83
Actual	79	80	81	79	
Target met?	N	Y	Y	N	
<b>Definition:</b> Electronic collections data are retrieved from the CA\$H-LINK system, which encompasses eight collection systems.					
<b>Source:</b> This measure considers the percentage of government collections that are collected by electronic mechanisms (Electronic Federal Tax Payment System, Plastic Card, FEDWIRE Deposit System, Automated Clearinghouse (ACH)) compared to total government collections. The system receives deposit and accounting information from local depositories and provides detailed accounting information to STAR, FMS' central accounting and reporting system.					
<b>Future Plans/Explanation for Shortfall:</b> FMS anticipates falling short of its FY 2005 performance goal by approximately one percent. This is due to increased IRS Lockbox collections (paper), the volume of which is now projected to increase by approximately three million transactions over FY 2004. These increased IRS Lockbox collections, which represent paper checks mailed from individuals and small businesses, are likely due to the withholding changes related to the 2003 tax cuts. In FY 2006, FMS plans to increase the percentage of government receipts collected electronically to 83%. FMS will be converting more checks to electronic collections at the various collection lockboxes, expanding pay.gov, to other Federal agencies, and will continue to expand EFTPS for taxpayers.					

<b>Measure: Percentage of Treasury Payments and associated information made electronically (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	73	74	75	76	78
Actual	73	74	75	76	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> The portion of the total volume of payments that is made electronically by FMS. Electronic payments include transfers through the automated clearinghouse and wire transfer payments through the FEDWIRE system.					
<b>Source:</b> The volume of payments is tracked through FMS' Production Reporting System. The amount and number of payments are also maintained under accounting control.					



**Future Plans/Explanation for Shortfall:** FMS anticipates meeting our FY 2005 performance goal. In FY 2006, FMS will increase our performance to make 78% of payments and associated information electronically. Assisting in this effort is the nationwide roll-out of Go Direct, a marketing campaign designed to increase the amount of payments paid via direct deposit.

<b>Measure: Unit cost for Federal Government payments (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	.35	.35
Actual			.35	.37*	
Target met?	N/A	N/A	Y	N	
<b>Definition:</b> Unit cost combines both paper and electronic payment mechanisms and includes the aftermath processes (reconciliation and claims) for both types of payment mechanisms.					
<b>Source:</b> The cost data is captured through an activity based costing process. The unit cost is the calculated ratio of cost per payment.					
<b>Future Plans/Explanation for Shortfall:</b> FMS calculates its unit costs based on Activity Based Costing. FMS incurred increased expenses due to Enterprise Architecture enhancements. FMS will continue to improve efficiencies in payments delivery, concentrating on expanding electronic payments to contain costs. To increase direct deposit, FMS launched a nationwide campaign at the end of FY 2005 called "Go Direct" to encourage current check recipients to switch to direct deposit.					

**Objective: Optimize Cash Management and Effectively Administer the Government’s Financial Systems**  
**Bureau of Public Debt**

<b>Measure: Cost per summary debt accounting transaction (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	TBD
Actual				TBD	
Target met?	N/A	N/A	N/A	N/A	
<b>Definition:</b> This performance measure divides summary debt accounting transaction costs, determined by an established cost allocation methodology, by the number of summary debt accounting transactions.					
<b>Source:</b> Public debt accounting systems capture and report transaction counts. Costs are captured in BPD’s administrative accounting system.					
<b>Future Plans/Explanation for Shortfall:</b> Baseline data will be available in the FY 2007 Congressional Budget Submission.					

**Financial Management Service**

<b>Measure: Percentage of Governmentwide accounting reports issued accurately (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	100	98	100	100	100
Actual	100	98	100	100	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> All Governmentwide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be 100% accurate.					
<b>Source:</b> A monthly tracking system reports on the various published statements and monitors errata as it pertains to this data.					

**Future Plans/Explanation for Shortfall:** FMS is on target to meet our FY 2005 performance goal. In FY 2006, FMS will continue to issue 100% of governmentwide accounting reports accurately. Assisting in this effort is further deployment of Governmentwide Accounting and Modernization project modules.

<b>Measure: Percentage of Governmentwide accounting reports issued timely (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> All Governmentwide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be on time 100% of the time.					
<b>Source:</b> A monthly reporting system is used to track the release dates to the public of all of the various governmentwide statements.					
<b>Future Plans/Explanation for Shortfall:</b> FMS is on target to meet our FY 2005 performance goal. In FY 2006, FMS will continue to issue 100% of governmentwide accounting reports accurately. Assisting in this effort is further deployment of Governmentwide Accounting and Modernization project modules and continued progress and improvements on the Government Financial Reporting System (GFRS).					

## Goal: Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

Objective: Protect the Integrity of the Department of the Treasury

Office of Inspector General

<b>Measure: Number of completed audits and evaluations (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	130	146	48	53	56
Actual	130	116	49	54	
Target met?	Y	N	Y	Y	
<b>Definition:</b> Audits, attestation engagements, and evaluations: (1) promote economy, efficiency, and effectiveness of Treasury programs and operations; (2) prevent and detect fraud, waste, and abuse in those programs and operations; (3) keep the Secretary and the Congress fully informed; and (4) help the Federal government to be accountable to the public.					
<b>Source:</b> OIG audits, attestation engagements, and evaluations result in sequentially numbered written products.					
<b>Future Plans/Explanation for Shortfall:</b> OIG plans to increase the number of audits and evaluations completed from 53 in FY 2005 to 56 in FY 2006.					

<b>Measure: Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action. (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	15	24	15	72	76
Actual	15	26	23	85	
Target met?	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<p><b>Definition:</b> In order to protect the integrity and efficiency of Treasury programs it is important that findings of criminal or civil misconduct be referred to the Justice Department, state and/or local governments for prosecution and litigation in a timely manner. Criminal and civil convictions have a greater impact and carry a greater deterrent effect when they are prosecuted expeditiously. Some investigations will identify violations of the Ethical Standards of conduct, Federal Acquisition Regulations, or other administrative standards, which do not rise to the level of criminal or civil prosecution. In these cases it is important that OIG findings are reported to the bureau or office in a timely manner to allow them to take administrative action against the individuals engaging in misconduct.</p>					
<p><b>Source:</b> This data will be retrieved from the Investigations Data Management System (IDMS) system.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> In FY 2006, OIG expects to refer at least 76 cases for criminal prosecution, civil litigation or administrative action. Actual case referrals increased from FY '04 to FY '05 for two reasons: first, productivity increased because OIG agent's are carrying more cases and working longer and harder; and second, OIG changed the methodology to include additional types of cases that we did not refer in the past.</p>					

<b>Measure: Percent of statutory audits completed by the required date (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	100	100	100	100	100
Actual	100	92	100	100	
Target met?	<b>Y</b>	<b>N</b>	<b>Y</b>	<b>Y</b>	
<p><b>Definition:</b> Legislation mandating certain audit work generally prescribes, or authorizes OMB to prescribe, the required completion date for recurring audits and evaluations, such as those for annual audited financial statements. For other types of mandated audit work, such as a Material Loss Review (MLR) of a failed financial institution, the legislation generally prescribes a timeframe to issue a report (6 months for an MLR, as an example) from the date of an event that triggers the audit.</p>					
<p><b>Source:</b> The date OIG issues an audit, attestation engagement, or evaluation report is printed on the cover. The required dates vary each year and are specified in different legislation, most often in the Annual Treasury Appropriation language.</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> In FY 2006, OIG plans to continue to complete all statutory audits by the required dates. The OIG places a priority on mandatory work. Managers review the status of work weekly to ensure deadlines are met.</p>					

### Treasury Inspector General for Tax Administration

<b>Measure: Percentage of positive results from investigative activities (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	67	70
Actual			64	82	
Target met?	<b>N/A</b>	<b>N/A</b>	<b>Y</b>	<b>Y</b>	
<p><b>Definition:</b> The percentage is computed by dividing the total number of completed Criminal, Civil and Administrative actions (results) by the total number of investigative cases final-closed during the fiscal year.</p>					
<p><b>Source:</b> The total number of investigative cases closed along with the total number of completed Criminal, Civil and Administrative Actions is extracted from the Performance and Results Information System (PARIS).</p>					
<p><b>Future Plans/Explanation for Shortfall:</b> As of September 30, 2005, actual performance (82%) exceeded the FY05 performance target (67%). Modifications are being made to the FY05 performance measure criteria that will eliminate results previously captured in FY05. The decrease in results will significantly reduce the FY05 actual goal of 82 percent. The FY06 target performance goal (70%) is reflective of the modifications and will more accurately reflect OI's performance for FY06.</p>					

<b>Measure: Average calendar days to issue final audit report (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	250	250	300	300	325
Actual	308	317	338	358	
Target met?	N	N	N	N	
<b>Definition:</b> The total number of calendar days elapsed from the start of an audit to the date the final report is issued. This figure is divided by the total number of final reports issued to determine the average.					
<b>Source:</b> TIGTA's management information system.					
<b>Future Plans/Explanation for Shortfall:</b> In FY 2005, TIGTA did not achieve its target for the "Average calendar days to issue final audit report." The actual performance as of September 30, 2005, was 358 calendar days. Historically TIGTA has not been able to meet this goal due to the increased complexity of the audits performed. In addition, on many occasions, the IRS requested additional time to provide responses to our reports. TIGTA must balance the goal of issuing reports timely with the need to provide the IRS with sufficient time to evaluate and respond to recommendations. As a result of these issues TIGTA plans to change the target for this measure to 325.					

<b>Measure: Number of total taxpayer accounts impacted as a result of audit activities. (in Millions)(Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	14	14	13.4	13	14.5
Actual	7.5	47	49.7	2.8	
Target met?	N	Y	Y	N	
<b>Definition:</b> This indicator measures the number of taxpaying entities that benefit from audit recommendations. The benefits include: insuring taxpayers receive refunds when warranted and are granted due process when the IRS conducts its return filing and compliance programs; decreasing the number, time or cost of contacts with the IRS by compliant taxpayers; increasing protection of taxpayer account and financial information; and improving security over tax administration systems.					
<b>Source:</b> Data is entered into a centralized database and verified against draft and final report documents.					
<b>Future Plans/Explanation for Shortfall:</b> As of September 30, 2005, the number of taxpayer accounts impacted is 2,881,518. While Office of Audit's (OA) Audit Plan is designed to include the most sensitive Internal Revenue Service (IRS) issues having the greatest impact on tax administration, the results from individual audits vary considerably and are inherently difficult to estimate in magnitude until the audits are initiated. OA will continue to refine its forecasting methodology to better reflect anticipated actual performance.					

**Objective: Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service**

**Treasury Franchise Fund**

<b>Measure: Customer satisfaction approval rating—Financial System, Consulting &amp; Training (%) (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	80	80	80	80	80
Actual	93	87	87	88	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> Indicates an objective level of customer satisfaction					
<b>Source:</b> The result of the survey is derived from the following: (a) ongoing management service reviews with customers through on-site visits; (b) ongoing management contract review with contractors; and (c) customer surveys using scale method with quantitative statistical analysis and results.					
<b>Future Plans/Explanation for Shortfall:</b> The Fund will be using the American Customer Satisfaction Index in FY 2006. This will allow us to benchmark our results against other Federal entities.					

<b>Measure: Customer satisfaction approval ratings—Consolidated/Integrated Administrative Management (Ot) (%)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	80	80	80	80	80
Actual	93	81	87	81	
Target met?	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> Indicates an objective level of customer satisfaction					
<b>Source:</b> The result of the survey is derived from the following: (a) ongoing management service reviews with customers through on-site visits; (b) ongoing management contract review with contractors; and (c) customer surveys using scale method with quantitative statistical analysis and results.					
<b>Future Plans/Explanation for Shortfall:</b> The Fund will be using the American Customer Satisfaction Index in FY 2006. This will allow us to benchmark our results against other Federal entities.					

<b>Measure: Operating expenses as a percentage of revenue—Financial Management Administrative Support (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	11	12
Actual			9	9	
Target met?	N/A	N/A	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.					
<b>Source:</b> The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system. Measure is calculated as Operating Expenses divided by Total Revenue.					
<b>Future Plans/Explanation for Shortfall:</b> ARC is streamlining its administrative processes to ensure low operating costs. ARC is also putting effort into managing their larger administrative costs with their host bureau - BPD.					

<b>Measure: Operating expenses as a percentage of revenue—Consolidated/Integrated Administrative Management (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	4	12
Actual			4	4	
Target met?	N/A	N/A	<b>Y</b>	<b>Y</b>	
<b>Definition:</b> The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.					
<b>Source:</b> The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system. Measure is calculated as Operating Expenses divided by Total Revenue.					
<b>Future Plans/Explanation for Shortfall:</b> FedSource is consolidating activities across its 9 locations. This effort should result in lower operating costs because of the increased efficiencies.					

<b>Measure: Operating expenses as a percentage of revenue—Financial Systems, Consulting and Training (%) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target			Baseline	12	12
Actual			14	11	
Target met?	N/A	N/A	Y	Y	
<b>Definition:</b> The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.					
<b>Source:</b> The data is captured in Oracle Financials system and reported through Oracle's Discoverer Reporting system. Measure is calculated as Operating Expenses divided by Total Revenue.					
<b>Future Plans/Explanation for Shortfall:</b> Federal Consulting Group is constantly streamlining administrative processes and procedures. They are currently looking for new space to help reduce their lease cost.					

<b>Measure: Customer satisfaction approval rating—Financial Management Administrative Support Services (%) (Ot)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target	80	80	80	80	80
Actual	90	94	85	96	
Target met?	Y	Y	Y	Y	
<b>Definition:</b> Indicates an objective level of customer satisfaction					
<b>Source:</b> The result of the survey is derived from the following: (a) ongoing management service reviews with customers through on-site visits; (b) ongoing management contract review with contractors; and (c) customer surveys using scale method with quantitative statistical analysis and results.					
<b>Future Plans/Explanation for Shortfall:</b> The Fund will be using the American Customer Satisfaction Index in FY 2006. This will allow us to benchmark our results against other Federal entities.					

## Departmental Offices

<b>Measure: Management cost per Treasury employee (\$) (E)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				Baseline	40.27
Actual				39.33	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> Total amount obligated for Treasury's strategic objective, M5B, divided by total amount of Treasury FTEs (excluding IRS employees).					
<b>Source:</b> Total amount obligated for M5B is taken from year end execution reports. The total amount of Treasury FTEs is taken by each bureau (except IRS) from the Department of Agriculture's National Finance Center database.					
<b>Future Plans/Explanation for Shortfall:</b> In FY 2006, Treasury will evaluate the effectiveness of this performance measure in managing Treasury.					

<b>Measure: Bureau performance plans for supervisors, managers, and SES members contain elements that link to the bureau mission (%) (Oe)</b>					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target			75	100	100
Actual			77	100	
Target met?	N/A	N/A	N	Y	
<b>Definition:</b> The overall percentage of bureaus whose performance plans for supervisors, managers, and SES members contain elements that specifically link to the bureau mission.					
<b>Source:</b> Data will include bureau feedback in response to questions and answers posed by the Office of the DAS for Workforce Management and from sample evaluation plans submitted by the bureaus.					
<b>Future Plans/Explanation for Shortfall:</b> The target is met and will continue to be met in FY 2006 and FY 2007. All supervisory, managerial and SES individual performance plans will include elements that link to bureau mission.					

<b>Measure: Complete investigations of EEO complaints within 180 days (%) (Oe)</b>					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target			40	50	50
Actual			31	36	
Target met?	N/A	N/A	N	N	
<b>Definition:</b> The average time it takes to complete investigations of Equal Employment Opportunity (EEO) complaints.					
<b>Source:</b> The Annual Federal EEO Statistical Report of Discrimination Complaints and the Department's Complaint Tracking System are the primary sources of data.					
<b>Future Plans/Explanation for Shortfall:</b> The EEO Center's ability to timely complete cases was impacted by 14 vacancies existing throughout FY 2005. The Center will work to fill these positions early in FY 2006. A Center review is also being done in October 2005 to identify bottlenecks and determine case process improvements.					

<b>Measure: Number of open material weaknesses (Oe)</b>					
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Target	15	8	8	4	2
Actual	20	9	8	7	
Target met?	N	N	Y	N	
<b>Definition:</b> Treasury wants to reduce and eventually eliminate the material weaknesses that currently exist within Treasury, while simultaneously taking actions which will serve to avoid new material weaknesses. Material weaknesses are significant problems with an organization's systems' reliability; controls on waste, fraud or abuse; mission performance; and/or compliance with laws and regulations.					
<b>Source:</b> Identified by the General Accounting Office, Treasury's Inspectors General, and/or Treasury bureaus.					
<b>Future Plans/Explanation for Shortfall:</b> Treasury reduced its 1998 baseline of 60 material weaknesses to 9 weaknesses since the beginning of FY 2004. This number was further reduced by 1 during FY 2004 and by 1 during FY 2005, leaving a reportable balance of 7 for FY 2005 reporting. Although significant success has been achieved, those material weaknesses that remain have long-term solutions of which are many are dependent upon the implementation of major systems. For other audit recommendations, Treasury has maintained a completion rate of 87% through June 30, 2005. Success has been achieved through ongoing management attention in the form of quarterly progress reports to executive management on the status of material weaknesses, the inclusion of material weaknesses as an agenda topic for bureau heads meetings, and similar vehicles which help focus attention on major challenges. Although certain long-standing challenges will remain problematic for the foreseeable future, responsible progress toward closure on many similar challenges continues to be achieved and no new material weaknesses have been identified.					

<b>Measure: Injury and illness rate Treasurywide—including DO (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target		3.21	3.94	3	2.8
Actual		3.9	3.94	2.8	
Target met?	N/A	N	Y	Y	
<b>Definition:</b> The number of reported work-related injuries and illnesses Treasury-wide.					
<b>Source:</b> Safety and Health Information Management System					
<b>Future Plans/Explanation for Shortfall:</b> In FY 2005, Treasury started to pursue an aggressive occupational safety and health program. In FY 2004, Treasury was recognized by the Department of Labor for reducing the Departments total injury and lost time injury rates by more than 10 % each, well below the recommended 3 % for all Federal Agencies.					

<b>Measure: Percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the ADR process (%) (Oe)</b>					
	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Target				25	30
Actual				25	
Target met?	N/A	N/A	N/A	Y	
<b>Definition:</b> Equal Employment Opportunity (EEO) contact means an instance where an EEO Counselor or an ADR Intake Officer performs the counseling duties described in Chapter 2 of MD 110 (Government-wide managing directive on EEO). This is the same information which is reported in Part One, Section one of 462 report (Government-wide EEO report). Participation means both parties agree to enter an ADR process.					
<b>Source:</b> Treasury's automated Complaint Tracking System.					
<b>Future Plans/Explanation for Shortfall:</b> Treasury will continue to encourage employees to participate in the Alternative Dispute Resolution (ADR) process. This will be accomplished by developing an improved ADR marketing strategy and working to determine the barriers to using of ADR.					



# Appendix B: Completeness and Reliability of Performance Data

## Treasury’s Commitment to Quality Performance Measurement

Bureaus rate the data for each performance measure as having:

- *Reasonable Accuracy*: Judged to be sufficiently accurate for program management and performance reporting purposes (specified in OMB Circular A-11, Section 230-4(f)).
- *Questionable or Unknown Accuracy*: Judged to be materially inadequate (specified in OMB Circular A-11, Section 230-4(f) as “materially inadequate”).
- Where statistical confidence intervals are available, these are provided instead of the rating statements. More verification efforts were added in FY 2001 - FY 2003, when bureaus were required to address any data reliability issues regarding their performance measures in the Assurance Statements required by the Federal Managers’ Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

## Completeness of Data

**Not Available** The following performance measures did not have any data available for this Report, but will have final numbers presented in the FY 2006 President’s Justification for Appropriations:

Bureau	Performance Measure
IRS	Percent of Eligible Taxpayers who File for the EITC (Participation Rate)
BPD	Cost per TreasuryDirect customer service transaction
BPD	Cost per TreasuryDirect operations securities transaction
BPD	Cost per summary debt accounting transaction

**Discontinued** The following performance measures were discontinued in FY 2005 and will not have data available for this Report:

Bureau	Performance Measure
IRS	Contracted Program Cost and Schedule Variance
IRS	Contracted Requirements Stability and Contracted Requirements Delivered
Dept Offices	Increase the dollar amount of terrorist assets and number of channels blocked
Dept Offices	Percent reduction in the number of countries removed from the Financial Action Task Force 40+9 Non-Cooperative Countries and Territories (NCCT) list
Dept Offices	Number of targets recommended for interagency consideration for terrorist designation or alternative actions
Dept Offices	Increase number of terrorist finance designations for which other countries join in with the United States
Dept Offices	GDP Average in developing countries with significant Treasury engagement
Dept Offices	Stabilize Debt/GDP ratios in developing countries with significant Treasury engagement

**Baseline** The following performance measures were baselined in FY 2005 and will be baselined in FY 2006

Bureau	Performance Measure
Dept Offices	Average tax compliance cost for individuals and small businesses
Dept Offices	Percentage of grant and loan proposals containing satisfactory frameworks for results measurement

## Data Reliability

Performance data presented in this report meets the standards for reliability set forth in OMB Circular A-11, Section 230-5(f). There is neither a refusal nor a marked reluctance by agency managers or Government decision makers to use the data in carrying out their responsibilities.

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## Appendix C: Improper Payments Information Act

The Improper Payments Information Act of 2002 (IPIA) requires agencies to annually review their programs and activities to identify those that are susceptible to significant erroneous payments. “Significant” means that an estimated error rate and a dollar amount exceed the threshold of 2.5% and \$10 million. Once high-risk programs are identified, a method for systematically reviewing them must be developed and statistically valid samples conducted to determine annual error rates. If those error rates, when applied to all program funding, result in a level on improper payments that meet the significant criteria, a Corrective Action Plan must be developed to resolve the underlying causes and reduce improper payments.

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.

### *I. Description of Treasury’s risk assessment(s) performed subsequent to compiling its full program inventory and risk-susceptible programs.*

Each year, a comprehensive inventory of the funding sources for all programs and activities is developed and distributed to Treasury’s bureaus and offices. If program or activity funding is at least \$10 million, Risk Assessments are required at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). For those payment types resulting in high risk assessments that comprise at least 2.5% and \$10 million of a total funding source, (1) statistical sampling must be performed to determine the actual improper payment rate, and (2) a Corrective Action Plan must be developed and submitted to Treasury and OMB for approval.

Responses to the Risk Assessments produce a score that falls into pre-determined categories of risk. The following table describes the actions required to be taken at each risk level:

<b>Risk Level</b>	<b>Required Action(s)</b>
High Risk $\geq$ 2.5% Error Rate & $>$ \$10 Million	Corrective Action Plan
Medium Risk	Review Payment Controls for Improvement
Low Risk	No Further Action Required

The Risk Assessments performed across Treasury in FY 2005 resulted in all programs and activities as low and medium risk susceptibility for improper payments. The Earned Income Tax Credit (EITC) high-risk status is well-documented, having been previously identified in the former Section 57 of OMB Circular A-11, and has been deemed a complex program for the purposes of the Improper Payments Information Act.

*II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.*

### **Earned Income Tax Credit**

The Earned Income Tax Credit (EITC) is a refundable federal tax credit that offsets income taxes owed by low income workers and, if the credit exceeds the amount of taxes owed, provides a lump-sum payment to those who qualify.

Treasury Department and the IRS are now working with OMB on how to appropriately measure IRS activities designed to reduce improper EITC payments. Much of the discussion has focused on how to update previous estimates of the improper payment rate and how the IRS can set meaningful targets for error reduction. In addition, there has been consideration of an alternative measure for IPPIA that would incorporate the direct effects of IRS compliance activities on reducing erroneous EITC payments.

The rest of this section explains how the IRS revised its erroneous payment projections to provide more current estimates. The basis for this update is a Tax Year 2001 reporting compliance study that estimated the level of improper over claims for FY 2005 to range between \$9.6 - \$11.4 billion and 23% (lower bound) to 28% (upper bound) of approximately \$41.3 billion in total program payments.

### **National Research Program (NRP) Analysis**

The complexity of EITC's program, the nature of tax processing, and the expense of compliance studies preclude statistical sampling on an annual basis in order to develop error rates for comparison to reduction targets. The following set of estimates is based primarily on information from the National Research Program (NRP) reporting compliance study of individual income tax returns for Tax Year (TY) 2001.

Under the TY 2001 NRP reporting compliance study, individual income tax returns filed during calendar year 2002 for TY 2001 were randomly selected for examination.<sup>1</sup> This selection method allows the measures for the entire NRP individual income tax return population to be estimated from the results of the NRP program sample returns. Because one of the objectives of the NRP is to provide data for compliance measurement, NRP procedures and data collection differed from those followed in standard examination programs. NRP classification and examination procedures were more comprehensive in scope and depth than those for standard examination programs. These expanded procedures were designed to provide a very accurate determination of what taxpayers should have reported on their returns.

Estimates of various compliance measures for individual income taxpayers can be calculated by comparing the NRP sample case results—the estimate of what taxpayers should have reported on their returns—to what these taxpayers voluntarily reported on their returns and then projecting the sample results to the population. The projection to the population is done using weights assigned to each return. These weights reflect the number of returns in the population that the sample return represents.

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<sup>1</sup> The NRP used a stratified, random sample design. Returns are grouped into predefined categories or “strata” and selected randomly within each stratum.

The TY 2001 NRP individual income tax return study covered filers of individual income tax returns. About 6,400 of the approximately 44,400 returns in the regular NRP sample were EITC claimants.<sup>2</sup> The NRP study results for this EITC claimant subset of NRP returns were the primary source of data for the improper payments estimates. Other data and information sources used for the estimates included IRS Enforcement Revenue Information System (ERIS) data (which tracks assessments and collections from IRS enforcement-related activities), Treasury Department estimates of the effect of the EITC provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) on EITC erroneous claims, and Treasury Department FY 2006 EITC budget estimates.

The general approach for developing the FY 2005 set of EITC improper payments estimates involved the following steps: (1) estimating an improper payment rate for TY 2001 using the NRP data, (2) adjusting the TY 2001 rate to reflect the estimated impact of the EITC-related EGTRRA provisions, (3) estimating EITC claims for FY 2002- FY 2007 by projecting TY 2001 claims forward using the growth rates implicit in Treasury Department budget outlay estimates, and (4) multiplying the adjusted improper payment rate by the estimated claims to calculate estimated improper payments for each fiscal year. These steps are described in more detail below.

#### (1) TY 2001 Improper Payment Rate Estimates

The TY 2001 improper payment rate was calculated from NRP and ERIS data. The improper payment rate is defined as follows<sup>3</sup>:

$$\text{EITC Improper Payment Rate} = \frac{\text{Amount of EITC Overclaimed} \quad \text{minus} \quad \text{Amount of EITC Overclaims Recovered}}{\text{Amount of EITC Claimed on all Returns}}$$

The *Amount of EITC Overclaimed* is the weighted sum of the amount of EITC overclaimed on NRP sample returns where EITC was overclaimed. The amount overclaimed is the difference between the amount of EITC claimed by the taxpayer and the amount the NRP examination determined the taxpayer should have claimed. The *Amount of EITC Claimed on all Returns* is the weighted sum of the amount of EITC claimed by all EITC claimants in the NRP sample. The weights used are the NRP study sample weights described earlier.

The IRS, through various administrative activities, prevents the payment of some EITC overclaims and recovers some overclaims that were paid. This occurs primarily through math error processing, information document matching in the Automated Underreporter Program (AUR), and the examination of returns. These amounts are reflected in the *EITC Improper Payment Rate* through the *Amount of EITC Overclaims Recovered* term.

Math error processing involves computerized checks during return processing for mathematical and clerical errors. This generally involved checks for arithmetic mistakes and errors in reading tax and EITC tables, but

<sup>2</sup> About 1,600 other returns (the “calibration sample”) were included in the TY 2001 NRP Individual Income Tax Study. These returns went through a somewhat different examination process and they were not used for these calculations.

<sup>3</sup> The EITC improper payment rate is identical in concept to the Unrecovered Overclaim Percentage from the TY 1999 EITC Compliance Study.

also includes checks for valid taxpayer identification numbers. IRS data files contain fields for both the EITC claimed by the taxpayer and the EITC calculated by the computer. The difference in these two fields, when the amount claimed is greater than the computer amount, is the amount of overclaims that were not paid because of IRS math error activities. The math error EITC recovered amounts were estimated from the NRP EITC claimant sample returns on which EITC was overclaimed. It was calculated as the weighted sum of the difference between the EITC claimed and computer amounts for NRP EITC sample returns that overclaimed EITC. Again, the weights used were the NRP sample weights.

Some EITC overclaims that result from income misreporting are identified and recovered through AUR activities. These are detected when the IRS compares information document amounts to the corresponding amounts reported by the taxpayer. The estimate of the amount of overclaims recovered through AUR reflects amounts IRS expects to collect through AUR on TY 2001 EITC overpayments. This estimate was based on actual AUR results shown in ERIS data through December 2004. The ERIS numbers were increased slightly to account for assessments and collections made after December 2004 on TY 2001 returns. These figures are based on IRS operations applied to all EITC claims, not just NRP sample returns.

EITC overclaims also are prevented and recovered through examination activities. Most examinations of EITC claims are conducted pre-refund. This means that the EITC claim is not paid, but rather is held by the IRS pending the outcome of the examination. For these cases, the EITC amount is paid only if the examination is resolved in support of the taxpayer's claim. Other EITC examinations are conducted after the credit is paid (i.e., post-refund). For these cases, should the IRS reduce or deny the EITC claim, the IRS must recover the amount that was previously paid. The estimate of the amount of EITC overclaims that were not paid due to pre-refund examinations and the amount that was recovered through post-refund examinations was based on actual amounts either not paid or recovered as shown in ERIS data. The ERIS data through December 2004 were adjusted slightly to account for assessments and collections made after December 2004 on TY 2001 returns.

As explained earlier, the amount of EITC overclaimed is calculated as the difference between the amount of EITC that was claimed by the taxpayer and the amount NRP determined the taxpayer should have claimed. Some taxpayers in the NRP (and also in standard examination programs) never appear for their examination even though they received the notification.<sup>4</sup> Standard administrative procedures in these cases result in disallowance of the EITC and this disallowance is reflected in the NRP data.

Because of concerns that the NRP case outcome for these types of cases may not accurately reflect the amount of EITC that these taxpayers should have claimed, two TY 2001 improper payments rate estimates were calculated using different assumptions about the amount of EITC to which taxpayers who do not appear for examination are entitled. One estimate is based directly on the NRP data and therefore implicitly assumes that taxpayers who do not appear for their examination are not entitled to the EITC. The other estimate assumes that the compliance of taxpayers who do not appear for an examination is the same as that of other taxpayers in their stratum who did appear for an examination. This set of estimates was developed by using adjusted NRP data. This procedure mirrors the two sets of compliance estimates provided in the TY 1999 EITC Compliance Study report.

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<sup>4</sup> The IRS distinguishes between cases that are “unlocatable”—which are cases where the IRS cannot find taxpayers to inform them that they are under examination and cases that are “no show/no response”—which are cases where taxpayers were contacted but do not show up for the examination. These latter cases include a range of situations from those where taxpayers break appointments they made with IRS examiners to cases where contact with taxpayers is presumed because IRS outgoing correspondence is never returned as undeliverable.

## (2) Adjustment of the TY 2001 Improper Payments Rate to Account for Estimated Effects of EGTRRA

The EGTRRA contained several provisions related to EITC that became effective for TY 2002. Some of these provisions were expected to improve EITC compliance and also to increase claims. Thus, this legislation may have affected the improper payments rate for years after enactment. As explained earlier, the NRP individual income tax study was for tax year 2001 returns filed during calendar year 2002. The improper payment rate estimated from the TY 2001 NRP data, therefore, does not reflect any effects of the EGTRRA changes.

Treasury Department economists conducted an analysis of the EITC-related EGTRRA provisions. The analysis estimated that the provisions reduced EITC erroneous claims by about 13 percent and increased claims by about 5 percent.<sup>5</sup> These estimates were used to adjust the NRP-based TY 2001 estimates to account for the effect of the EGTRRA provisions. This was done by reducing the NRP-based estimate of the *Amount of EITC Overclaimed* by about 13 percent, increasing the NRP-based estimate of *Amount of EITC Claimed on all Returns* by about 5 percent, and recalculating the improper payment rates.

## (3) EITC Improper Payment Estimates for FY 2002-FY 2005

The improper payments estimates for FY 2002 through FY 2005 were developed by multiplying an improper payment rate for each fiscal year by estimated claims for the corresponding fiscal year. This involved several steps.

The first step involved determining an improper payments rate for each fiscal year. This was done under the assumption that the EGTRRA-adjusted NRP-based TY 2001 rate was applicable for FY 2004 and later and that the rates for FY 2002 and FY 2003 reflected a phased-in effect of the EGTRRA changes on the rate. Two sets of rates were developed based on the two NRP-based estimates.

The next step involved estimating EITC claims for FY 2002 through FY 2005. This was accomplished by projecting forward the TY 2001 NRP-based estimate of EITC claims by the annual growth rates implicit in Treasury's FY 2006 EITC budget estimates. For these purposes, FY n is assumed to reflect TY n-1 (i.e., FY 2002 reflects TY 2001).

The final step involved estimating the amount of improper payments by multiplying the improper payment rate for each fiscal year by the corresponding claims for the year. Two sets of estimates were developed, one for each of the two sets of improper payment rate estimates. The current improper payment estimates are reflected in IV. *Improper Payments Reduction Outlook*, below.

### III. Describe the Corrective Action Plans for reducing the estimated rate of improper payments for the EITC program.

The IRS uses a two-pronged approach to reduce erroneous EITC payments:

1. Continually seek opportunities to increase program efficiency within existing resources – in other words, make the base program better; and

<sup>5</sup> The estimates were in 1999 dollars.

2. Test potential business process enhancements to reduce error and then request implementation funding if the tests prove successful.

### Base Program

In 2005, the IRS will spend approximately \$165 million to prevent more than \$1.94 billion from being paid in error. Three areas of activity compose the bulk of this spending:

- **Examinations** – the IRS identifies tax returns for examination and holds the EITC portion of the refund until an audit can be conducted. This is the *only* IRS audit program where exams are conducted *before* a refund is released. The audit closures and enforcement revenue protected in the charts below do not include test initiatives.
- **Math Error** – this refers to an automated process in which IRS identifies math or other statistical irregularities and automatically prepares an adjusted return for a taxpayer. Congressional approval is required for math error use.
- **Document Matching** – involves comparing income information provided by the taxpayer with matching information (e.g. W-2s, 1099s) from employers to identify discrepancies.

The chart below shows significant results from FY 2002 through FY 2005. In FY 2005 alone, the IRS issued 649,927 math error notices, conducted 464,889 audits and touched 300,000 document matching returns.

	Compliance Activities (thousands)							
	FY02	FY03	FY04	FY05*	FY06*	FY07*	FY08*	FY02-FY08* Total
Audit Closures	373,508	422,033	449,435	464,899	477,169	489,940	502,768	3,179,752
Math Error Notices	993,387	922,465	817,440	649,927	617,430	586,559	557,231	5,144,439
Document Matching			300,000	300,000	300,000	300,000	300,000	1,500,000

These activities had a significant effect. We estimate that EITC enforcement efforts have directly protected an estimated \$6.48 billion in revenue for FY 2002 through FY 2005. In addition, we project that continued enforcement efforts will protect a total of \$12.65 billion in revenue through FY 2008.

	Enforcement Revenue Protected (\$ billions)							
	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY02-FY08 Total
Examination	0.95	1.00	1.10	1.30	1.41	1.48	1.55	8.79
Math Error Notices	0.42	0.34	0.42	0.33	0.27	0.25	0.24	2.27
Document Matching			0.31	0.31	0.32	0.32	0.33	1.59
<b>TOTAL</b>	<b>1.37</b>	<b>1.34</b>	<b>1.83</b>	<b>1.94</b>	<b>2.00</b>	<b>2.05</b>	<b>2.12</b>	<b>12.65</b>



### Business Process Enhancements

In 2003 and 2004, the IRS received a total of \$75 million to fund a number of EITC business process improvement initiatives. These initiatives included the use of private sector solutions to better identify egregious cases, apply appropriate collection methods, assign and manage case inventory more efficiently, catch problems with amended returns, improve communications with taxpayers, better focus on under-reported income and explore use of new notices to improve taxpayer response. The entire initiative process was managed using a project management governance structure known as the Enterprise Life Cycle – which, among other requirements – includes a business case analysis to justify investment choices. It was conceived of, designed and implemented in three separate releases over a three year period. Here are the estimated benefits of the EITC investment portfolio:<sup>6</sup>

	Enforcement Revenue Protected (\$ billions)							
	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY02-FY08 Total
Investment Portfolio				0.01	0.08	0.08	0.08	0.25

### Testing New Business Processes

In addition to building new solutions for existing business processes, the IRS is also conducting a test of a completely new approach that would require certain EITC taxpayers to certify they meet a key eligibility requirement before receiving the credit. This process could potentially affect millions of taxpayers and is the subject of careful evaluation. If the IRS concludes the process should be implemented, it will request additional funding to expand the scope of its existing EITC activities.

Finally, the IRS has a number of other activities it is using to combat program error. This past year saw the first test of a strategy to address egregious EITC return preparers. In addition, the IRS has identified three states with an interest in sharing information to prevent erroneous payments. The Service is also evaluating potential new ways to share data to improve its revenue protection activities. These include an evaluation of external databases that could help identify taxpayers who are not qualified for the EITC (National Directory of New Hires and Department of Education student loan data) as well as developing possible new candidates for math error authority and new strategies to prevent duplicate claims of qualifying children.

#### *IV. EITC Improper Payment Reduction Outlook.*

The IRS has developed a new methodology to estimate improper payments that will be implemented in the coming months. The reduction outlook is as follows:

<sup>6</sup> These estimates represent the low end of the range of estimates of revenue protected from the EITC investment portfolio.

Improper Payment Reduction Outlook (\$ in millions)															
Program	PY Outlays	PY %	PY \$	CY Outlays	CY IP%	CY IP\$	CY+1 Est Outlays	CY+1 IP%	CY+1 IP\$	CY+2 Est Outlays	CY+2 IP%	CY+2 IP\$	CY+3 Est Outlays	CY+3 IP%	CY+3 IP\$
EITC Upper Bound Estimate	\$40.5	28%	\$11.2	\$41.3	28%	\$11.4	\$42.1	28%	\$11.6	\$42.7	28%	\$11.8	\$42.7	28%	\$11.8
EITC Lower Bound Estimate	\$40.5	23%	\$9.4	\$41.3	23%	\$9.6	\$42.1	23%	\$9.8	\$42.7	23%	\$10.0	\$42.7	23%	\$10.0

**Outlays:** Following prior methodology, the amount shown is the total EITC claimed.  
**IP % and IP \$:** These estimates follow the prior approach which provided a range for improper payments.

## Recovery Act

### *V. Treasury's Recovery Auditing Program.*

In FY 2005, the Treasury issued contracts totaling \$4.9 billion. The annual Improper Payments Information Act Risk Assessment process includes a review of pre-payment controls that minimize the likelihood and occurrence of improper payments. For Recovery 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.

Treasury considers both pre-payment and post-payment reviews to identify payment errors a good management practice that should be included among basic payment controls. All of Treasury's bureaus use some form of recovery auditing techniques to identify improper payments during post-payment reviews. At times, bureaus may use the services of recovery auditors to help them identify payment anomalies and target areas for improvement. Strong contract payment controls exist throughout Treasury, and recovery activity is minimal. Our ongoing reviews of contract payment controls do not exclude any type of contract actions. Further, the low level of improper payments in 2005 did not require any Treasury bureau to develop a management improvement program under Recovery Act guidance.

Agency	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amounts Recovered CY	Amounts Recovered PY
Treasury	\$4,941,295,411	\$3,851,985,924	\$428,977	\$364,680	\$668,715

### *VI. Management Accountability.*

The Secretary of the Treasury has delegated responsibility for improper payments to the Assistant Secretary for Management/Chief Financial Officer (ASM/CFO). The area of improper payments falls under Treasury's management control program. Through associated risk assessments, these are an extension of each bureau's annual Risk Assessment and review process. Through Treasury Directive 40-04, executives and other managers are required to have management control responsibilities as part of their annual performance plans. With oversight mechanisms such as the Treasury CFO Council and IRS' Financial and Management Control Executive Steering Committee, managerial responsibility and accountability in all management control areas are visible and well documented.

Improper payments are a separate initiative under the President's Management Agenda and has been monitored for improvement as a material weakness under the Federal Managers' Financial Integrity Act. Managers who are responsible and accountable for reducing the level of EITC over claims have been identified, while other senior and mid-level officials have responsibility for monitoring progress in this area as bureau and program internal control officers.

*VII. Resources Requested in the FY 2006 Budget Submission to Congress.*

Several new initiatives were requested in the IRS FY 2006 President's Budget submission which relate to the enforcement of tax laws. If approved, the EITC program should benefit from these broader initiatives.

*VIII. Limiting Statutory and Regulatory Barriers.*

A number of factors serve as barriers to reducing overclaims in the EITC program. These include:

- The complexity of the tax law.
- The structure of the earned income credit.
- Confusion among eligible claimants.
- High program turnover.
- Unscrupulous preparers.
- Fraud.

No one of these factors can be considered the primary driver of program error. Furthermore, the interaction among the factors makes addressing the credit's erroneous claims rate, while balancing the need to ensure the credit makes its way to taxpayers who are eligible, extremely difficult.

*IX. Other Factors.*

Since June 2003, EITC has focused on reducing erroneous over claims by implementing a five-point initiative that will:

- *Reduce the backlog of pending EITC examinations to ensure that eligible taxpayers whose returns are being examined receive their refunds quickly.*
- *Minimize the burden and enhance the quality of communications with taxpayers by improving the existing audit process.*
- *Encourage eligible taxpayers to claim the EITC by increasing outreach efforts and making the requirements for claiming the credit easier to understand.*
- *Ensure fairness by refocusing compliance efforts on taxpayers who claimed the credit but were ineligible because their income was too high.*
- *Pilot a certification effort to substantiate qualifying child residency eligibility for claimants whose returns are associated with a high risk for error.*

As part of this initiative, in FY 2005, the IRS completed the following tests designed to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers:

- *Qualifying Child Test: Requires EITC claimants to certify that they meet qualifying child residency requirement before paying out the refund;*

- *Filing Status Test: Reviews filing status claims to ensure they are correct. IRS selected claimants whose filing status had changed to one that increased the value of the credit (generally, from married filing joint to head of household);*
- *Misreporting Income (Automated Underreporter) Test: Enhances error detection through the automated underreporter program. This test focuses not on the number of cases IRS is reviewing, but on improved selection methodologies. Completing these tests is imperative to assessing their effectiveness in reducing erroneous EITC over claims while maintaining high participation rates by eligible taxpayers.*

# Appendix D: Material Weaknesses, Audit Follow-up, and Financial Systems

Summary of Open Federal Managers' Financial Integrity Act Material Weaknesses and Federal Financial Management Improvement Act Compliance As of September 30, 2005								
Bureau/Reporting Entities	Number of Material Weaknesses For FMFIA Section 2			Number of Material Instances of Non-Conformance For FMFIA Section 4			Grand Total(Sec 2 & Sec 4)	Substantial Compliance with FFMA?
	Carry over from Prior Years	New This Year	Total	Carry over from Prior Years	New This Year	Total		
Bureau of Engraving and Printing	0	0	0	0	0	0	0	Yes
Bureau of the Public Debt	0	0	0	0	0	0	0	Yes
Community Development Financial Institutions Fund	0	0	0	0	0	0	0	Yes
Departmental Offices	1	0	1	0	0	0	1	Yes
DC Pension Fund	0	0	0	0	0	0	0	Yes
Exchange Stabilization Fund	0	0	0	0	0	0	0	Yes
Executive Office of Asset Forfeiture	0	0	0	0	0	0	0	Yes
Financial Crimes Enforcement Network	0	0	0	0	0	0	0	Yes
Financial Management Service	1	0	1	0	0	0	1	Yes
Treasury Franchise Fund	0	0	0	0	0	0	0	Yes
Internal Revenue Service	4	0	4	1	0	1	5	No
U.S. Mint	0	0	0	0	0	0	0	Yes
Office of the Comptroller of the Currency	0	0	0	0	0	0	0	Yes
Office of Thrift Supervision	0	0	0	0	0	0	0	Yes
Alcohol and Tobacco Tax and Trade Bureau	NA	0	0	NA	0	0	0	Yes
<b>Total</b>	<b>6</b>	<b>0</b>	<b>6</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>7</b>	
<b>Recapitulation of Material Weaknesses (MWs):</b>						<b>Section 2</b>	<b>Section 4</b>	<b>Total</b>
<b>Balance at the Beginning of FY 2005:</b>						<b>7</b>	<b>1</b>	<b>8</b>
<b>Closures/Downgrades during FY 2005*:</b>						<b>1</b>	<b>0</b>	<b>1</b>
<b>New MW declared during FY 2005:</b>						<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at the End of FY 2005:</b>						<b>6</b>	<b>1</b>	<b>7</b>

<b>Section 2 Summary Of Pending Material Internal Control Weaknesses As Of September 30, 2005</b>		
<b>Bureau</b>	<b>Description of Material Weakness</b>	<b>Remedial Actions And Key Target Dates For Correction</b>
DO-02-01 (Departmental Offices)	Lack of substantial compliance with Federal Information Security Management Act (FISMA), including the Treasury communication system back-up and disaster recovery capability.	DO needs to improve the level of Certifications and Accreditations throughout the Department and improve the entity-wide security program for headquarters operations. Target Date: December 2006
FMS-01-16 (Financial Management Service)	The government did not have adequate systems, controls, and procedures to properly prepare the consolidated financial statements.	FMS needs to implement Intra-Governmental fiduciary confirmation system, establish business rules, and accelerate the central reporting cycle. Target Date: December 2006
IRS-88-01 (Internal Revenue Service)	IRS needs to resolve workload for Tax Assessments and prioritize Collectible Assessments .	IRS plans to improve systems support and explore the use of private collection agencies. Target Date: December 2008
IRS-95-03	Improve Modernization Management Controls and Capabilities.	IRS plans to improve Modernization Management Controls and Capabilities to consistently ensure delivery of systems with expected functionality within budget and on time that will dramatically improve both internal operations and services to taxpayers. Target Date: January 2006
IRS-99-01	Earned Income Tax Credit (EITC).	The IRS needs to implement several program enhancements to reduce the high number of overclaims and erroneous payments. Target Date: September 2006
IRS-01-01	Various systems security controls need improvement.	The IRS needs to ensure that access to key computer applications and systems is limited to authorized persons, and to effectively monitor key networks and systems to identify unauthorized activities and inappropriate system configurations. Target Date: December 2007

Section 4 Summary Of Pending Material Instances Of Non-conformance As Of September 30, 2005		
Bureau	Description Of Material Non-conformances	Remedial Actions And Key Target Dates For Correction
IRS-95-01	GAO's audits of the IRS' financial statements have disclosed material weaknesses in financial reporting processes that affect IRS' ability to prepare reliable financial information on an ongoing basis.  IRS' financial management systems do not substantially comply with the requirements of the FFMA of 1996.	Implement the Custodial Detail Data Base (CDDDB) – An integrated data repository of taxpayer account information, integrated with and conforming to the US Standard General Ledger and accessible for management analysis and reporting.  Target Date: May 2007

\* During FY 2005, the IRS closed the material weakness for measuring taxpayer compliance based upon updated tax compliance measures established as a result of the National Research Program.

### Audit Follow-Up Activities

During FY 2005, 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. During the year, Treasury continued its effort to provide enhancement to the tracking system called the “Joint Audit Management Enterprise System” (JAMES). JAMES is a Department-wide, interactive, on-line, real-time system accessible to the OIG, TIGTA, Bureau Management, Departmental Management, and others. The system contains tracking information on audit reports from issuance through completion of all actions required to address all findings and recommendations contained in a report.

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

- on-site visits/reviews with bureau control personnel.
- the issuance of Management Control Program Quarterly Reports which focus on significant control issues throughout the organization and which are distributed to the Secretary, bureau heads, bureau CFOs and other key personnel.

### Potential Monetary Benefits

The Inspector General Act Amendments of 1988 (the Act), Public Law 101-504, require that the Inspectors General and the Secretaries of Executive Agencies and Departments submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential monetary benefits. Treasury consolidates and annualizes all relevant information for inclusion in this report. The information contained in this section represents a consolidation of information provided separately by the OIG, TIGTA, and Treasury management.

At the beginning of FY 2005, Treasury had identified corrective actions for 40 audit reports with \$8,061.2 million in potential monetary benefits. Corrective actions were identified for 33 new audit reports having \$83,422.4 million in potential benefits. Thirty-two reports with potential benefits of \$74,968.9 million were closed; \$81.0 million of the benefits were realized and \$74,887.9 million of potential benefits was not realized. At the end of FY 2005 there were 41 such open audit reports having potential benefits of \$16,514.7 million.

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

The statistical data in the following summary table and proceeding charts represents audit report activity for the period from October 1, 2004 through September 30, 2005. The data reflects information on reports that identified potential monetary benefits that were issued by the Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA).

<b>Audit Report Activity With Potential Monetary Benefits For Which Management Has Identified Corrective Actions (OIG and TIGTA) October 1, 2004 through September 30, 2005 (Dollars in Millions)</b>								
	Disallowed Costs		Better Used Funds		Revenue Enhancements		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Reports	Dollars
Beginning Balance*	8	\$3.6	16	\$166.8	16	\$7,890.8	40	\$8,061.2
New Reports	14	8.2	7	42.8	12	83,371.4	33	83,422.4
Total	22	11.8	23	209.6	28	91,262.2	73	91,483.6
Reports Closed	8	2.5	12	149.9	12	74,816.5	32	74,968.9
<i>a. Realized or Actual</i>	6	1.0	8	76.3	3	3.7	17	81.0
<i>b. Unrealized - Written off</i>	5 <sup>1</sup>	1.5 <sup>1</sup>	7 <sup>2</sup>	73.5 <sup>2</sup>	13 <sup>3</sup>	74,812.9 <sup>3</sup>	25	74,887.9
<b>Ending Balance</b>	<b>14</b>	<b>\$9.3</b>	<b>11</b>	<b>\$59.7</b>	<b>16</b>	<b>\$16,445.7</b>	<b>41</b>	<b>\$16,514.7</b>

\* The beginning balance row was revised to reflect certain retroactive corrections of the beginning balances.

<sup>1</sup> This category includes two reports, with \$917,651 written off, for which TIGTA does not agree with the IRS that benefits have not been realized.

<sup>2</sup> This category includes three reports, with \$37.5 million written off, for which TIGTA does not agree with the IRS that the benefits have not been realized; one report written off in the amount of \$3.1 million for which IRS management did not agree with TIGTA's recommended corrective action; and also includes two reports written off in the amount of \$32.9 million for which IRS management did not concur with TIGTA's projected benefit.

<sup>3</sup> This category includes one report, with \$0.1 million written off, for which TIGTA does not agree with the IRS that the benefits have not been realized; three reports written off in the amount of \$63,739.7 million for which IRS management did not agree with TIGTA's recommended corrective action; and also includes seven reports written off in the amount of \$11,063.9 million for which IRS management did not concur with TIGTA's projected benefit.



The following provides a snap shot of OIG and TIGTA audit reports with significant recommendations reported in previous semiannual reports for which corrective actions had not been completed at September 30, 2004 and September 30, 2005, respectively. There were no “Undecided Audit Recommendations” during the same periods.

<b>Significant Unimplemented Recommendations</b>				
	9/30/2004		9/30/2005	
	OIG	TIGTA	OIG	TIGTA
	No. of Reports	No. of Reports	No. of Reports	No. of Reports
Unimplemented	9	38	12	45

The following presents a summary of TIGTA and OIG audit reports that were open for more than a year with potential monetary benefits at the end of PAR Report Year.

<b>Number of Reports Open for More than One Year</b>				
	PAR Report Year	FY 2003	FY 2004	FY 2005
TIGTA	No. of Reports	13	14	17
	\$ Projected Benefits	\$355.7 million	\$7,262.1 million	\$7,581.8 million
OIG	No. of Reports	5	2	0
	\$ Projected Benefits	\$6.3 million	\$.5 million	\$0 million

<b>Details of the Audit Reports on Which Management Decisions Were Made On or Before September 30, 2004, But Final Actions Have Not Been Taken as of September 30, 2005. (In Thousands)</b>								
Bureau	Report Numbers	Report Issue Date	Brief Description	Disallowed Cost	Funds Put to Better Use	Revenue Enhancement	Total	Reason for final actions not taken
IRS	2000-30-165	9/20/2000	The IRS can better use collectibility information during the examination process.			\$8,100.0	\$8,100.0	Delayed 01/15/06 pending clarifying update to the IRM publication.
<b>FY 2000</b>	<b>1</b>					<b>\$8,100.0</b>	<b>\$8,100.0</b>	
IRS	2001-30-168	9/21/2001	Improvements in recording Third party addresses from tax returns will reduce undeliverable business mail.		\$98.4		\$98.4	Due 2/15/06. Funding unavailable for system enhancements. Will resubmit RIS for 02/15/06 implementation.
IRS	2001-30-168	9/21/2001	"			\$4.5	\$4.5	"
IRS	2001-30-165	9/27/2001	Implement a process to identify taxpayers that are likely personal service corporations but did not file as such.			\$78,158.6	\$78,158.6	Delayed to 11/15/06 so 2005 data can be extracted and analyzed to provide an accurate response.

Details of the Audit Reports on Which Management Decisions Were Made On or Before September 30, 2004, But Final Actions Have Not Been Taken as of September 30, 2005. (In Thousands) <i>(continued)</i>								
Bureau	Report Numbers	Report Issue Date	Brief Description	Disallowed Cost	Funds Put to Better Use	Revenue Enhancement	Total	Reason for final actions not taken
<b>FY 2001</b>	<b>2</b>			<b>\$0.0</b>	<b>\$98.4</b>	<b>\$78,163.1</b>	<b>\$78,261.5</b>	
IRS	2003-20-049	2/28/2003	Ensure that a consolidated or integrated system is implemented to effectively manage all background investigations and identification badges.		\$30.0		\$30.0	Rejected 10/15/05.
IRS	2003-30-071	3/14/2003	Improvements Could Be Made to the Schedule K-1 Matching Program by Increasing the Use of Electronic or Scannable Data.		\$3,000.0		\$3,000.0	Delayed 1/15/07. IRS has decided to consider mandating e-filing at the time each form is to be converted in the Modernized e-file environment.
IRS	2003-30-162	8/6/2003	The regulations for granting extensions of time to file are delaying the receipt of billions of tax dollars and creating substantial burden for compliant taxpayers.			\$6,900,000.0	\$6,900,000.0	Delayed 1/15/05. IRS seeking TIGTA concurrence.
<b>FY 2003</b>	<b>3</b>			<b>\$0.0</b>	<b>\$3,030.0</b>	<b>\$6,900,000.0</b>	<b>\$6,903,030.0</b>	
IRS	2004-40-004	10/30/2003	The selections of earned income tax credit returns for examination can be improved to further prevent payment of erroneous claims.		\$20,900.0		\$20,900.0	Due 2/15/2006
IRS	2004-20-014	11/19/2003	The IRS should use the planned Travel Reimbursement and Accounting System long-term travel authorization processing enhancements to assure that IRS periodically reassesses employee travel plans.	\$25.0			\$25.0	Due 1/15/06
IRS	2004-20-014	11/19/2003	"			\$180.5	\$180.5	"

<b>Details of the Audit Reports on Which Management Decisions Were Made On or Before September 30, 2004, But Final Actions Have Not Been Taken as of September 30, 2005. (In Thousands)</b>								
<b>Bureau</b>	<b>Report Numbers</b>	<b>Report Issue Date</b>	<b>Brief Description</b>	<b>Disallowed Cost</b>	<b>Funds Put to Better Use</b>	<b>Revenue Enhancement</b>	<b>Total</b>	<b>Reason for final actions not taken</b>
IRS	2004-30-106	6/17/2004	Change the IRS regulations for granting corporate tax returns filing extensions.			\$512,900.0	\$512,900.0	Due 10/15/2005
IRS	2004-10-128	7/28/2004	LOU: Contractor's Documentation was not adequate to support the tax forum income and expenses.	\$684.0			\$684.0	Due 10/15/06
IRS	2004-20-135	8/18/2004	IRS should ensure the requirements for the Security Audit and Analysis System requirements are adequately tested and implemented.		\$584.4		\$584.4	Due 4/1/2006
IRS	2004-1c-140	8/25/2004	Evaluation of Contractor's General and Administrative Costs, TIRNO-99-D-005.	\$1.1			\$1.1	Due 7/15/07
IRS	2004-20-142	8/26/2004	The IRS should ensure the Storage Strategy Study addresses the data storage capacity deficiency and recommends a cost-effective Virtual Tape system solution to reduce maintenance and tape shipping costs.		\$200.0		\$200.0	Due 12/31/2010
IRS	2004-20-156	9/8/2004	The IRS should continue to monitor controls over its telecommunications costs.	\$2,248.0			\$2,248.0	Due 11/1/2005
IRS	2004-20-156	9/8/2004	"		\$3,200.0		\$3,200.0	"
IRS	2004-30-170	9/21/2004	Improvements are needed for processing income tax returns of controlled corporate groups.			\$29,670.0	\$29,670.0	Due 12/15/2006

Details of the Audit Reports on Which Management Decisions Were Made On or Before September 30, 2004, But Final Actions Have Not Been Taken as of September 30, 2005. (In Thousands) <i>(continued)</i>								
Bureau	Report Numbers	Report Issue Date	Brief Description	Disallowed Cost	Funds Put to Better Use	Revenue Enhancement	Total	Reason for final actions not taken
IRS	2004-10-182	9/27/2004	The IRS should require facility managers to report vacancies based on IRS requirements for telecommuting employees.		\$19,800.0		\$19,800.0	Due 10/15/06
IRS	2004-10-185	9/27/2004	The IRS should develop and distribute a Collection Due Process (CDP) Tracking Systems to identify CDP cases			\$2,000.0	\$2,000.0	Due 2/15/07
FY 2004	11			\$2,958.1	\$44,684.4	\$544,750.5	\$592,393.0	
# of Reports	17			\$2,958.1	\$47,812.8	\$7,531,013.6	\$7,581,784.5	

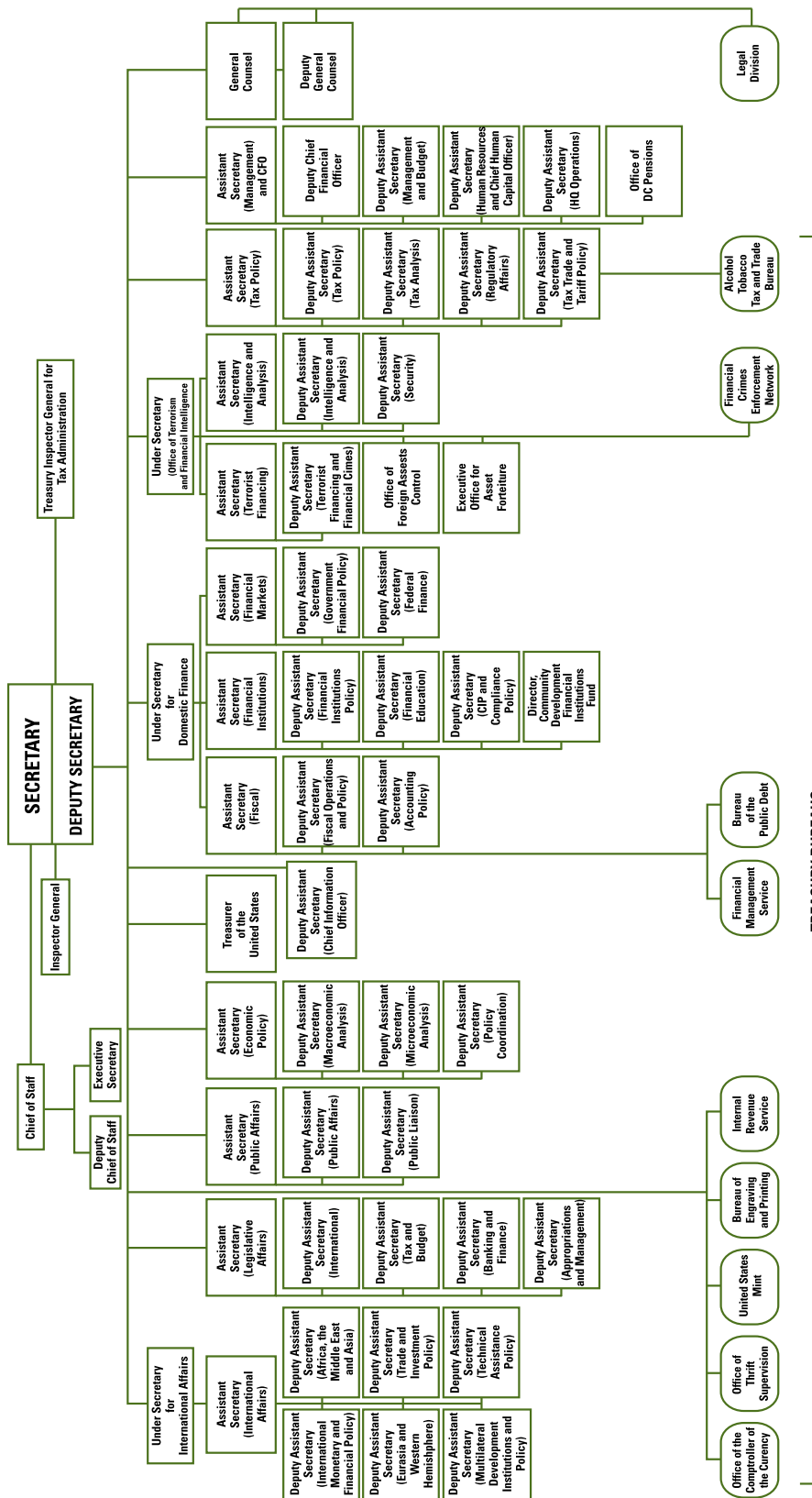
### FY 2005 Results – Alcohol and Tobacco Tax and Trade Bureau (TTB)'s TAX Audit Division

During FY 2005, TTB's Tax Audit Division had 10 audit field locations and staffed these locations with 83 professional and administrative full time equivalents (FTEs). The goal of the Tax Audit Division is to complete an audit of all of the major federal excise taxpayers within a five year cycle. The major taxpayers contribute roughly 98% of the \$14.7 billion in federal excise taxes collected each fiscal year by the bureau. While the audit efforts focus on the major taxpayers, the remaining taxpayers are selected for audit under a risk based audit plan.

In FY 2005 TTB's Tax Audit Division completed 86 audits of TTB's regulated taxpayers. Through these audits, TTB was able to validate over \$19 billion in federal excise taxes paid during the multi year audit period. Based on audit work completed in FY 2005 and audit results from FY 2004, the bureau collected an additional \$2.4 million in federal excise tax, and identified an additional \$10.2 million in tax, penalties and interest potentially due. At the end of FY 2005, an additional 48 audits were "in-progress."

# Appendix E: Organizational Structure

## DEPARTMENT OF THE TREASURY



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



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# Appendix F: Program Assessment Rating Tool (PART) Evaluations

<b>Departmental Office</b>	<b>FY PARTed: FY 2002</b>
<b>Program: International Development Association</b>	
Rating: Adequate	
<b>OMB Recommended/Found that:</b>	
<ul style="list-style-type: none"> <li>• by signing on to the IDA-13 replenishment agreement, the U.S. committed to provide \$850 million annually for the next three years (2003 through 2005). The administration is also requesting \$27 million in 2004 to clear some of the \$73 million in arrears that the U.S. owes IDA.</li> <li>• the administration will request an additional \$100 million for IDA in 2004 if IDA meets specific performance benchmarks and an additional \$200 million for IDA in 2005 if IDA makes satisfactory progress in the areas of health, education, and private sector development.</li> <li>• the administration will continue to press IDA and other donors to increase the amount of grants that IDA provides.</li> </ul>	
<b>In Response, DO:</b>	
<ul style="list-style-type: none"> <li>• requested \$950 million for the first of three scheduled contributions to IDA-14 and the full amount has been approved.</li> <li>• agreed to provide \$34 billion for development, primarily in the poorest countries, for FY 2006-FY 2008 through the IDA-14 agreement. The U.S. committed \$2.85 billion to IDA-14. Major policy initiatives that emerged in the IDA-14 agreement include: a significant expansion of the results measurement system; a sharp increase in the provision of grants; promotion of private sector development; and expanded transparency.</li> <li>• will work closely with Treasury to ensure that the performance and other reform commitments agreed to in the replenishment negotiations are implemented in a timely and effective manner.</li> </ul>	

<b>Alcohol and Tobacco Tax and Trade Bureau</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Consumer Product Safety Commission</b>	
Rating: Adequate	
<b>OMB Recommended/Found that TTB:</b>	
<ul style="list-style-type: none"> <li>• Establish clear guidelines and procedures to ensure that goals are very specific. Establish written guidelines and supporting documentation for all aspects of the program.</li> <li>• Refine performance measures to more accurately reflect the goals and achievements of the program.</li> </ul>	
<b>In Response, TTB:</b>	
<ul style="list-style-type: none"> <li>• hired Kelly Anderson and Associates in the summer of 2004 and has currently hired Sim-G, an 8a contractor, to review all processes as they relate to the goals of this program. The 2004 business process reengineering study resulted in establishing clear guidelines as it related predominantly to the National Revenue Center (NRC) in which more than half the NRC resources are related to Protect the Public activities.</li> <li>• established clear guidelines and procedures as they relate to all facets of a number of sub-programs under the Protect the Public mission. In addition to written procedures, this study will provide “as is” and “should be” process flow maps.</li> <li>• rewrote its strategic plan to better align with the goals of Treasury, reassess its goals as they related to the mission, and then determine outcome measures that reflect those goals. Currently, TTB has developed pilot measures. Sim-G has also been tasked with the activity of reviewing the Protect the Public measures to assure that those measures adequately reflect the goals and achievement of the program. These measures are expected to be included in the President’s budget in February 2006.</li> </ul>	

<b>United States Mint</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Coin Production</b>	
Rating: Effective	
<b>OMB Recommended/Found that the Mint:</b>	
<ul style="list-style-type: none"> <li>• needs to improve customer satisfaction survey scores.</li> <li>• has shown some efficiency improvements in achieving reducing manufacturing costs.</li> </ul>	
<b>In Response, the Mint:</b>	
<ul style="list-style-type: none"> <li>• will reduce the maintenance down time of coin manufacturing machinery.</li> <li>• competing customer service and order mailing staff to determine if contractors could handle these functions more efficiently.</li> <li>• will establish a performance target to reduce the time required to process raw materials into finished goods.</li> <li>• examined and addressed systemic risks in the 2004 Strategic Plan.</li> </ul>	

<b>Office of the Comptroller of the Currency</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Bank Supervision</b>	
Rating: Effective	
<b>OMB Recommended/Found that the OCC:</b>	
<ul style="list-style-type: none"> <li>• program purpose is clear, goals are outcome-oriented, program measurements are clear, program is efficiently and effectively managed, but the program is not unique in that other agencies perform similar types of regulatory functions in the banking industry.</li> <li>• should work with federal banking regulatory agencies to align outcome goals and related measures to allow for greater comparison of program performance in the industry.</li> </ul>	
<b>In Response, OCC:</b>	
<ul style="list-style-type: none"> <li>• along with the OTS, NCUA, FDIC, Federal Reserve, Office of Federal Housing Enterprise Oversight (OFHEO), Securities and Exchange Commission (SEC), and the Federal Housing Finance Board (FHFB), will continue to share their strategic plans, performance plans, and performance measures on a regular basis. This allows each agency to consider the approaches used by other agencies when developing or revising their goals and measures. The OCC and OTS, as bureaus in the Department of the Treasury, continue to work together to maintain alignment of their performance measures.</li> </ul>	

<b>Office of Thrift Supervision</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Thrift Supervision</b>	
Rating: Effective	
<b>OMB Recommended/Found that OTS:</b>	
<ul style="list-style-type: none"> <li>• work together with other agencies to align outcome goals and related measures to allow for greater comparison of program performance in the industry.</li> <li>• evaluate the efficiency and effectiveness of a single examination for both Safety and Soundness and Compliance functions.</li> <li>• take steps to examine long-term systemic risks in the industry.</li> </ul>	
<b>In Response, OTS:</b>	
<ul style="list-style-type: none"> <li>• worked with OCC throughout the strategic and performance planning efforts to ensure that their strategic goals were closely aligned. The banking regulatory agencies share their performance and strategic plans with each other and meet quarterly to discuss performance and strategic planning.</li> <li>• eliminated much of the redundancy of two separate exams based on feedback received over the last two years from the vast majority of the industry. OTS will fulfill its statutory examination responsibilities with less FTE's as a result of this change.</li> <li>• examined and addressed systemic risks in the 2004 Strategic Plan.</li> </ul>	



<b>Internal Revenue Service</b> <b>Program: Earned Income Tax Credit (EITC)</b>	<b>FY PARTed: FY 2002</b>
Rating: Ineffective	
<p><b>OMB Recommended/Found that:</b></p> <ul style="list-style-type: none"> <li>• the IRS will delay refunds on returns deemed high risk for filing status or income errors while agents take action to resolve cases. High-risk returns will be identified by researching taxpayer historical compliance and by requiring new information on EITC returns.</li> <li>• as part of a test, the IRS will require high-risk EITC applicants to pre-certify that the children claimed on their return are really qualifying children under EITC. Incorrectly claimed children have been a major source of EITC error. High-risk applicants will be identified through databases such as the Federal Case Registry (information on child custody) and by focusing on taxpayers with characteristics linked to high error rates in compliance studies (e.g., relatives other than parents who claim a child for EITC purposes).</li> </ul>	
<p><b>In Response, the IRS:</b></p> <ul style="list-style-type: none"> <li>• revamped the way it approaches EITC administration. The IRS broadened its mission for the program – maximize participation and minimize error – and is testing a number of “pre-refund” approaches to reduce filing status and income errors. These tests are all part of a broader plan to redesign the entire EITC program.</li> <li>• Results of the FY 2004 Proof of Concept (POC) tests (Qualifying Child Residency Certification, Filing Status and Automated Underreporter) designed to evaluate new ways of reducing erroneous EITC payments while maintaining participation by eligible taxpayers were finalized, and the IRS initiated implementation of the Automated Underreporter process. An interim report on these results was issued to Congress on April 12, 2005, and the final report on October 13, 2005.</li> <li>• will continue POC testing in FY 2006. In FY 2007, the IRS expects to implement additional enhancements based on the evaluation and analysis of the certification and filing status tests. In addition, technology-enabled business process improvements are being designed to augment the efficiency and effectiveness of compliance activities.</li> <li>• held a cross-functional meeting in March 2005 to discuss the administration of the Uniform Definition of a Qualifying Child (UDOQC) and its impact on issues such as exemptions, EITC, child tax credit, childcare credit, and the education credits. It is expected that UDOQC will have far-reaching impact on many functions involved within the examination process. During the meeting, interested stakeholders determined the impact of UDOQC on each operation to ensure consistent understanding of the law and how it will apply to certain credits and related statutory adjustments. Action plans were developed to facilitate internal and external communication of the new uniform definition of qualifying child and to train IRS employees on the new definition during Continuing Professional Education sessions prior to January 2006.</li> <li>• developed a new marketing campaign (“Don’t guess. Know.”) consisting of print ads, outdoor advertising, radio in select media markets and public service announcements for radio and newspaper intended for nationwide distribution. The IRS also produced e-mail blasts and a magazine ad aimed at tax professionals, and produced a cable television program and eight grassroots events for the Limited English Proficient Hispanic community. These events were coordinated internally within IRS and externally with the Volunteer Income Tax Assistors to ensure local participation and partner support.</li> </ul>	

Internal Revenue Service Program: Tax Collection	FY PARTed: FY 2002
Rating: Results not Demonstrated	
<p><b>OMB Recommended that the IRS:</b></p> <ul style="list-style-type: none"> <li>• increase staffing by 537 FTE.</li> <li>• has ongoing efforts to reengineer and modernize technology to introduce risk-based targeting of specific taxpayers with the most effective collection procedures (i.e., notice, phone call or field visit).</li> <li>• improve financial information as part of the IRS-wide financial management improvements.</li> </ul>	
<p><b>In Response, the IRS:</b></p> <ul style="list-style-type: none"> <li>• included in the President's Budget for FY 2005 an initiative for an additional 66 revenue officers (32 Equivalent FTE) in Field Collection and 250 collection representative hires (125 FTE) in Electronic/Correspondence Collection. The FY 2005 Budget also included an additional 66 FTE for the Automated Collection System initiative. The final enacted levels for FY 2004 and FY 2005 provided only partial funding for these hiring initiatives. The FY 2006 President's Budget includes a request for resources to hire an additional 518 collection employees as well as 46 tax examiners.</li> <li>• formed reengineering teams with one team focused on implementing models to conserve Automated Collection System (ACS) and field resources by identifying the non-filer and balance due accounts that have the highest collection probability to accelerate contact and to identify other accounts for limited contact. The team has developed models to better identify high-priority work, monitoring and confirming the success of the collection reengineering models through several research projects. A second team focused their efforts in ACS, making better use of the predictive dialer, realigning the workforce to core hours and analyzing ACS treatments. This team created a performance support tool to provide employees with technical guidance while handling a call, improving telephone operations and the expansion of ACS scripts and leveraging service delivery. The team also implemented a refocused Collection training syllabus that included new tools to assist collection employees, e.g., contact recording and desktop integration, which impacted program efficiency. In addition, the team re-wrote IRS.gov web pages to encourage Direct Debit and convey payment options to taxpayers.</li> <li>• re-wrote the Internal Revenue Manual (IRM) for ACS and toll free operations. New procedures place emphasis on Direct Debit benefits and the use of automatic and electronic methods of payment over traditional installment payment methods.</li> <li>• established new efficiency and outcome measures, Collection Efficiency (units) and Collection Coverage (units) in FY 2005. The target for Collection Efficiency in 497 and Collection Coverage is 32%.</li> <li>• began receiving levy sources from Electronic Filing returns and from State Employment Commissions in January 2005, and implemented programming changes that increased the number of levy sources provided. Systemic changes have been made to prevent erroneous levy sources (e.g., invalid bank routing numbers, missing addresses) from loading to taxpayer accounts, reducing the number of unproductive levy responses.</li> <li>• held a multi-functional summit in July 2005 to create the Collection Corporate Governance Board, used to address alternative treatments to the non-filer inventory. New IMF non-filer models have been developed to assist in selecting the most productive work. A non-filer strategy was developed, focusing on improved identification of non-filers, appropriate outreach and education efforts to address the non-filing segment and identify sustained return filing through balanced, appropriate compliance actions.</li> <li>• began development of business requirements and a release strategy for implementation (September 2005) of the Private Debt Collection effort, including initial work in the development of a methodology to identify accounts that have potential for resolution. Planned actions include: <ul style="list-style-type: none"> <li>○ Improve the process to better align resources and demand under the enterprise call routing technology by implementing a telephone forecast and work plan. (July 2006)</li> <li>○ Develop and implement Call Segmentation to increase the number of ACS calls that can be handled in an automated environment, thus allowing collection representatives to handle calls that require personal interaction with taxpayers. (July 2006)</li> <li>○ Develop a TeleFile/Internet electronic funds withdrawal application for notice payments. (September 2006 – Contingent on additional funding.)</li> <li>○ Develop a funds withdrawal (Direct Debit) application for installment agreements. (September 2006 – Contingent on additional funding.)</li> </ul> </li> </ul>	

<b>Community Development Financial Institutions Fund</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Bank Enterprise Award</b>	
Rating: Results not Demonstrated	
<b>OMB Recommended/Found that the Fund:</b>	
<ul style="list-style-type: none"> <li>• has difficulty measuring the amount BEA awardees reinvest in community development initiatives because it cannot be determined how awardees would behave in the absence of the program.</li> <li>• has no way to measure prospective performance requirements on how awardees spend award funds, as the award is for past performance. This prevents the Fund from ensuring that program awardees commit to the long-term goals of the program.</li> <li>• conduct an independent evaluation of the program.</li> <li>• measure progress in meeting long-term outcome goals and annual performance goals.</li> <li>• make statutory changes to the authorizing legislation that would clearly distinguish this program from the mandates of the Community Reinvestment Act and would insure that award funds are spent on community development activities.</li> </ul>	
<b>In Response, the Fund:</b>	
<ul style="list-style-type: none"> <li>• determined that it could more effectively achieve its strategic objectives if the BEA Program regulations and NOFA were revised to target awards: (1) to CDFIs with a greater need for the incentive provided by the BEA Program award, and (2) to “personal wealth” and “community asset” building activities. The BEA Program revised interim rule and subsequent NOFAs contain several revisions to ensure that the program: better targets awards to community development activities in distressed areas; and achieves greater operational efficiencies for applicants and the Fund.</li> <li>• planned to conduct an evaluation of the BEA Program in FY 2006, but discontinued planning when SACI legislation was proposed in FY 2005.</li> <li>• began measuring progress toward meeting long-term and annual goals in FY 2003, and has measured progress annually since then.</li> <li>• considered amending the BEA statute to allow it to make awards abased on prospective commitments to engage in innovative investment activities, but determined that it was not politically feasible.</li> </ul>	

<b>Departmental Office</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Office of Technical Assistance</b>	
Rating: Adequate	
<b>OMB Recommended that DO:</b>	
<ul style="list-style-type: none"> <li>• work with the administration as they implement the Project Management Tracking System (PMTS) and develop long-term and annual measures and targets across OTA.</li> </ul>	
<b>In Response, DO:</b>	
<ul style="list-style-type: none"> <li>• has developed and implemented long-term performance measures, through the new PMTS, in which it continues to work. The trial PMTS implementation was completed with the OTA Budget Unit during FY 2005; full implementation across all OTA units will be effective in FY 2006.</li> <li>• has developed two long-term measures and one annual measure.</li> </ul>	

<b>Departmental Office</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Tropical Forest Conservation Act (TFCA)</b>	
Rating: Results not Demonstrated	
<b>OMB Recommended/Found that:</b> <ul style="list-style-type: none"> <li>the program did not have performance measures that would enable a meaningful evaluation of program effectiveness. To overcome this deficiency, the Treasury has developed an Evaluation Sheet and is currently in the process of implementing this tool for existing and pending agreements. The Evaluation Sheet will measure the success of the TFCA boards and oversight committees in developing a strategic plan that specifies key objectives, conservation and funding priorities, target dates in meeting those objectives, and key TFCA efficiency measures.</li> </ul>	
<b>In Response, DO:</b> <ul style="list-style-type: none"> <li>requested \$99.75 million in the FY 2006 budget for debt restructuring programs overall and flexibility in determining the amount to allocate for each program, including TFCA. A total of \$65 million has been approved which no less than \$20 million shall be made available to TFCA.</li> <li>will work with TFCA boards, oversight committees, and program partners to implement the TFCA Evaluation Sheet for all existing and pending agreements, and include the Evaluation Sheet or other appropriate evaluations in all new agreements.</li> <li>will ensure that the program is effectively managed and meets performance goals.</li> </ul>	

<b>Departmental Office</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Office of Foreign Assets Control</b>	
Rating: Results not Demonstrated	
<b>OMB Recommended/Found that OFAC:</b> <ul style="list-style-type: none"> <li>develop long-term performance goals with specific timeframes and measures</li> <li>develop annual performance goals and align them with the long-term performance measures.</li> </ul>	
<b>In Response, OFAC:</b> <ul style="list-style-type: none"> <li>has developed one long-term measure and one short-term measure, as follows:                     <ul style="list-style-type: none"> <li>Long-Term: The number of civil penalty cases that are resolved within the Statute of Limitations Periods. Target: 40</li> <li>Short-Term: Turn around time for license and interpretive submissions</li> </ul> </li> </ul>	

<b>Departmental Office</b>	<b>FY PARTed: FY 2002</b>
<b>Program: Global Environment Facility</b>	
Rating: Results not Demonstrated	
<b>OMB Recommended/Found that:</b> <ul style="list-style-type: none"> <li>the GEF has not yet implemented a performance-based allocation system (PBAS) as promised during the most recent donor replenishment agreement for the GEF (called GEF-3). While project selection focuses on global benefits, projects are funded in the order in which they are proposed and not on the basis of relative country performance or environmental benefits.</li> <li>GEF funds should be focused on countries with the greatest potential benefits to the global environment and the best policy performance.</li> <li>the GEF needs to pay great attention to cost-effectiveness.</li> <li>while the GEF has long-term performance goals, several are rather general, such as conserving biological diversity; many do not have established baselines; and several goals lack time-frames.</li> <li>GEF annual measures are mainly process rather than outcome oriented.</li> <li>the GEF needs to undertake more rigorous evaluations of its projects' performance and donors should tie a portion of their replenishment contributions to key outcomes.</li> </ul>	

**In Response, DO:**

- requested \$107.5 million for the fourth and final scheduled contribution to the GEF-3 replenishment and \$80 million in appropriations.
- will continue to work on the reform commitments contained in the GEF-3 replenishment agreement. However, progress on implementation was uneven. There has been an improvement in the results measurement framework of new projects, although there needs to be better focus on country and GEF-wide institutional outcomes and more systematic reporting of those outcomes. A new independent evaluation function has been established and is now operational. A more competitive system for implementing GEF projects has been put in place, although GEF needs to focus on further improvement in cost effectiveness and overall project management. The creation of a new private sector strategy, as agreed in GEF-3, is over two years behind schedule. Finally, the central GEF-3 replenishment reform—the establishment of a performance-based allocation system—has been repeatedly delayed and remains controversial with many member governments. These issues will continue to be pursued actively by the U.S.

<b>Bureau of Engraving and Printing</b>	<b>FY PARTed: FY 2003</b>
<b>Program: New Currency Manufacturing</b>	
Rating: Effective	
<b>OMB Recommended that BEP:</b>	
<ul style="list-style-type: none"> <li>• monitor design and overhead costs related to the manufacture of New Currency to ensure the most efficient production and distribution of future denominations.</li> <li>• continue to work with federal partners to assess the impact of New Currency on counterfeiting performance measures across government.</li> </ul>	
<b>In Response, BEP:</b>	
<ul style="list-style-type: none"> <li>• will work closely with the ACD Steering Committee to identify and evaluate future counterfeit deterrent designs.</li> <li>• will work with Treasury/Federal Reserve/U.S. Secret Service within the Advanced Counterfeit Deterrent Steering Committee to assess impacts.</li> </ul>	

<b>Financial Management Service</b>	<b>FY PARTed: FY 2003</b>
<b>Program: Debt Collection</b>	
Rating: Effective	
<b>OMB Recommended that FMS:</b>	
<ul style="list-style-type: none"> <li>• develop a more ambitious long-term performance measure for the program.</li> <li>• set interim targets and describe interim actions necessary to achieve the long-term performance measure.</li> <li>• level fund the debt collection program for FY 2005.</li> <li>• propose legislation to increase and enhance debt collection opportunities.</li> </ul>	
<b>In Response, FMS:</b>	
<ul style="list-style-type: none"> <li>• will continuously review the trend in debt collection and revise/update the long-term measure as necessary.</li> <li>• will establish annual performance measures for collections and referrals of debt by agencies. FMS has reduced its salary and expenses appropriated funding requirements for this program in recent years and is funding the program through fee revenue. These interim targets/measures and actions are part of the overall long-term strategy to maximize collections for the federal government and to improve the efficiency and effectiveness of the debt collection program. These targets/measures and actions help direct efforts to achieve our long-term measure.</li> <li>• will operate within budgetary resources and analyze projected collections and fees with the goal of maintaining or reducing the fees charged to customers for FMS debt collection services.</li> <li>• has worked with Congress to enact two of the four proposals into law.</li> </ul>	

<b>Bureau of the Public Debt</b>	<b>FY PARTed: FY 2003</b>
<b>Program: Administering the Public Debt</b>	
Rating: Effective	
<b>OMB Recommended that BEP:</b>	
<ul style="list-style-type: none"> <li>• continue to improve annual performance targets.</li> <li>• develop long-term performance measures and goals, with interim targets, for inclusion in the 2006 budget.</li> </ul>	
<b>In Response, BEP:</b>	
<ul style="list-style-type: none"> <li>• improved annual performance targets.</li> <li>• developed long-term performance measures and goals, with interim targets, for inclusion in the 2006 budget.</li> </ul>	

<b>Internal Revenue Service</b>	<b>FY PARTed: FY 2003</b>
<b>Program: Submission Processing</b>	
Rating: Moderately Effective	
<b>OMB Recommended/Found that the IRS:</b>	
<ul style="list-style-type: none"> <li>• complete a successful implementation of the Integrated Financial Systems (IFS) project, which will provide Submissions Processing with the data necessary to calculate accurate, complete unit cost measures.</li> <li>• implement the Modernized e-File IT project to facilitate further e-File growth.</li> <li>• develop appropriate short and long-term outcome goals.</li> </ul>	
<b>In Response, the IRS:</b>	
<ul style="list-style-type: none"> <li>• implemented IFS in October 2004 and completed data conversion from its current financial system historical data in November 2004. This deployment included a cost module that captured data for the first ten months of FY 2005, enabling the IRS to view direct expense data (labor, supplies, travel, etc.) FTEs and on-rolls data captured at the lowest cost center (group or work unit) level; in addition, the IRS has completed running allocations to distribute support costs to the operational business units.</li> <li>• plans to allocate overhead costs based on proven business methodologies that are consistently applied, easy to maintain and will support internal and external audits. Initially, the budget allocation methodology, developed by the Budget Restructure project team and used in formulation of the FY 2006 budget, will be integrated into IFS functionality to distribute support costs into operational areas of the IRS budget. Then, as obligations and expenditures are recorded they will be appropriately distributed among the operational areas of the IRS budget.</li> <li>• implemented a new Modernized e-File system in FY 2004.</li> <li>• will report performance versus the business sector of electronic filing, as well as progress toward increasing the number of payments received electronically. In the FY 2007 budget submission, the IRS has also included the following measures for Submission Processing to track efficiency and effectiveness of the program:             <ul style="list-style-type: none"> <li>○ Deposit Timeliness</li> <li>○ Refund Timeliness- Individual Paper</li> <li>○ IMF Returns Processed Per Staff Year</li> <li>○ BMF Returns Processed Per Year Staff</li> <li>○ Percent of Tax Payments Processed Electronically</li> </ul> </li> </ul>	

<b>Departmental Office</b> <b>Program: African Development Fund</b>	<b>FY PARTed: FY 2003</b>
Rating: Results not Demonstrated	
<b>OMB Recommended/Found that DO:</b> <ul style="list-style-type: none"> <li>• request \$118 million in 2005 for the third of three annual installments under the AfDF-IX replenishment agreement. By signing onto the agreement, the U.S. committed to provide \$118 million annually for three years (2003-2005).</li> <li>• closely monitor the Bank's progress in implementing the results measurement and result-based management systems, particularly the development of short-term performance measures, targets, and baselines' and long-term targets and timeframes – by September 2004.</li> <li>• continue to press AfDF and other donors to increase the amount of grants that the AfDF provides.</li> </ul>	
<b>In Response, DO:</b> <ul style="list-style-type: none"> <li>• requested \$135.7 million in the FY 2006 budget for the first of three scheduled contributions to the AfDF-10 and the full amount has been approved.</li> <li>• made available through the AfDF-10 replenishment approximately \$1 billion per year for grant and lending operations.</li> <li>• Major policy objectives agreed to in AfDF-10 include:               <ul style="list-style-type: none"> <li>○ Grants are expected to total approximately 45% of AfDF total assistance, because debt sustainability will now be determinant of a country's financing terms;</li> <li>○ Enhanced AfDF development effectiveness with measurable results on the ground;</li> <li>○ Improved focus on support for private sector development;</li> <li>○ Capacity to assist post-conflict countries in clearing arrears to the AfDB group; and</li> <li>○ Expanded information disclosure of the Bank's activities and policies.</li> </ul> </li> </ul>	

Internal Revenue Service Program: Taxpayer Service	FY PARTed: FY 2004
Rating: Adequate	
<p><b>OMB Recommended/Found that the IRS:</b></p> <ul style="list-style-type: none"> <li>• set long term goals during 2005.</li> <li>• convert its efficiency measures to cost based rather than staff year based metrics as accounting systems improve and use them in the 2007 performance budget (e.g., cost per call answered). The IRS will also add efficiency measures for each taxpayer service process for internal management purposes.</li> <li>• use customer satisfaction measures in its published performance budget.</li> <li>• explore the mix of service options (phones, walk-in, Internet, volunteer services) to ensure that the most efficient and effective means is used to deliver service.</li> <li>• improve the accuracy of information provided to taxpayers.</li> <li>• research the impact of taxpayer service programs on voluntary compliance.</li> <li>• improve financial information as part of the IRS-wide financial management improvements.</li> <li>• streamline taxpayer service programs by reducing dependence on less efficient walk-in service centers and increasing reliance on telephone and Internet service.</li> </ul>	
<p><b>In Response, the IRS:</b></p> <ul style="list-style-type: none"> <li>• developed long term goals for the IRS budget programs and included the measures in the FY 2007 President's budget submission. The long term programmatic goals track the level of service provided to taxpayers, accuracy of tax law and account responses and the Taxpayer Self Assistance Rate.</li> <li>• completed implementation of the Integrated Financial System (IFS) in FY 2005 including deployment of the cost module to direct expense data (labor, supplies, travel, etc), Full time equivalent (FTEs) and on-rolls data captured at the lowest cost center (group or work unit) level; in addition which as allowed the IRS to distribute support costs to the to operational business units. This data allows the IRS to track and control resources to the organizational unit and level of responsibility providing both direct and indirect cost data and facilitates the eventual transition to a performance-based, distributed-cost budget from the bottom up. As an interim solution, the IRS will continue to use staff year information in reporting on its efficiency measure including the new Customer Contacts per Staff Year measure (includes data for Assistor Calls, Web Services, Electronic Services, and Paper Responses). <ul style="list-style-type: none"> <li>○ Completed development of solutions to convert efficiency measures to cost based measures for its operational units.</li> </ul> </li> <li>• continued to monitor customer satisfaction information as part of the balanced measures suite used to manage its programs. The IRS is also developing a proposal to post key customer satisfaction results on its public website (IRS.gov).</li> <li>• made program changes to provide the most efficient and effective means necessary to deliver service, e.g., enhancements to the Internet Fact-of-Filing (IRFOF) application and e-services including: <ul style="list-style-type: none"> <li>○ Refund trace initiation on-line - The IRS' "Where's my Refund?" on-line application allowed more than 22 million taxpayers to check on the status of their refunds this past filing season, a 49% increase over last year.</li> <li>○ Self-help kiosks (38 in 20 states) and increases in the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs.</li> <li>○ Increased service options during the filing season in alternate locations such as shopping malls, libraries, and other government offices.</li> <li>○ "Hits" on IRS.gov totaled more than 4.8 billion, up 20% over the same time last year.</li> <li>○ In 2005, more than half of all taxpayers filed electronically and more than five million of these filed through the Free File Alliance. Surveys show that e-file taxpayers are significantly more satisfied with their interaction than paper filers mainly due to refunds issued quicker and reduction of common filing errors made by taxpayers.</li> </ul> </li> <li>• helped taxpayers determine whether they qualify for the Earned Income Tax Credit (EITC), the IRS launched a new online query, "EITC Assistant." It provides taxpayers with the status of EITC Certifications and instant results regarding eligibility for the tax credit to prevent erroneous refunds up-front. Taxpayers can now apply for and receive an Employer Identification Number (EIN) via the Internet. This application captures all of the required information provided by the taxpayer and issues an EIN in under five seconds.</li> <li>• improved the interactive Probe and Response Guide which became effective for use in December 2004 placing emphasis on prioritizing staffing of tax law applications while successfully preparing for the filing period. The IRS also initiated six Sigma teams to review and develop improvement actions related to the work processes and procedures used to address taxpayer issues. In addition, the IRS has implemented Embedded Quality (EQ), a review system that standardizes criteria for evaluating employee performance, pinpoints training opportunities, and links to business measures, to improve the accuracy of responses to customers.</li> <li>• explored efforts to study customer service impacts as part of its FY 2006 Research Plan.</li> </ul>	



<b>Community Development Financial Institutions (CDFI) Program: Financial and Technical Assistance</b>	<b>FY PARTed: FY 2004</b>
Rating: Adequate	
<p><b>OMB Recommended that CDFI:</b></p> <ul style="list-style-type: none"> <li>• is not unique because several states administer similar programs and CDFIs can use private sector equity investments to accomplish activities they otherwise would accomplish with CDFI Fund awards.</li> <li>• set a target and timeframe for the long-term measure for the program.</li> <li>• establish a baseline for the efficiency measure, set a target, and measure progress in achieving this target.</li> <li>• make disaggregated program performance data available to the public.</li> <li>• conduct an independent evaluation of the program.</li> </ul>	
<p><b>In Response, CDFI:</b></p> <ul style="list-style-type: none"> <li>• is not taking any action related to the duplication / redundancy finding because: (a.) Fewer than 10 states administer CDFI programs and none of these state programs fully meet the capital needs of the CDFIs in its state. Furthermore, CDFIs in 40 states do not have access to any state CDFI program. (b.) There are too few private sector equity investments available to meet CDFIs' need for capital.</li> <li>• is building the IT system needed to set a target for the second long-term measure. The system will be completed in FY 2006; data will be entered, and the target will be set in FY 2006.</li> <li>• conducted the analysis needed to set the efficiency measure baseline and target by the end of FY 2005 and measure progress starting in FY 2006.</li> <li>• made disaggregated data available to the public in January 2005 and will continue to do so annually.</li> <li>• is conducting an independent program evaluation.</li> </ul>	

<b>Internal Revenue Service</b>	<b>FY PARTed: FY 2004</b>
<b>Program: Taxpayer Advocate Service</b>	
Rating: Adequate	
<p><b>OMB Recommended that the IRS:</b></p> <ul style="list-style-type: none"> <li>• develop a unit cost measure for its casework by 2006.</li> <li>• explore other means to measure its effectiveness in solving systemic problems leading to taxpayer hardship.</li> <li>• improve financial information as part of the IRS-wide financial management improvements.</li> <li>• further improve case quality.</li> </ul>	
<p><b>In Response, the IRS:</b></p> <ul style="list-style-type: none"> <li>• implemented quality standards for all project work.</li> <li>• implemented provisions of its Annual Report to Congress to improve taxpayer service and IRS responsiveness.</li> <li>• continued to utilize its research staff to develop other ways to measure its effectiveness in solving systemic problems leading to taxpayer hardships. Taxpayer Advocate Service (TAS) utilized a number of sources to determine which problems might rise to the level of a “most serious problem,” including solicitation from all local taxpayer advocates, research of the Taxpayer Advocate Management Information System (TAMIS) database, research from the Systemic Advocacy Management System (SAMS) database, and research of concerns expressed by taxpayers and practitioners.</li> <li>• completed implementation of the Integrated Financial System (IFS) in FY 2005 including deployment of the cost module to direct expense data (labor, supplies, travel, etc), FTEs and on-rolls data captured at the lowest cost center (group or work unit) level; in addition this allowed the IRS to distribute support costs to the to operational business units. This data allows the IRS to track and control resources to the organizational unit and level of responsibility providing both direct and indirect cost data and facilitates the eventual transition to a performance-based, distributed-cost budget from the bottom up. As an interim solution, IRS will continue to use staff year information in reporting on its efficiency measures.</li> <li>• met the FY 2005 goal of 91% and expects to meet the FY 2006 goal of 92% by focusing on exceptional quality and customer service. A joint improvement team addressed timely actions and provided suggestions on more effective communications and inventory management.</li> <li>• trained and empowered analysts to assess their quality results and evaluate national trends for improvement. Process changes such as the systemic tracking of customer follow-up dates, use of a buddy system or similar approach to make critical contacts, use of TAMIS enhancements to properly reflect the audit trail utilizing radio buttons, etc. have been adopted by many offices. An annual report on quality captures area/local office enhancements.</li> <li>• provided targeted training and skills transfer to local and area analysts to equip them with consistent skills to evaluate and report data promoting quality improvement at all levels of the organization.</li> <li>• presented at a Taxpayer Advocate Leadership conference to celebrate current accomplishments and outline requirements to excel, focusing on critical leadership competencies in customer service, quality and, leadership.</li> </ul>	

<b>Financial Management Service</b>	<b>FY PARTed: FY 2004</b>
<b>Program: Collections</b>	
Rating: Effective	
<p><b>OMB Recommended that FMS:</b></p> <ul style="list-style-type: none"> <li>• work with program partners to explore opportunities to better reduce paper-based collections.</li> <li>• level fund the Collections program for FY 2005.</li> </ul>	
<p><b>In Response, FMS:</b></p> <ul style="list-style-type: none"> <li>• is working with other federal agencies to reduce paper-based collections.</li> <li>• has partnered with Customs and Border Protection (CBP) to convert the financial piece of CBP’s Automated Commercial Environment (ACE) System to Pay.gov. The ACE cash flow totals \$20 billion annually.</li> <li>• will work with federal agencies to pilot and implement TGA.net, an automated system designed to eliminate the paper deposit ticket which accompanies over the counter deposits by federal agencies at financial institutions.</li> <li>• operated within budgetary resources in FY 2005.</li> </ul>	

<b>United States Mint</b> <b>Program: Numismatic</b>	<b>FY PARTed: FY 2004</b>
Rating: Effective	
<b>OMB Found that the Mint:</b>	
<ul style="list-style-type: none"> <li>• established performance measures focused on customer satisfaction and improved cost efficiencies.</li> <li>• made enormous strides over the past several years to streamline the production of numismatic products.</li> <li>• has an excellent internal management structure that is able to receive and analyze real-time financial, production, and other operating data on a daily basis.</li> <li>• scored an 87 on the American Customer Satisfaction Index (CSI). This CSI score was the highest of any government agency, and second highest of all entities (public and private) evaluated.</li> <li>• is making significant progress toward meeting its inventory turnover target of 4.2 in 2005, which reflects the number of times per year the Mint works through its inventory.</li> </ul>	
<b>In Response, Mint:</b>	
<ul style="list-style-type: none"> <li>• ensured a smooth transition for the Mint’s call center as it moves to an outside contractor so that customer service is not significantly interrupted.</li> <li>• continues substantial progress toward reaching the Mint’s target goal for inventory turnover.</li> </ul>	

<b>Community Development Financial Institutions (CDFI)</b> <b>Program: New Markets Tax Credit (NMTC)</b>	<b>FY PARTed: FY 2004</b>
Rating: Adequate	
<b>OMB Recommended that CDFI:</b>	
<ul style="list-style-type: none"> <li>• program is not unique because other federal, state and local tax credit programs are available, and because numerous programs at HUD (CDBG) and Commerce (EDA) augment the NMTC Program goal of improving low-income communities.</li> <li>• set targets for the annual performance measures and measure performance in achieving them.</li> <li>• establish a baseline for the efficiency measure, set a target, and measure progress in achieving this target.</li> <li>• conduct an independent evaluation of the program.</li> </ul>	
<b>In Response, CDFI:</b>	
<ul style="list-style-type: none"> <li>• is not taking any action on the duplicative/redundancy finding because in the Fund’s opinion the other available program complement rather than duplicate the NMTC Program.</li> <li>• program allocates submitted data that the Fund needs to set performance measure targets. The Fund set targets and measure its achievement in FY 2005.</li> <li>• base-lined the efficiency measure, set a target and will measure progress in FY 2006.</li> <li>• is procuring a contract to evaluate the program. The contract will be awarded in early FY 2006.</li> </ul>	

The following programs were evaluated in 2005 and are awaiting OMB recommendations that will be part of the FY 2007 budget.

Bureau	Program	Rating
Financial Crimes Enforcement Network	FinCEN BSA Collection & Dissemination	TBD
Financial Management Services	FMS Payments	TBD
Internal Revenue Service	Examination	TBD
Internal Revenue Service	IRS Criminal Investigations	TBD
United States Mint	Mint Protection	TBD
Alcohol and Tobacco Tax and Trade Bureau	Collect the Revenue	TBD

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## Appendix G: Glossary of Acronyms

ACD	Advanced Counterfeit Deterrence
AGI	Adjusted Gross Income
ARC	Administrative Resource Center
ASM/CFO	Assistant Secretary for Management/Chief Financial Officer
ATAT	Abusive Tax Avoidance Transaction
AUR	Automated Under-Reporter
BEP	Bureau of Engraving and Printing
BIT	Bilateral Investment Treaties
BMENA	Broader Middle East and North Africa
BPD	Bureau of Public Debt
BSA	Bank Secrecy Act
BSM	Business System Modernization
C&A	Certified and Accredited
CADE	Customer Account Data Engine
CAFTA	Central American Free Trade Agreement
CDDB	Custodial Detailed Data Base
CDE	Community Development Entity
CDFI	Community Development Financial Institution
CFO	Chief Financial Officer
CHCO	Office of the Chief Human Capital Officer
COLA	Certificates of Label Approval
CSI	Customer Satisfaction Index
CSRS	Civil Service Retirement System
D.C. Federal Pension Fund	D.C. Teachers, Police Officers and Firefighters Federal Pension Fund
DCP	Office of D.C. Pensions
DO	Departmental Office
EBRD	European Bank for Reconstruction and Development
e-File	Electronic Filing
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
EGTRRA	Economic Growth and Tax Relief Reconciliation Act
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
EP	Economic Policy

EQ	Embedded Quality
ERIS	Enforcement Revenue Information System
ESF	Exchange Stabilization Fund
EU	European Union
F&PC	Filing and Payment Compliance
FACT	Federal Accurate Credit Transaction
FACTS I	Federal Agencies' Centralized Trial Balance System
FAIR	Federal Activities Inventory Reform Act
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees Group Life Insurance
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees' Retirement System
FET	Federal Excise Tax
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMIS	Financial Management Information System
FMS	Financial Management Service
FPA	Federal Program Agencies
FTA	Free Trade Agreement
FTE	Full Time Equivalents
FY	Fiscal Year
GAB	General Arrangements to Borrow
GAIS	Government Agency Investment Services
GAO	Government Accountability Office
GDP	Gross Domestic Product
GEMAP	Governance and Economic Management Assistance
GFRS	Government-wide Financial Report System
GPRA	Government Performance and Results Act
GSA	General Services Administration

GTF	Government Trust Funds
GWA	Government-wide Accounting
HCSIP	Human Capital Strategic Implementation Plan
HIPC	Heavily Indebted Poor Countries
HSPD-12	Homeland Security Presidential Directive-12
IA	International Affairs
IAE	Integrated Acquisition Environment
IAP	International Assistance Programs
IEEPA	International Emergency Economic Powers Act
IFS	Integrated Financial System
IG	Inspector General
IISOWG	Information Security Officers' Working Group
IMF	International Monetary Fund
IPIA	Improper Payments Information Act
IRIS	Integrated Revenue Information System
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service Criminal Investigation
IT	Information Technology
JAMES	Joint Audit Management Enterprise System
JIATF	Joint Interagency Task Force
Judicial Retirement Fund	District of Columbia Judicial Retirement and Survivors Annuity Fund
LMSB	Large and Mid-Sized Business Division
MDB	Multilateral Development Banks
MeF	Modernized Electronic File
MEO	Most Efficient Organization
MINT	United States Mint
NAB	New Arrangements to Borrow
NMTC	New Markets Tax Credit
NRP	National Research Project
OCC	Office of the Comptroller of the Currency
OCIO	Office of the Chief Information Officer
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Asset Control
OIA	Office of Intelligence Analysis and Security Programs
OIG	Office of the Inspector General
OMB	Office of Management and Budget

OPEB	Other Post Employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OTS	Office of Thrift Supervision
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PCA	Planned Corrective Actions
PCIE	President’s Council for Integrity and Efficiency
PIJ	Palestinian Islamic Jihad
PMA	President’s Management Agenda
RIS	Requested for Information Services
RTC	Resolution Trust Corporation
SBR	Statement of Budgetary Resources
SDNT	Specially Designated Narcotics Traffickers
SDR	Special Drawing Rights
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards
SME	Small and Medium Enterprise
Supplemental Fund	Federal Supplemental District of Columbia Pension Fund
TAC	Tax Assistance Center
TBARR	Treasury and Annex Repair and Restoration
TCE	Treasury Communications Enterprise
TEOAF	Treasury Executive Office for Asset Forfeiture
TFFC	Terrorist Financing and Financial Crimes
TFI	Terrorism and Financial Intelligence
TIGTA	Treasury Inspector General for Tax Administration
TIPS	Treasury Inflation-Protected Securities
Trust Fund	District of Columbia Federal Pension Liability Trust Fund
TTB	Alcohol & Tobacco Tax and Trade Bureau
TY	Tax Year
UAE	United Arab Emirates
USPS	United States Postal Service
VITA	Volunteer Income Tax Assistance
VPCR	Voluntary Payment Compliance Rates
WMD	Weapons of Mass Destruction



