Audit Report

OIG-09-006

Audit of the Department of the Treasury's Fiscal Years 2008 and 2007 Financial Statements

November 17, 2008

Office of Inspector General

Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 17, 2008

INFORMATION MEMORANDUM FOR SECRETARY PAULSON

FROM: for Eric M. Thorson
Inspector General

SUBJECT: Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2008 and 2007

INTRODUCTION

I am pleased to transmit KPMG LLP's report on the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2008 and 2007.

The Department of the Treasury Office of Inspector General is responsible for ensuring that the financial statement audit of the Department of the Treasury is conducted in accordance with the Chief Financial Officers' Act of 1990, as amended by the Government Management Reform Act of 1994.

RESULTS OF INDEPENDENT AUDIT

Under a contract monitored by my office, KPMG LLP, an independent certified public accounting firm, performed an audit of the FY 2008 and 2007 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

In its audit of the Department of the Treasury, KPMG LLP

- found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;

- reported that the three material weaknesses related to financial systems and reporting identified by the auditor of the Internal Revenue Service (IRS) are collectively considered a material weakness for the Department as a whole;

- reported that control deficiencies related to (1) financial management practices at the departmental level and (2) controls over foreign currency transactions represent significant deficiencies for the Department as a whole;

- reported an instance of noncompliance with laws and regulations related to the Internal Revenue Code Section 6325;
- reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- reported an instance of a potential Anti-deficiency Act violation related to transactions and activities of the Financial Crimes Enforcement Network

IRS's pervasive internal control weaknesses have existed since audits of its financial statements were initiated in FY 1992. The Government Accountability Office (GAO), the auditor of IRS's financial statements for the fiscal years ending September 30, 2008 and 2007, reported that the bureau continued to make significant strides in addressing its financial management challenges and material weaknesses in its internal controls. In particular, IRS made progress to address control deficiencies over tax revenue and refunds such that GAO no longer considers the remaining control deficiencies in this area a material weakness. IRS also improved internal controls over safeguarding hard-copy taxpayer receipts and data that enabled GAO to conclude that the remaining issues in this area no longer constitute a significant deficiency. However, IRS faces serious challenges from its use of obsolete financial management systems that do not conform to the requirements of FFMIA. Until IRS resolves the issues affecting the automated systems it relies on to process tax related transactions, it will be challenged to sustain the level of effort needed to produce reliable financial statements in a timely manner. Continued IRS and Department senior leadership involvement is essential to effectively address IRS's remaining financial management challenges.

EVALUATION OF AUDITORS' PERFORMANCE

To ensure the quality of the audit work performed, we reviewed KPMG LLP's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, reviewed and accepted KPMG LLP's audit report, and performed other procedures that we deemed necessary. We also provide oversight of the audits of financial statements and certain accounts and activities conducted at 12 component entities of the Department. 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 on whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated November 17, 2008, and the conclusions expressed in that report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

I appreciate the courtesies and cooperation extended to KPMG LLP and my staff during the audit. Should you or your staff have questions, you may contact me at (202) 622-1090 or Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

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

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SECTION I –

INDEPENDENT AUDITORS' REPORT AND MANAGEMENT'S RESPONSE

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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 (Department) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, and changes in net position, combined statements of budgetary resources, and the statements of custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. These consolidated financial statements are incorporated in the accompanying *U.S. Department of the Treasury Fiscal Year 2008 Performance and Accountability Report* (PAR).

We did not audit the amounts included in the consolidated financial statements related to the Internal Revenue Service (IRS), a component entity of the Department. The financial statements of the IRS were audited by another auditor whose report thereon has been provided to us. Our opinion, insofar as it relates to the amounts included for the IRS, is based solely on the report of the other auditor.

In connection with our fiscal year 2008 audit, we, and the other auditor, also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements. Our conclusions on internal control over financial reporting and compliance and other matters, insofar as it relates to the IRS, are based solely on the report of the other auditor.

Summary

As stated in our opinion on the consolidated financial statements, based on our audits and the report of the other auditor, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 24, 25, and 26, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

Our, and the other auditor's consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

- Financial Systems and Reporting at the IRS (Repeat Condition)
- Financial Management Practices at the Departmental Level (Repeat Condition)
- Controls Over Foreign Currency Transactions

We consider the significant deficiency related to Financial Systems and Reporting at the IRS noted above, to be a material weakness.

The results of our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed an instance of noncompliance with *Internal Revenue Code* (IRC) Section 6325, 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. 07-04, *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) requirements related to compliance with Federal financial management system requirements (FFMSR), applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level.

We also reported a matter related to compliance with the *Anti-deficiency Act* at the Financial Crimes Enforcement Network (FinCEN). This potential violation is currently under review by the Government Accountability Office (GAO).

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Department of the Treasury as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, 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 consolidated financial statements related to the IRS, a component entity of the Department, which reflect total assets of $35.6 billion and $31.3 billion, net costs of operations of $12.2 billion and $11.7 billion, and custodial revenues of $2.8 trillion and $2.7 trillion, as of and for the years ended September 30, 2008 and 2007, respectively. The financial statements of the IRS, as of and for the years ended September 30, 2008 and 2007, were audited by another auditor whose report dated November 5, 2008, has been provided to us, and our opinion, insofar as it relates to the amounts included for the IRS, is based solely on the report of the other auditor.

In our opinion, based on our audits, and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2008 and 2007, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 24, 25, and 26, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

The information in the PAR in Part I – *Management's Discussion and Analysis*, and the Required Supplemental Information section of Part III – *Annual Financial Report*, is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We, and the other auditor, 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 auditor, were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Message from the Secretary, in the PAR in Part II – *Annual Performance Report*; and in Part IV – *Other Accompanying Information*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our, and the other auditor's, consideration of the internal control over financial reporting is described in the Responsibilities section of this report. Our consideration of internal control over financial reporting was for a limited purpose and would not necessarily disclose all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. This report also includes our consideration of the results of the other auditor's testing of internal control over financial reporting that is reported on separately by the other auditor. The other auditor's consideration of internal control over financial reporting was for the purpose of providing an opinion on the effectiveness of IRS's internal controls. This report, insofar as it relates to the results of the other auditor, is based solely on the report of the other auditor.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

In our fiscal year 2008 audit, we, and the other auditor, consider the deficiencies, summarized below, to be significant deficiencies in internal control over financial reporting. The significant deficiency related to Financial Systems and Reporting at the IRS noted below is considered to be a material weakness. Because of the IRS material weakness in internal controls discussed below, the other auditor's opinion on internal control stated that the IRS did not maintain effective internal control over financial reporting (including safeguarding of assets), or compliance with laws and regulations, and thus did not provide reasonable assurance that losses, misstatements, and noncompliance with laws material in relation to the financial statements would be prevented or detected on a timely basis.

MATERIAL WEAKNESS

Financial Systems and Reporting at the IRS (Repeat Condition)

IRS continued to make progress in addressing weaknesses in internal control identified in previous years. However, significant deficiencies related to financial reporting, unpaid tax assessments, and information security controls continued to exist in fiscal year 2008.

These weaknesses adversely affect IRS's ability to fulfill its responsibilities as the nation's tax collector because it is unable to routinely obtain comprehensive, timely, accurate, and useful, information for day-to-day decision making. As a result, IRS personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until the IRS successfully addresses underlying systems and internal control weaknesses.

The material weaknesses in internal control over financial reporting identified by the auditors of IRS's financial statements, all of which are repeat conditions, and collectively 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 not (1) being able to prepare its balance sheet without extensive compensating procedures, and (2) having current and reliable ongoing cost information to support management decision making and to prepare cost-based performance measures;

- Weaknesses in controls over unpaid tax assessments, resulting in IRS's inability to properly manage unpaid tax assessments and leading to increased taxpayer burden; and

- Weaknesses in information security controls, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

The material weaknesses in internal control noted above may adversely affect decisions by IRS's management that is based, in whole or in part, on information that is inaccurate because of these deficiencies.

Additional details related to the material weaknesses identified above have been provided to IRS management by the auditors of the IRS's financial statements in their report dated November 5, 2008.

Recommendations

Recommendations to address the material weaknesses discussed above have been provided to IRS management by the auditors of the IRS's financial statements. We recommend that the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) provide effective oversight to ensure that corrective actions are taken by the IRS to fully address this material weakness.

SIGNIFICANT DEFICIENCIES

Financial Management Practices at the Departmental Level (Repeat Condition)

Due to expanded accounting and reporting requirements and responsibilities of the Department, improvements continue to be needed in current financial management and reporting practices.

The Office of Accounting and Internal Control (AIC) within the Office of the Deputy Chief Financial Officer (ODCFO), is responsible for establishing and maintaining financial policies that guide consolidated financial reporting throughout the Department, and implementing internal controls to ensure the overall integrity of financial data reported at the consolidated level. AIC prepares consolidated financial statements including footnote and supplementary data, from trial balances and other financial data submitted by the components. AIC uses this information to compile the Department's consolidated financial statements. AIC is dependent on the Treasury components for complete, accurate, and timely submission of monthly financial data. Certain quality control procedures are conducted by AIC to ensure that component financial and other data is accurate and complete for inclusion in the consolidated financial statements. However, several control deficiencies were noted, as described below, that indicated a weak control environment, resulting in financial management and reporting weaknesses. These deficiencies in internal control over financial reporting are collectively considered a significant deficiency for the Department as a whole.

- We continue to note that AIC, in addition to other Departmental Offices such as the Office of Financial Management (OFM), and the Office of Performance Budgeting and Strategic Planning (OPBSP), have financial management infrastructures that are inadequately staffed for the financial reporting responsibilities of such a large and complex Executive Branch agency. Several key personnel having significant institutional knowledge of the Department's accounting and reporting processes within these offices are at or near retirement eligibility status. In the event of retirement or sudden prolonged absence of one or more of the key accounting individuals, Treasury would face a significant loss of operational and institutional knowledge absent a comprehensive, formalized succession plan, resulting in significant financial management deficiencies. In fiscal year 2008, we noted that AIC successfully replaced one key official that retired in the current year, and supplemented its existing staff with two additional staff members on detail from other Treasury components. Although this temporarily helped with AIC's short-term needs, AIC, OFM, and OPBSP's long-term human capital need of personnel who have the requisite financial accounting background, knowledge, and expertise, to assist in the financial management and reporting of such a large and complex executive branch agency remains to be addressed.

- AIC's supervisory and monitoring control procedures were not consistently performed and documented over certain financial data and other information transmitted by Treasury components. During our review of interim and final consolidated financial statements, we noted errors and discrepancies that were only corrected after they were identified during audit test work. In other instances, we noted inadequate and/or untimely follow-up of accounting and/or reporting issues.

- AIC has not yet formalized written policies and procedures for the required accounting and reporting of various non-routine, complex, and unique transactions, such as the reporting of the U.S. Mint's Seigniorage amount, accrued interest and discount on debt, transfers to the General Fund and Other, in the Department's consolidated financial statements.

- AIC procedures for monitoring compliance with existing, as well as new laws and regulations that apply to the Department need improvement. Specifically, we noted that there is no formal communication between Treasury's Office of General Counsel (OGC) and AIC on matters related to new legislation, the assessment of compliance requirements, if any, and subsequent actions to be taken by the Department. Currently, interpretation of new laws and regulations, and resulting compliance needs, are left up to the discretion and interpretation of Department personnel. Without a formal communication process, there is significant risk of noncompliance with laws and regulations by the Department and its components.

- Our reviews of Department-wide testing and reporting on internal control over financial reporting, in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control* (A-123), continue to identify similar implementation issues as in prior years. Although the Department established an effective implementation plan (Plan) to assess, document, test, and report on internal control over financial reporting, certain Treasury components did not fully execute the Plan. Specifically, some components did not have, or provide verifiable and documented results to support their conclusion as to whether internal control over financial reporting was properly designed and operating effectively for certain areas in accordance with the Department's guidelines. In addition, the AIC, which is responsible for the Department-wide monitoring of A-123 compliance, did not effectively review the work performed by components to assess whether the methodology and implementation requirements had been followed.

- As a result of the *Housing and Economic Recovery Act* legislation of 2008, the Department was involved in various financial transactions unique to the Department. These transactions were processed in a shortened time-frame causing various control deficiencies related to documentation of policies and procedures and financial reporting. The Department overcame significant time and personnel resource constraints to appropriately execute, manage, and report the results of these unprecedented events and transactions all of which occurred during the last month of the fiscal year. One transaction type involved the purchase of GSE Mortgage Backed Securities (MBS) in the amount of $3.3 billion. The Department concluded that the purchase of GSE MBS should be accounted under the Federal Credit Reform Act of 1990, as amended (FCRA). FCRA has significant documentation requirements. Since the MBS program was implemented in a shortened time-frame, the Department did not properly document policies and procedures, and controls relating to the MBS accounting and reporting. The primary cause of this lack of documentation was that Treasury did not have the resources, including personnel to prepare the required documentation supporting the accounting, re-estimate valuation, and financial reporting of the MBS purchases under FCRA.

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (Standards).* The GAO defines "internal control" as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The GAO *Standards* identify the control environment as one of the five key elements of control, which emphasizes the importance of control conscientiousness in management's operating philosophy and commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, and segregation of duties, policies, procedures, and monitoring.

A-123 requires agencies to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective actions; and (5) report annually on management controls in support of FMFIA. The issues we identified occurred mainly because certain key AIC and OFM financial personnel have excessive workloads, and there is insufficient time for these key financial personnel to devote to supervisory reviews and other financial management activities. This resulted in increased reliance being placed on the annual audit process to identify errors and omissions in the consolidated financial statements, as well as the Department's implementation of A-123.

Recommendations

We recommend that the ASM/CFO, Deputy CFO, and Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer, with input from the Directors of AIC, OFM and OPBSP, as appropriate:

1. Complete a human capital needs assessment, with particular focus on the management skills needed to perform the daily operations of these offices. Once the human capital needs are assessed, hire staff, or consider transferring suitable staff from other offices within Treasury to meet these immediate needs.

2. Establish new policies or improve existing policies and procedures to ensure that:

   i. Quality control reviews are performed on the consolidated financial statements by responsible officials to ensure that all errors and inconsistencies are corrected in a timely manner; and

   ii. Adequate reviews are conducted by senior AIC officials on all documentation prepared to support consolidated financial statement amounts to ensure that the documents and information provided are accurate and complete, and such review is documented.

3. Ensure that documentation exists to support all new and/or unique accounting and reporting requirements as well as non-routine or complex accounting and reporting matters. For example, any new financial statement footnote disclosures that are developed should include a policy memo, financial statement footnote disclosure format as well as evidence of review by responsible officials within AIC of both the policy and the format to be followed.

4. Ensure that communication is initiated on a periodic basis (at least quarterly) with OGC, to obtain information and documentation on any new laws and regulations that apply at the Department/component level, including documentation of OGC's assessment of compliance requirements especially those having financial impact.

5. Monitor the A-123 work being conducted by components to ensure that the Department's A-123 guidance is fully implemented, and if not, document the rationale or mitgating factors that were considered for not following the Department's requirements.

6. Document policy and procedures related to FCRA transactions, periodically examine performance of the credit programs to re-estimate cash flow projections and assumptions, and have affected personnel continue to consult with other Federal agencies that have substantial credit reform accounting experience.

Controls Over Foreign Currency Transactions

Improvements are needed related to internal control over foreign currency investment transactions at the Exchange Stabilization Fund (ESF). ESF's foreign currency operations are managed on ESF's behalf by a designated fiscal agent. The fiscal agent is responsible for the monthly accounting and reporting to the ESF of foreign currency activities. The fiscal agent also provides data that supports various ESF financial statement disclosures such as for fair values. The ESF relies entirely on the financial information reported by the fiscal agent and incorporates the financial data reported monthly into its general ledger and financial statements. Although ESF's financial data are subject to detailed review and validation by the fiscal agent, ESF does not have sufficient internal independent checks and balances in place to ensure the accuracy and completeness of the transactions and balances reported to them by the fiscal agent. Comprehensive internal processes, procedures, and controls over foreign currency transactions are essential to ensure that these transactions and balances are complete and accurate, and appropriately reported.

Additional details related to the significant deficiency identified above will be provided to ESF management by the auditors of the ESF's financial statements.

Recommendations

Recommendations to address the significant deficiency discussed above will be provided to ESF management by the auditors of the ESF's financial statements. We recommend that the ASM/CFO provide effective oversight to ensure that corrective actions are taken by the ESF to fully address this significant deficiency.

Compliance and Other Matter

The results of certain of our tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed the following instance of noncompliance or other matters that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

- ***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. Instances were noted during the fiscal year 2008 audit where the IRS did not timely 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).

The results of our other tests, and the tests performed by the other auditor, of compliance 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 herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA, and the tests performed by the other auditor, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements (Repeat Condition) related to compliance with (1) federal financial management system requirements (FFMSR), (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL) at the transaction level, as described below.

Instances of noncompliance with FFMSR are summarized below:

- IRS's financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to rely on extensive compensating procedures to generate reliable financial statements.

- Deficiencies were identified in information security controls at the IRS, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

Instances of noncompliance with Federal accounting standards are summarized below:

- Material weaknesses at the IRS related to controls over financial reporting and unpaid tax assessments.

- IRS's financial management system cannot produce reliable, current information on the costs of its activities available to support decision making on a routine basis, consistent with the requirements of Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*.

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

- IRS's core general ledger system for tax-related activities does not comply with the SGL at the transaction level and also does not post transactions in conformance with SGL posting models.

The Secretary of the Treasury also stated in his Letter of Assurance, included in Part I – *Management's Discussion and Analysis*, of the accompanying PAR that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related time frames are presented in Appendix D of the PAR.

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' inability to comply substantially with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, but these actions are long term in nature and are tied to IRS's system modernization efforts.

Recommendation

We recommend that the ASM/CFO 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; and (2) IRS implements its plan of action to solve financial management problems so as to enable resolving the identified instances of financial management systems noncompliance with the requirements of FFMIA. Detailed recommendations to address the noncompliance findings discussed above have been provided to IRS management by the auditors of the IRS's financial statements.

Other Matter

The Department's management informed us of an instance of a potential *Anti-deficiency Act* violation related to transactions and activities of FinCEN. Specifically, budgetary control weaknesses existing within FinCEN may have allowed a potential violation of the *Anti-deficiency Act*. This matter is currently under review by the GAO.

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 component management within the Department. We did not audit the Department's response and, accordingly, we express no opinion on it.

* * * * *

We noted certain additional matters involving internal control over financial reporting and its operation that we will report to the Department's management in a separate letter.

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the Department.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of the Department based on our audits and the report of the other auditor. We, and the other auditor, conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements;

- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall consolidated financial statement presentation.

We believe that our audits, and the report of the other auditor, related to the amounts included for the IRS, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to the IRS, by obtaining an understanding of the design effectiveness of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. Internal control over financial reporting related to the IRS was considered by the other auditor whose report thereon dated November 5, 2008 has been provided to us. We, and the other auditor, 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 audit was not to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. The objective of the other auditor's audit was to express an opinion on the effectiveness of the IRS's internal control over financial reporting. Accordingly, the other auditor provided an opinion on IRS's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2008 consolidated financial statements are free of material misstatement, we, and the other auditor, 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 the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We, and the other auditor, limited our tests of compliance to the provisions described in the preceding sentence, and we, and the other auditor, 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 audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the GAO, 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 17, 2008

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

November 17, 2008

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

Ladies and Gentlemen:

On behalf of Secretary Paulson, I am responding to your draft audit report on the Department of the Treasury's fiscal year (FY) 2008 consolidated financial statements. All of our bureaus and program offices can be proud of the Department's success in issuing a timely and accurate Performance and Accountability Report for the seventh consecutive year of accelerated reporting. Further, they are to be congratulated for overcoming many obstacles to achieve another unqualified opinion on the Department's financial statements.

These successful results also are due in large part to the high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting the audit. Treasury has appreciated your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. Treasury is equally appreciative of the expertise and commitment level demonstrated by the other organizations involved in the audit process – the Office of Inspector General (OIG), the Government Accountability Office (GAO), and the firms that audited several of our bureaus.

The Department of the Treasury continued to make significant progress during FY 2008 to address financial and information management deficiencies. The Office of the Chief Information Officer made substantial improvements in Treasury's Information Security Program and achieved an audit outcome from the OIG of "significant progress in compliance" with the Federal Information Security Management Act (FISMA), for both Treasury unclassified and National Intelligence systems. As a result, the Department formally closed the longstanding FISMA compliance material weakness in September 2008. As reported by GAO, the Internal Revenue Service made significant progress in addressing its controls over the collection of tax revenues due to the federal government and over the issuance of tax refunds.

We acknowledge the Departmental level material weakness, the significant deficiencies, and the instances of noncompliance with laws and regulations described in your report. We agree with your recommendations. We will focus on necessary corrective actions to address each of these items.

We appreciate the continuing professional, cooperative relationship that exists with both KPMG and the Office of Inspector General.

Sincerely,

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

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SECTION II –

DEPARTMENT OF THE TREASURY
FISCAL YEAR 2008 PERFORMANCE
& ACCOUNTABILITY REPORT

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The Department of the Treasury

PERFORMANCE & ACCOUNTABILITY REPORT

fiscal year 2008

THE UNITED STATES DEPARTMENT OF THE TREASURY

OUR VISION

Set the global standard in financial and economic leadership

OUR MISSION

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

OUR VALUES

SERVICE – Work for the benefit of the American people

INTEGRITY – Aspire to the highest levels ethical standards of honesty, trustworthiness, and dependability

EXCELLENCE – Strive to be the best, continuously improve, innovate, and adapt

OBJECTIVITY – Encourage independent views

ACCOUNTABILITY – Responsible for our conduct and work

COMMUNITY – Dedicated to excellent customer service, collaboration, and teamwork while promoting diversity

The Department of the Treasury

FISCAL YEAR 2008

PERFORMANCE & ACCOUNTABILITY REPORT

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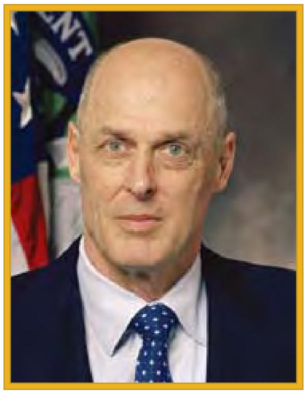
PART II: ANNUAL PERFORMANCE REPORT

PART III: ANNUAL FINANCIAL REPORT

PART IV: OTHER ACCOMPANYING INFORMATION

MESSAGE FROM THE SECRETARY



November 17, 2008

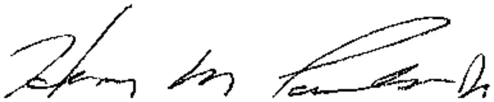
On behalf of the Department of the Treasury, I am pleased to submit the Fiscal Year 2008 Performance and Accountability Report. This annual report provides insight into the Department's broad leadership role for the economic and financial activities of the U.S. Government. The current economic turmoil calls for extraordinary measures, and the Treasury Department has actively pursued initiatives aimed at stabilizing the financial system and strengthening financial institutions that play a vital role in supporting U.S. economic activity.

Maintaining and improving the performance of the Department is crucial. In fiscal year 2008, the Department of the Treasury met or exceeded 70 percent of its performance targets, slightly lower than fiscal year 2007. Though the result is lower than the prior year, Treasury improved the quality of its measures through innovative approaches to measure difficult areas, such as Terrorism and Financial Intelligence, and economic and financial technical assistance provided to other countries.

This year brought two additional management challenges for the Department: *Management of Treasury's New Authorities Related to Distressed Financial Markets* and *Regulation of National Banks and Thrifts*. Treasury recognizes the importance of sound stewardship in managing the authorities related to distressed financial markets. We are executing the authorities we have been granted with one primary goal – to restore liquidity and stability to the financial system of the United States. More broadly, we are reviewing the regulation of national banks and thrifts to identify gaps in regulatory authority and the regulatory framework that contributed to the current financial turmoil, and putting forward policies to modernize our financial regulatory architecture to match the evolution of the financial marketplace.

The Department of the Treasury has again received an unqualified opinion on its financial statements. The Department has validated the accuracy, completeness, and reliability of the financial data in this report. Performance data has been validated, and is likewise complete and reliable. The Department has continued to make progress in reducing management control weaknesses and in efforts to satisfy federal financial systems and control objectives.

Sincerely,



Henry M. Paulson, Jr.
Secretary of the Treasury

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ABOUT THIS REPORT

The fiscal year *2008 Treasury Performance and Accountability Report* provides information that enables Congress, the President, and the public to assess the Department's performance relative to its mission and stewardship of the resources entrusted to it.

The magnitude of the economic and financial challenges this year prompted changes in this report. Management's Discussion and Analysis (MD&A) is focused on the contributions Treasury has made on behalf of the American people to mitigate current or potential financial turmoil.

The MD&A also includes key accomplishments and challenges that are summarized by strategic goal, along with trends in performance, budget, and cost. The Performance Highlights page from the prior year has been renamed to *"How Well is Treasury Performing?"* It includes graphical results for Program Assessment Rating Tool (PART) ratings by both number of programs and by funding. Performance measures have two additional rating categories this fiscal year, "exceeded" and "improved." These results are indicated in two charts, one that incorporates baseline and discontinued measures, and one that does not. There is marked difference in viewing the performance results from these two perspectives.

Additionally, the Department has included three new charts. The first chart is a summary of actual performance trends for the last four years. Treasury examined each of its performance measures for favorable or unfavorable trends, and tabulated the results. The second new chart attempts to provide readers with an approximation of the cost of the Treasury Department for each citizen in the United States. Treasury performance cost was divided by an estimate of the U.S. population at the end of fiscal year 2008 to determine the result. The third and final chart plots Treasury performance and cost versus inflation from 2005-2008. This is a dual-axis chart that indicates the year-over-year change in Treasury performance cost and inflation, and the percentage of Treasury performance measures that were either met or exceeded.

The MD&A also includes a new summary of Treasury-wide and Internal Revenue Service specific challenges, and High Risk Area updates (as defined by the Government Accountability Office). Each management challenge is assessed for its progress and status, with hyperlinks to the appendix of the report that will provide additional detail. High Risk areas are summarized, including hyperlinks to the Office of Management and Budget's ExpectMore.gov page for performance information.

The Annual Performance Report includes new performance measure tables that add a percent of target achieved for each performance measure, as well as indicators for actual and target performance trends over the last four years. A new section entitled *"Analysis of Performance Results"* is included to provide a transparent explanation of performance results.

The Department has also included a *"Moving Forward"* section as it has done in previous years to describe what it will do to address any performance shortfalls and future plans.

Treasury believes this report embodies the integrity, objectivity, transparency, and spirit of continuous improvement that is resident at the agency, and clarifies the public benefits of our collective actions.

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The Department of the Treasury

MANAGEMENT'S DISCUSSION & ANALYSIS

PART I

INTRODUCTION

Fiscal year 2008 has been a challenging year. The ongoing housing correction has reverberated throughout the U.S. financial system and severely impacted the U.S. economy. Lack of confidence among lenders and strained capital markets have made it harder to obtain student loans, auto loans, home loans and business loans. Restoring confidence in capital markets is essential to the long-term health of the U.S. economy. Treasury has made significant efforts this year to address financial market difficulties and mitigate effects on the overall economy. The list below constitutes some of the actions taken by the Department:

- Led the government response to financial market challenges
- Participated in development and implementation of the *Economic Stimulus Act of 2008*
- Helped homeowners by supporting creation of the HOPE NOW alliance
- Participated in finding solutions for troubled non-depository financial institutions
- Contributed to placement of Fannie Mae and Freddie Mac in conservatorship
- Proposed legislation allowing Treasury to increase liquidity in financial markets
- Implemented measures to bolster regulation of national banks and thrifts
- Established a Temporary Guarantee Program for money market funds
- Released the *Blueprint for a Modernized Financial Regulatory Structure*
- Participated in Federal Housing Administration modernization
- Participated in the development and implementation of temporary tax relief for mortgage holders
- Issued the *Best Practices for Residential Covered Bonds*
- Coordinated the U.S. policy agenda for the U.S.-China Strategic Economic Dialogue

All of these actions are aimed at implementing the Department's strategy to address the four key challenges financial markets face today - confidence, capital, systemic risk and liquidity. It will take time for these actions to have their full effect. Treasury will move aggressively on all possible fronts to address ongoing market and economic challenges.

Treasury's Offices of the Assistant Secretary for Management and Chief Financial Officer, the Deputy CFO, the Deputy Assistant Secretary for Management and Budget, and other Treasury bureaus and policy offices, in coordination with the Office of Financial Stability (OFS), are working through the financial and accounting aspects of the *Emergency Economic Stabilization Act of 2008* (EESA) over which the Department of the Treasury has authority, including the Troubled Asset Relief Program (TARP). The TARP includes a Capital Purchase Program, a Systemically Significant Failing Institutions Program, and may in the future include other programs to purchase troubled assets plus an insurance program as required under EESA.

- Value the various types of assets to be purchased under the TARP's authority
- Model the associated cash flows related to the assets to be purchased under the TARP's authority
- Report the TARP accurately, fairly, and transparently on the OFS's and the Department's financial statements in accordance with Generally Accepted Accounting Principles (GAAP)
- Account for capital infusions and equity positions in publicly traded banks under the Capital Purchase Program
- Account for programs that insure money market funds

Treasury will work with its partners to determine fair market value of the assets it purchases through the TARP program. This work began in early fiscal year 2009. Treasury plans to work closely with the Federal Accounting Standards Advisory Board (FASAB) to ensure that TARP financial reporting maintains consistency with appropriate accounting and financial reporting standards.

While there have been significant accomplishments in fiscal year 2008, much work remains to implement Treasury's new authorities. The Department will exercise proper stewardship and provide exceptional accountability and transparency to perform its work on behalf of the American people. This work is accomplished through Treasury's talented and dedicated workforce.

ORGANIZATION

The Department of the Treasury is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States. The Department is organized into two major components, the departmental offices and the bureaus. The departmental offices are primarily responsible for policy formulation, while the bureaus are primarily the operating units of the organization.

Departmental Offices

Domestic Finance advises and assists in areas of domestic finance, banking, and other related economic matters. In addition, this office develops policies and guidance for Treasury Department responsibilities in the areas of financial institutions, federal debt finance, financial regulation, capital markets, financial management, fiscal policy and cash management decisions.

International Affairs advises and assists in the formulation and execution of U.S. international economic, financial, monetary, trade, investment, bilateral aid, environment, debt, development and energy policy, including U.S. participation in international financial institutions.

Terrorism and Financial Intelligence marshals the Department's intelligence and enforcement functions with the twin aims of safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, money launderers, drug kingpins, and other national security threats.

Economic Policy reports on current and prospective economic developments and assists in the determination of appropriate economic policies. The office is responsible for the review and analysis of domestic economic issues and developments in the financial markets.

Tax Policy develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, negotiates tax treaties and provides economic and legal policy analysis for domestic and international tax policy decisions. Tax policy also provides revenue estimates for the President's budget.

Treasurer of the United States advises the Secretary on matters relating to coinage, currency, and the production of other financial instruments. The Treasurer also serves as one of the Department's principal advisors and a spokesperson in the area of financial literacy and education.

The Community Development Financial Institutions Fund (CDFI) expands the capacity of community development financial institutions and community development entities to provide credit, capital, tax credit allocations, and financial services to underserved domestic populations and communities.

The Office of Small and Disadvantaged Business Utilization assists, counsels, and advises small businesses of all types: disadvantaged, women-owned, veteran-owned, service-disabled veteran-owned, and small businesses located in historically underutilized business zones on procedures for contracting with Treasury.

Internally, the Treasury's Departmental Offices are responsible for the overall management of the Department. The *Office of the Assistant Secretary of Management and Chief Financial Officer* is responsible for internal management and controls. Support organizations include *General Counsel, Legislative Affairs, and Public Affairs*. Also, two inspectors general, the *Treasury Inspector General for Tax Administration and the Office of the Inspector General* provide independent audits, investigations, and oversight to the Department of Treasury and its programs.

Bureaus

Bureaus employ 98 percent of Treasury's workforce and are responsible for carrying out specific operations assigned to the Department.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) collects excise taxes on alcohol, tobacco, and firearms that are lawfully due the government, protects consumers of alcoholic beverages through voluntary compliance programs that are based on education and enforcement to ensure a fair marketplace, and assists industry members in understanding and complying voluntarily with federal tax, product, and marketing requirements.

The Bureau of Engraving and Printing (BEP) designs and manufactures high quality notes and other financial documents that deter counterfeiting and meet customer requirements for quality, quantity, and performance.

The Bureau of the Public Debt (BPD) borrows the money needed to operate the federal government through the sale of marketable, savings, and special purpose U.S. Treasury securities. In addition, it accounts for and services the public debt and provides reimbursable support services to federal agencies.

The Financial Crimes Enforcement Network (FinCEN) safeguards the financial system from the abuses of financial crime, including terrorist financing, money laundering, and other illicit activity.

The Financial Management Service (FMS) provides central payment services to federal program agencies, operates the federal government's collections and deposit systems, provides government-wide accounting and reporting services and manages the collection of delinquent debt owed to the U.S. Government.

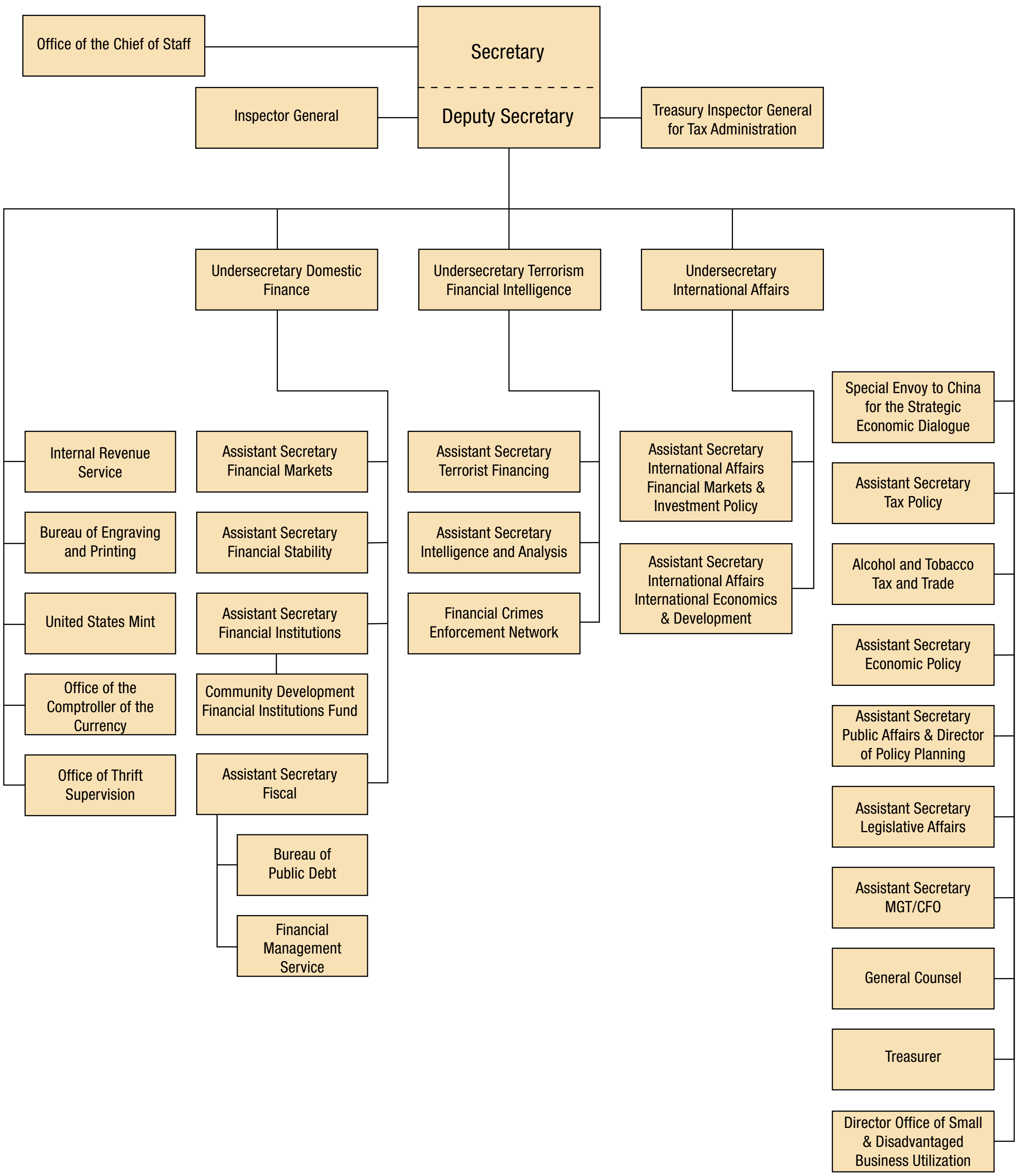
The Internal Revenue Service (IRS) is the largest of the Department's bureaus and determines, assesses, and collects tax revenue for the federal government.

The United States Mint designs, produces, and issues circulating and bullion coins, numismatic coins and other items, Congressional gold medals, and other medals of national significance. The United States Mint maintains physical custody and protection of the nation's gold assets.

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system that supports citizens, communities, and the economy.

The Office of Thrift Supervision (OTS) charters, examines, supervises, and regulates federal and many state-chartered thrift associations in order to maintain their safety and soundness and compliance with consumer laws.

THE DEPARTMENT OF THE TREASURY ORGANIZATIONAL CHART



THE TREASURY DEPARTMENT'S 2007-2012 STRATEGIC FRAMEWORK

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

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

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

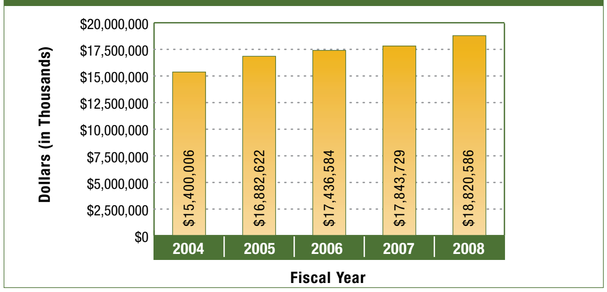
FISCAL YEAR 2008 SUMMARY OF PERFORMANCE BY STRATEGIC GOAL

Strategic Goal	Key Accomplishments	Key Challenges	Trend
Effectively Managed U.S. Government Finances **Cost*:** 2007:$13.3 Billion 2008: $14.0 Billion	• Collected $2.74 trillion in tax revenue and $14.6 billion in federal excise taxes on tobacco, alcohol, firearms and ammunition • Processed 98.5 million tax returns electronically, up 10 percent over 2007 • Administered 116.2 million payments under the Economic Stimulus Act of 2008 • Conducted more than 200 auctions resulting in the issuance of more than $5.6 trillion in marketable Treasury securities • Resumed issuance of the 52-week bill on a monthly basis in order to finance budget deficit projections • Reduced the minimum bid at Treasury auctions from $1,000 to $100	• Continue to work toward the Congressional goal of having 80 percent of tax returns filed electronically • Continue to convert from paper to electronic savings bonds • Meet the long-term goal to have 90 percent of payments made electronically • Reduce the use of illegal international tax shelters • Reduce the erroneous payments rate within the Earned Income Tax Credit (EITC) program	Performance ▲ Budget ▲ Cost ▲
U.S. and World Economies Perform at Full Economic Potential **Cost:** 2007: $3.2 Billion 2008: $3.7 Billion	• Participated in development and implementation of the *Economic Stimulus Act of 2008* • Helped homeowners by supporting creation of the HOPE NOW alliance • Participated in finding solutions for troubled non-depository financial institutions • Contributed to placement of Fannie Mae and Freddie Mac in conservatorship • Proposed legislation allowing Treasury to increase liquidity in financial markets • Implemented measures to bolster regulation of national banks and thrifts • Established a Temporary Guarantee Program for money market funds • Released the *Blueprint for a Modernized Financial Regulatory Structure* • Participated in Federal Housing Administration modernization • Participated in the development and implementation of temporary tax relief for mortgage holders • Issued the *Best Practices for Residential Covered Bonds* • Coordinated the U.S. policy agenda for the U.S.-China Strategic Economic Dialogue (U.S.-China SED) • Contributed to reform initiatives at the International Monetary Fund (IMF), World Bank and other international financial institutions • Participated in finalization of proposed rules for U.S. Basel II implementation • Provided loans, investments, financial services and technical support through the CDFI Fund	• Continue to mitigate risks at national banks and thrifts • Restructure regulatory institutions to improve supervision of financial markets • Reform Medicare and Social Security to ensure long-term solvency • Maintain open economies despite rising protectionist interests • Improve productivity management relating to the printing and engraving of currency notes • Improve supply management for bullion coin production • Manage cost issues related to the penny and nickel	Performance ▶ Budget ▲ Cost ▲
Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems **Cost:** 2007: $537 Million 2008: $555 Million	• Persuaded a number of the world's leading financial institutions of the risks of dealing with Iran and Iranian banks • Designated and blocked key Zimbabwe regime supporters • Completed actions targeted at the Revolutionary Armed Forces of Columbia (FARC) • Led efforts within the Financial Action Task Force (FATF) • Increased collaboration within the Intelligence Community • Implemented efforts to increase Bank Secrecy Act (BSA) effectiveness and efficiency	• Fully implement anti-money laundering and counter-terrorist financing (AML/CFT) laws in key countries • Establish an external validation process to justify performance results	Performance ▲ Budget ▲ Cost ▲
Management and Organizational Excellence **Cost:** 2007: $763 Million 2008: $508 Million	• Issued 179 audits reports that produced financial accomplishments of $2.4 billion • Provided integrity and fraud awareness presentations to more than 90,000 IRS employees and educated tax professionals by providing awareness presentations to tax practitioners and preparers • Created the Office of Privacy and Treasury Records (PTR) • Established two Human Capital performance measures	• Improve security configuration management • Provide effective corporate leadership and accountability to improve performance between corporate, bureau, and program office management • Complete an increased number of Material Loss Reviews (MLRs) • Remain at last year's levels for the President's Management Agenda (PMA) Initiatives	Performance ▶ Budget ▼ Cost ▼

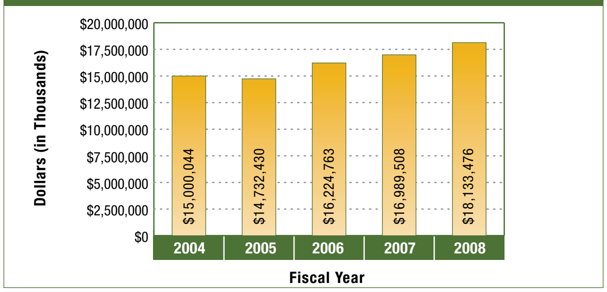
* Cost is stated as "Performance Cost", and represents imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. A full definition can be found in the Introduction to Part 2.

HOW WELL IS TREASURY PERFORMING?

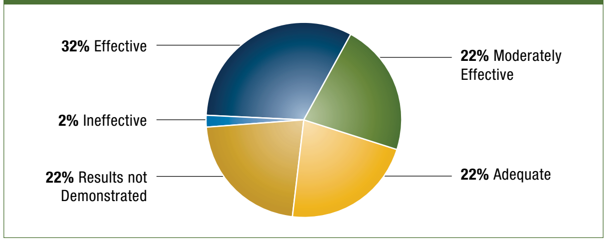
Treasury Performance Cost Trend



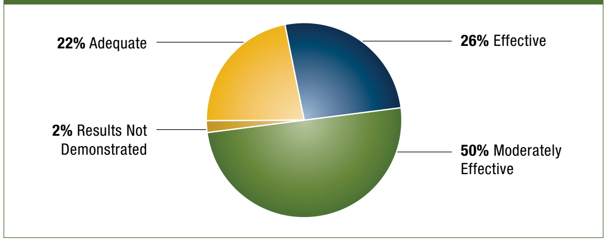
Treasury Total (Direct & Reimbursable) Budget Trend



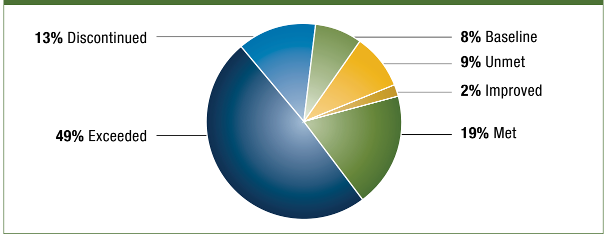
Treasury Program Evaluations Based on Number of Programs



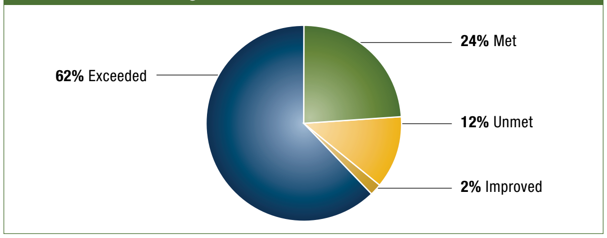
Treasury Program Evaluations Based on Funding



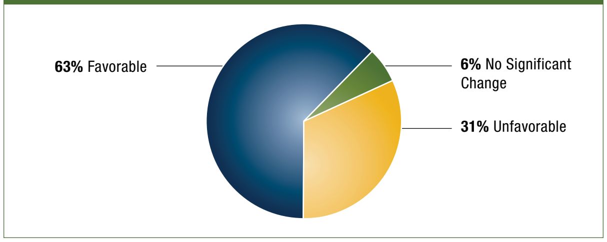
Fiscal Year 2008 Treasury-wide Performance Results Including Discontinued and Baseline Measures



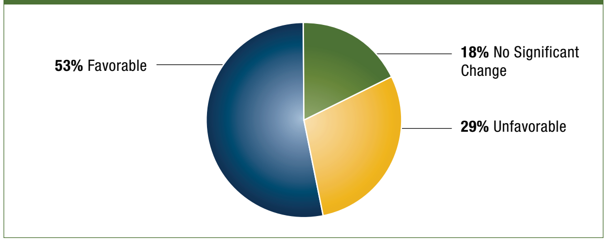
Fiscal Year 2008 Treasury-wide Performance Results Excluding Discontinued and Baseline Measures



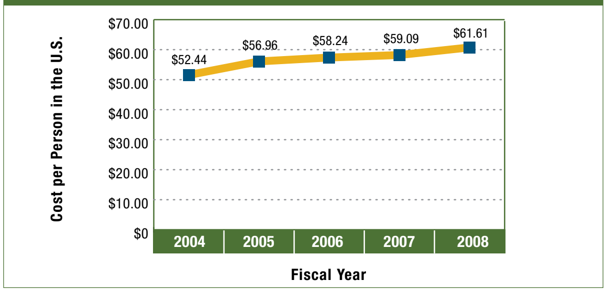
Treasury Actual Performance Trends 2005–2008



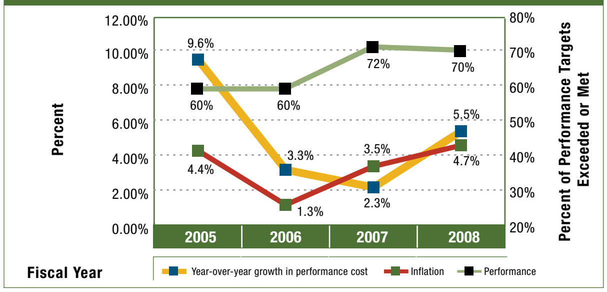
Treasury Target Performance Trends 2005–2008



Treasury Cost per Person



Treasury Performance and Cost vs. Inflation



HOW WELL IS TREASURY PERFORMING DISCUSSION

Performance Cost and Budget Trends

Performance cost represents the best indication of the total cost to operate the Treasury Department. It includes normal operating expenses as well as imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. Performance cost on the average has risen four to five percent per year since 2004. The Department's total budget, which includes direct appropriations and reimbursable amounts, has also risen an average of four to five percent per year since 2004.

Program Evaluations

A total of 37 of Treasury Department programs have been evaluated using the Office of Management and Budget's Program Assessment Rating Tool (PART) since 2002. Each program receives a rating of effective, moderately effective, adequate, results not demonstrated, or ineffective. Results for all program evaluations are shown in two different charts. One chart is based on the number of programs, and the other on program funding. Programs receiving an adequate or better rating were 76 percent using the number of programs, but 98 percent based on program funding.

Performance to Target

In fiscal year 2008, the Treasury Department revised its performance rating system. Performance to target was rated as exceeded, met, improved from the prior year (but not met), unmet, baseline or discontinued. Prior to this, performance measures were rated only as met or unmet. Results are shown in two charts, one including all performance measures, and one not including baseline and discontinued measures. While 70 percent of targets were exceeded, met or improved based on all measures, 88 percent of targets were exceeded, met or improved based on measures that were not base-lined or discontinued.

Actual and Target Performance Trends

Trends in actual performance and targets have been analyzed since 2004 where data was available. Trends can move upward, downward, or remain flat. Depending on the type of measure, a trend can be favorable, unfavorable, or remain unchanged. Results indicate that 63 percent of actual performance trends were favorable, 31 percent were unfavorable, and 6 percent were unchanged. Target trends were 53 percent favorable, 29 percent unfavorable, and 18 percent unchanged.

Treasury Cost per Person

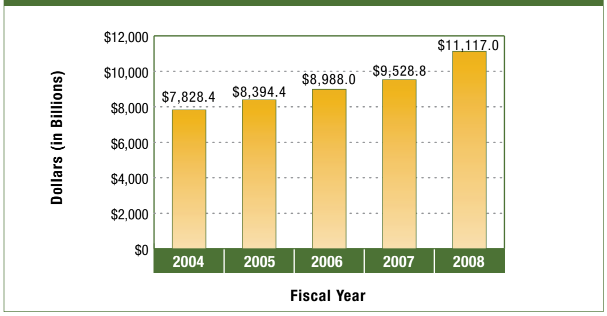
A chart that indicates the approximate cost of the Treasury Department per person in the United States is shown here. The calculation is determined by dividing Treasury Performance Cost by an estimate of the U.S. population at the end off fiscal year 2008. This ratio attempts to describe the cost of the Department in terms people can relate to.

Treasury Performance and Cost versus Inflation

A dual scale chart provides Treasury performance to target, performance cost, and inflation information since fiscal year 2004. The data indicate that the gap between Treasury Performance Cost and inflation is narrowing while performance has improved.

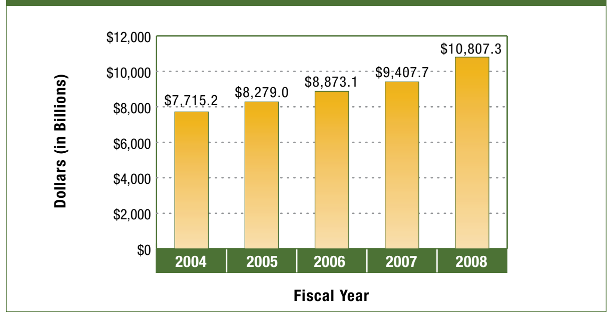
FINANCIAL HIGHLIGHTS

Total Assets (in Billions)



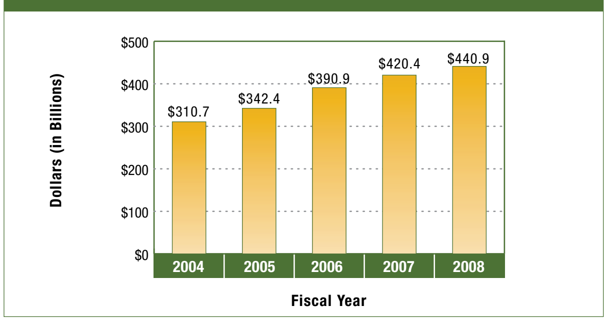
The increase of $1.6 trillion in total assets in fiscal year 2008 is largely due to the increase in future funds required from the General Fund of the U.S. Government to pay for the federal debt owed to the public and other federal agencies.

Total Liabilities (in Billions)



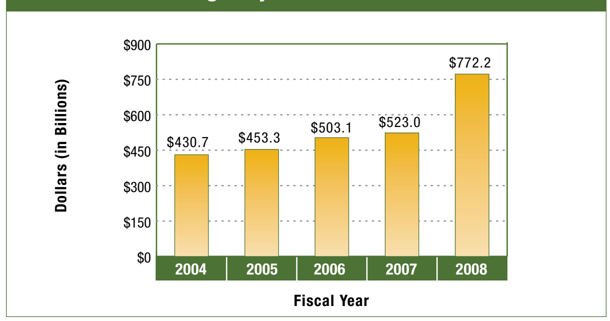
Total liabilities increased by $1.4 trillion from fiscal year 2007 to fiscal year 2008. The majority of the increase is due to borrowings from other federal agencies and debt issued to the public.

Net Federal Debt Interest Costs (in Billions)



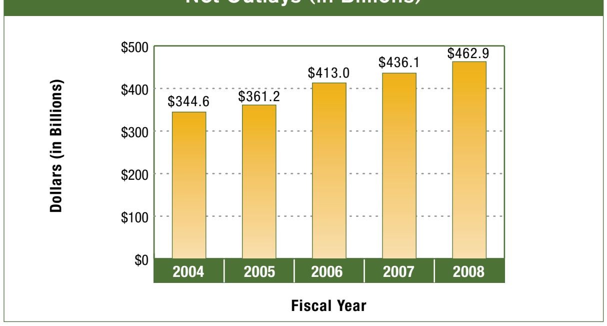
The increase of $20.5 billion in net interest paid on the federal debt is due to the increase in the debt. Total federal debt and interest payable increased by $1.05 trillion in fiscal year 2008.

Total Budgetary Resources (in Billions)



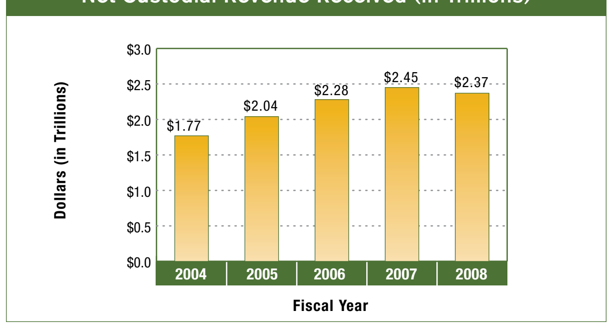
The majority of the increase in total budgetary resources for fiscal year 2008 was to ensure liquidity of Government-Sponsored Enterprises (GSEs) pursuant to the *Housing and Economic Recovery Act of 2008*.

Net Outlays (in Billions)



The majority of the $26.8 billion increase in net outlays was due to the increase in interest payments on the federal debt.

Net Custodial Revenue Received (in Trillions)



Total custodial revenue collected on behalf of the U.S. Government decreased by $82 billion. The majority of the decrease can be attributed to the Economic Stimulus payments of $93.4 billion issued by the Internal Revenue Service.

FISCAL YEAR 2008 KEY INITIATIVES

LED GOVERNMENT RESPONSE TO FINANCIAL MARKET CHALLENGES

Throughout fiscal year 2008, the Treasury Department coordinated with federal agencies, state authorities, international bodies and private groups to address challenges in financial markets and the broader economy. Some examples include:

- Coordinated government mortgage management initiatives with the Department of Housing and Urban Development (HUD)
- Developed funding solutions for economically distressed industries with the Department of Commerce
- Developed alternative funding solutions for student loan programs with the Department of Education
- Coordinated international financial negotiations with the Department of State
- Collaborated with the Financial Stability Forum (FSF), a body consisting of representatives from the world's largest economies and international financial institutions, and G-7 countries to develop international guidelines for managing financial market challenges
- Worked with various state authorities to address mortgage origination issues and concerns about conditions at state-chartered financial institutions

For financial market management in particular, the Department worked with members of the President's Working Group on Financial Markets (PWG), Federal Deposit Insurance Corporation (FDIC), Federal Housing Finance Agency (FHFA) and other agencies to respond to market events.

Established in 1988, the PWG is the federal government's primary inter-agency committee responsible for coordinating supervision of financial markets and is comprised of:

- The Secretary of the Treasury, who serves as Chairman
- The Chairman of the Board of Governors of the Federal Reserve
- The Chairman of the Securities and Exchange Commission (SEC)
- The Chairman of the Commodities Futures Trading Commission (CFTC)

In August 2007, the President charged the PWG with reviewing the underlying causes of financial market turmoil. In response, the PWG issued a *Policy Statement on Financial Market Developments* in March 2008 providing both an overview of causes as well as specific policy recommendations to address regulatory and management shortfalls. The key recommendations to government authorities and market participants to address market weaknesses include:

- Reforming key parts of the mortgage origination process in the U.S.
- Enhancing disclosure and improving the practices of sponsors, underwriters, and investors with respect to securitized credits
- Reforming the credit rating agencies' processes for and practices regarding rating structured credit products
- Ensuring that global financial institutions take appropriate steps to address weaknesses in risk management and reporting practices
- Ensuring that prudential regulatory policies applicable to banks and securities firms, including capital and disclosure requirements, provide strong incentives for effective risk management practices

The report includes 27 specific recommendations for public and private sector action within these broad categories. The PWG issued a detailed report on progress in October 2008 and is continuing to monitor the implementation of recommendations.

The Treasury Department, as the nation's foremost economic policy agency, will continue to take necessary steps to address financial market challenges in coordination with public and private sector agencies.

DEVELOPED AND IMPLEMENTED THE ECONOMIC STIMULUS ACT OF 2008

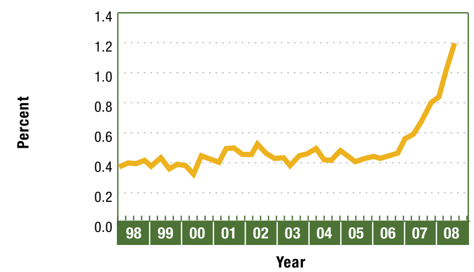
The *Economic Stimulus Act of 2008* was signed into law on February 13, 2008. Created to support the economy during a period of slowing growth, the bill provided relief in the form of individual tax rebates for households and tax incentives for businesses to stimulate investment. Businesses were expected to utilize $45 billion in tax deductions by the end of 2008. In fiscal year 2008, over 116.2 million stimulus payments, totaling $94.3 billion, were issued in the form of checks and electronic deposits.

The Department participated directly in development and implementation of the stimulus package. The IRS and FMS managed customer inquiries and issued payments during the tax season. In particular, the IRS provided informational announcements and mailings, interactive telephone options, an online payment calculator, and maintained a hotline to allow taxpayers to check on the status of their payment. The FMS issued 74.1 million paper checks and made over 42 million electronic deposits. Some additional statistics on the stimulus payments:

- The first stimulus payments were made by electronic deposit 75 days after the legislation was passed
- A total of 132.9 million notices were sent to inform taxpayers of their potential eligibility
- 5.5 million operator-assisted calls and 21.9 million automated calls were handled, resulting in a 90 percent increase in total telephone demand
- 38.7 million taxpayers used the *"Where's My Stimulus Payment?"* webpage to check the status of their payment
- $1.46 billion in delinquent non-tax, state tax, and child support debts were withheld from stimulus payments and disbursed to appropriate recipients

Additional information may be found here: *Stimulus Payment*

Mortgage Foreclosures Started as a Percent of All Loans, Quarterly



Source: Mortgage Bankers Association

SUPPORTED THE HOPE NOW ALLIANCE

Ongoing challenges in housing markets have increased pressure on homeowners unable to make their mortgage payments. Seeking to support a coordinated response to the crisis, the Department participated in discussions with mortgage industry participants in August 2007 to search for a solution to address market conditions. The result was the formation in October 2007 of the HOPE NOW Alliance, a private sector alliance of mortgage servicers, counselors, and investors to provide information and direct assistance to homeowners to help avoid preventable foreclosures.

HOPE NOW has worked aggressively over the past year to disseminate information to at-risk homeowners through direct mailings, advertisements, and phone contacts. They have also actively coordinated matching at-risk homeowners with mortgage industry specialists to find best solutions. In December 2007, HOPE NOW adopted the mortgage management framework developed by the American Securitization Forum, and in February 2008 adopted Project Lifeline to focus efforts as efficiently as possible to help at-risk homeowners. As of August 2008, HOPE NOW included 94 percent of mortgage servicers and had helped over two million homeowners negotiate arrangements enabling them to avoid foreclosure and keep their homes.

The success of the HOPE NOW Alliance is encouraging in light of the ongoing difficulties in mortgage markets.

The Treasury Department will continue to work closely with lenders and key industry participants to identify aggressive strategies to help at-risk homeowners.

Additional information may be found here: *HOPE NOW*

SOLUTIONS FOR NON-DEPOSITORY INSTITUTIONS

Working in coordination with the Federal Reserve and SEC, Treasury participated in negotiations during fiscal year 2008 to determine an appropriate course to address financial difficulties at some of the country's largest non-depository financial institutions. Challenging conditions in financial markets, particularly linked to rapidly falling values of Mortgage Backed Securities or MBS (securities issued with mortgages as collateral), asset-backed commercial paper (short-term securities generally linked to revenue streams, such as payments of auto loans or credit cards), credit default swaps (similar to insurance policies on debt in case of default) and other instruments increased financial pressures on institutions with large holdings of these assets. Failure of a few large institutions with significant market presence threatened to severely impact market confidence. To ensure confidence in capital markets, extraordinary consultations and actions were taken to address conditions in financial institutions such as Bear Stearns, Lehman Brothers, and American International Group. The Department will continue to monitor financial conditions and respond as necessary to maintain the health of the financial system.

CONTRIBUTED TO PLACEMENT OF FANNIE MAE AND FREDDIE MAC IN CONSERVATORSHIP

On July 30th 2008, President Bush signed the *Housing and Economic Recovery Act of 2008* into law, granting the Treasury Department, the Federal Reserve and the new Federal Housing Finance Agency (FHFA) authority to enhance stability in financial markets and manage affairs related to the two largest sources of mortgage finance, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Among the new authorities given to the FHFA was the ability to bring the two government-sponsored enterprises (GSEs) under either conservatorship (allowing FHFA to assume the powers of the GSEs' directors, officers, and shareholders without declaring bankruptcy) or receivership (allowing FHFA to assume the powers above and initiate liquidation). The Act also granted the Secretary of the Treasury temporary authority to purchase GSE obligations and securities through December 31, 2009.

Following passage of the legislation, financial markets, business conditions, and the current financial condition of the two GSEs were closely monitored. On September 7, 2008 the Treasury Department, Federal Reserve, and FHFA deemed it necessary for the preservation of market stability and taxpayer interests to place Fannie Mae and Freddie Mac in conservatorship under the July 2008 Act.

From the beginning of the current financial turmoil, the Treasury Department has maintained three critical objectives: provide stability to financial markets, support the availability of mortgage finance, and protect taxpayers. The intent of placing the GSEs under conservatorship was to minimize the near-term costs of insolvency at the two institutions and initiate resolution of systemic risks associated with the GSEs' structure. The steps taken were the result of detailed and thorough collaboration between FHFA, Treasury, and the Federal Reserve.

The Preferred Stock Purchase Agreements reached between Treasury and the two GSEs included the following provisions:

- For each GSE, the Treasury Department received $1 billion in Senior Preferred Equity Shares, providing an annual dividend of 10 percent and permitting the Department to receive dividends before all other shareholders
- The Treasury received warrants (ownership options) for 79.9 percent of each enterprise
- The Department committed to provide each GSE up to $100 billion under a secured lending facility to ensure solvency

- The Department committed to purchase up to $5 billion in MBS issued by the GSEs

Fannie Mae and Freddie Mac's continued activity is central to recovery in the housing market and mitigation of underlying financial market uncertainty. The temporary liquidity and capital backstops included in the conservatorship arrangements are aimed at providing longer-term clarity to investors in GSE debt and MBS and ensuring the stability of financial markets. Fannie Mae and Freddie Mac continue to play an important role in financing mortgages in capital markets.

PROPOSED LEGISLATION ALLOWING TREASURY TO INCREASE LIQUIDITY IN FINANCIAL MARKETS

On September 19, 2008, the Treasury Secretary, Federal Reserve Chairman, and SEC Chairman met with Congressional leaders to discuss legislation permitting Treasury to increase liquidity in financial markets by purchasing up to $700 billion in assets from financial institutions. The initiative was primarily intended to ensure stability in financial markets and improve financial institutions' capital position to encourage new lending. On the same day, the Department also announced expansion of the existing program to purchase GSE MBS.

The *Emergency Economic Stabilization Act of 2008* was signed into law on October 3, 2008. The legislation included provisions for an expanded MBS purchase program, a whole loan purchase program, a troubled-assets insurance program, and an equity purchase program. Under the Act, Treasury was provided authority to purchase up to $250 billion in securities, with an additional $100 billion available upon written certification to Congress by the President and a final $350 billion available upon written request by the President, subject to disapproval by Congress. The law provides a series of safeguards to protect taxpayer interests, including the establishment of two oversight boards and a Special Inspector General; requirements that participants provide the government an ownership stake in their business and restrict certain payments to their executives; and strict provisions on asset manager selection.

IMPLEMENTED MEASURES TO BOLSTER REGULATION OF NATIONAL BANKS AND THRIFTS

The OCC and OTS are the primary regulators of national banks and thrifts, respectively. With elevated concerns about banking solvency given strained financial markets, both have made extensive efforts to monitor evolving conditions at the financial institutions they regulate and implement measures to ensure the stability of the banking system. The Inspector General has indicated regulation of national banks and thrifts as a *Management Challenge* for fiscal year 2008.

In fiscal year 2008, 14 financial institutions with $216 billion in deposits were placed into receivership under FDIC authority. Of these, five were national banks, three were thrifts, and six were state banks. The bulk of deposits were held by two thrifts, Washington Mutual Bank and IndyMac Bank, which accounted together for $207 billion in deposits. Work-out solutions, whereby some or all deposits and assets were assumed by another existing bank, were arranged by FDIC and regulators for all failed institutions except IndyMac Bank. IndyMac Bank was placed under conservatorship and operations were assumed directly by FDIC under a newly-formed IndyMac Federal Bank.

Supervisory activities at OCC and OTS during fiscal year 2008 centered on evaluation of loan holdings and risk management practices to identify existing and potential weaknesses. In response to the crisis, supervisory efforts have been strengthened in key risk areas, including: underwriting and credit administration, diversification of funding sources (including realistic contingency funding planning), development of strong internal controls and risk management systems, timely recognition of losses, and maintenance of strong capital positions. Over the past year, resident examiner teams from the OCC have been in place at the largest national banks to monitor their funding, trading, and mortgage practices as well as gather information on market conditions, deal flow, and funding availability.

Information obtained by the examiners contributed to early identification of problem areas and development of risk management practices that have been implemented by the PWG, the Senior Supervisors Group, and the FSF. (The Senior Supervisors Group consists of supervisory agencies from France, Germany, Switzerland, Britain, and the U.S.)

Given increases in leveraged lending at national banks in prior years, the OCC undertook in-depth leveraged lending reviews at the largest national banks in fiscal year 2008, looking specifically at banks' syndicated pipeline management, stress testing, and limit setting. Following the reviews, a *Leveraged Lending* handbook was developed based on findings and issued to all banks, consolidating and supplementing guidance to bankers and examiners on managing leverage risk. At an inter-agency level, both the OCC and OTS have worked directly with the Federal Reserve and FDIC to review large syndicated loans through the Shared National Credit program. The comprehensive review in 2008 of these loans covered 8,750 credit facilities with commitments of over $2.8 trillion. The OCC and OTS will continue to coordinate their licensing and supervisory procedures with other federal agencies to keep regulations current, transparent, and supportive of financial industry stability and growth.

Due to the thrift industry's natural concentration in longer-term mortgages (thrifts are required to keep 65 percent of their holdings in mortgages), the OTS maintains a Net Portfolio Value model which provides estimates of each institution's interest rate risk. The model allows the OTS to value a wide range of financial instruments and produce reports focusing on areas such as net interest income, liquidity, and value-at-risk. Enhancements to the Net Portfolio Value model were added in 2008 which improve examiners' ability to track interest rate risk and permit for easier electronic filing (E-Filing) of applications for actions requiring OTS approval.

To facilitate management of mortgage concerns, the OCC and OTS have encouraged banks and thrifts to work constructively with borrowers facing difficulty meeting their mortgage obligations. This includes support for industry initiatives such as the HOPE NOW alliance and the American Securitization Forum as well as outreach efforts with advocacy groups, research organizations, community development practitioners, and community development membership organizations. During fiscal year 2008, the OCC published guides for homeowners on ways to recognize and avoid foreclosure rescue fraud and effectively manage certain hybrid adjustable rate mortgages. The OTS has issued additional guidance to thrifts governing regulation of late charges, prepayment penalties, and adjustments to mortgage terms. Given the high concentration of mortgage holdings at thrifts, the OTS has actively encouraged utilization of foreclosure-prevention strategies, including loan modifications, conversion of adjustable-rate mortgages into fixed-rate mortgages, extension of amortization, and payment deferral.

Although national banks were not dominant originators of subprime mortgages, strains in housing markets have significantly affected banks' residential mortgage and home equity loan portfolios. In response, the OCC began requiring the nine largest national bank servicers, accounting for 90 percent of mortgages held by national banks and 40 percent of mortgages overall, to submit comprehensive mortgage data on a monthly basis. Similarly, in July 2008 the OTS published its first *Mortgage Metrics Report*, presenting key performance data on first lien residential mortgages serviced by the top five thrifts or their affiliates, covering 91 percent of thrift mortgages. The data showed a total of 49,044 loss mitigation actions through the end of March, providing solutions for 25 percent of thrift loans in foreclosure. In September, the two supervisors merged their reports into a single *Mortgage Metrics Report*, covering some 35 million mortgages worth $6.1 trillion, constituting an important data source on conditions in mortgage markets.

Given more stringent regulation and the conditions in mortgage markets, additional concern has more recently been directed towards the under-provision of credit in financial markets. The 2008 OCC *Annual Survey of Credit Underwriting Practices* showed that banks have substantially tightened underwriting standards for both retail and commercial loans over the last year. Regulatory guidance issued to banks and thrifts by both OCC and OTS has reiterated the importance of maintaining prudent credit underwriting standards throughout the economic cycle.

ESTABLISHED A TEMPORARY GUARANTEE PROGRAM FOR MONEY MARKET FUNDS

On September 19, Treasury announced a Temporary Guarantee Program for money market funds. Taxable and tax-exempt funds regulated by the SEC under the *Investment Company Act of 1940* are eligible to participate in the guarantee program upon payment of an assessed fee of 0.01 percent of net asset value per share greater than or equal to $0.9975 as of September 19. Funds with net asset value per share less than $0.9975 and greater than or equal to $0.995 are required to pay an upfront fee of 0.015 percent, based on the number of shares outstanding as of September 19. Funds with net asset values below $0.995 were not eligible to participate. In return for participation, fund shareholders receive a guarantee that they will be compensated up to the $1 share price of the fund should the share price fall below $0.995. Initial funding of $50 billion for the program was provided through the Exchange Stabilization Fund established under the *Gold Reserve Act of 1934*.

The Temporary Guarantee Program is a temporary measure intended to address short-term dislocations in credit markets. The program will exist for an initial three month term, after which the Secretary of the Treasury will review the need and terms for program extension. The Secretary has the option to renew the program through September 18, 2009. The program will not automatically extend for the full year and money market funds would be required to renew their participation to maintain coverage. If the Secretary does not renew the program at the end of the three month period, the program will terminate.

RELEASED THE *BLUEPRINT FOR A MODERNIZED FINANCIAL REGULATORY STRUCTURE*

Recent capital market developments stemming from the subprime mortgage and credit turmoil have exposed the need for fundamental reform of the U.S. financial regulatory system. Created over 70 years ago, the U.S. financial regulatory structure today is managed under segregated industry "silos" that have failed to keep pace with industry changes. Under this structure, regulators have narrow responsibilities to supervise activities within their industry but little responsibility to regulate across industries. With the development of more integrated financial markets that are characterized by convergence of industries, interconnectedness, and globalization, this "siloed" structure has permitted substantial gaps and redundancies in oversight. To respond to these conditions, the Department issued a *Blueprint for a Modernized Financial Regulatory Structure* in March 2008 to identify and propose solutions to address major shortfalls in regulatory systems. The *Blueprint* provides a series of near, intermediate, and long-term recommendations to restructure the U.S. financial regulatory system.

Near-term recommendations:

- Modernize the PWG by expanding its membership to include the heads of the OCC, OTS, and FDIC, enabling the body to serve as coordinator of financial regulatory policy for the entire financial industry
- Establish a federal Mortgage Origination Commission to develop national standards for mortgage origination and work to ensure compliance by all mortgage originators
- Improve Federal Reserve liquidity provisions with respect to non-depository financial institutions

Intermediate-term recommendations:

- Transition financial institutions chartered as thrifts into national bank charters and merge the OTS into the OCC

- Establish one federal regulator of state banks, in contrast to the dual supervisory system splitting regulatory responsibility between the Federal Reserve and FDIC
- Establish a federal charter for payment and settlement systems supervised by the Federal Reserve
- Establish a federal charter and oversight board for insurance companies, distinct from state insurance licensing
- Merge the CFTC with the SEC, while retaining key strengths of each institution

Long-term recommendations

- Restructure the existing financial regulatory system into a three-tiered system with duties divided by objectives, including:
  - A market stability regulator, likely the Federal Reserve, which would supervise overall conditions in financial markets and develop measures to address high-level market stability
  - A prudential financial regulator, which would be responsible for assessing risk management at all financial institutions and supervising institutions' safety and soundness associated with government guarantees
  - A business conduct regulator, which would establish standards for business practices for financial institutions and ensure protection of consumer rights
- In addition to these agencies, two other regulatory bodies were proposed:
  - A federal insurance guarantor, which would provide insurance services for the entire financial sector, similar to services currently provided to banks by the FDIC
  - A corporate finance regulator, which would oversee corporate finance in public securities markets, similar to services currently provided by the SEC

No amount of regulation can fully eliminate capital market risks, but it is clear that a modernized regulatory structure is essential to establishing a more stable financial system, protecting consumer interests, and promoting financial market competitiveness.

Additional information may be found here: *Blueprint for a Modernized Financial Regulatory Structure*

PARTICIPATED IN FEDERAL HOUSING ADMINISTRATION MODERNIZATION AND PROVISION OF TEMPORARY TAX RELIEF FOR HOMEOWNERS

In addition to GSE reform, two other presidential initiatives were announced in August 2007 to address problems in mortgage markets: expanding the capacity of the Federal Housing Administration (FHA) to provide mortgage assistance to a greater range of homeowners and providing temporary tax relief for homeowners entering foreclosure or negotiating partial mortgage write-downs.

The Department worked closely with HUD to promote passage of FHA-related statutes in the *Housing and Economic Recovery Act of 2008*. Among other provisions, the legislation expanded FHA's authority to provide assistance to homeowners by offering government insurance to lenders who voluntarily reduce mortgages for at-risk homeowners to at least 90 percent of the property's current value. (Also known as the Hope for Homeowners program.) To participate in the program, homeowners are required to share a portion of the appreciation of the value of their homes with the FHA. A board consisting of the Secretary of HUD, the Secretary of the Treasury, the Chairman of the Federal Reserve, and the Chairman of FDIC was established under the legislation to oversee implementation of the program. The new measures, which came into effect on October 1, 2008, are expected to help an additional 400,000 homeowners refinance into more affordable mortgages.

In addition to the Hope for Homeowners program, the FHASecure program has helped approximately 360,000 homeowners since July 2007 refinance into FHA-insured loans. The program provides assistance to homeowners with conforming loans (prime loans valued up to $417,000) who are unable to afford mortgage payments after the reset of their adjustable rate mortgage. Starting in July 2008, FHASecure also began providing assistance to subprime borrowers with adjustable rate mortgages who have missed up to three monthly mortgage payments over the previous 12 months or experienced temporary economic hardship. The Department was directly involved in promoting FHASecure and supported the extension of benefits to additional homeowners.

In December 2007, the *Mortgage Forgiveness Debt Relief Act of 2007* was passed providing temporary tax relief for homeowners entering foreclosure or negotiating partial mortgage write-downs. Generally, debt that is forgiven by a lender is included as income for tax purposes. The Act permits homeowners to refinance their mortgages and pay no federal taxes on forgiven debt if the refinance occurs during 2007, 2008, or 2009. An estimated $200 million in tax forgiveness is projected to be available to homeowners under the legislation. The Treasury Department, through the IRS, OCC, and OTS, has encouraged homeowners with mortgage problems to take full advantage of the tax relief.

Additional information may be found here: *Mortgage Forgiveness Debt Relief Act*

ISSUED THE *BEST PRACTICES FOR RESIDENTIAL COVERED BONDS*

The availability of affordable mortgage financing is essential to a healthy economy. Along with focusing on restoring the traditional sources of mortgage financing in 2008, the Treasury Department took steps to encourage development of new sources for mortgage funding and strengthen financial institutions by issuing a *Best Practices for Residential Covered Bonds*. In preparing this guidance, the Department consulted with European counterparts as well as the FDIC, Federal Reserve, OCC, OTS, SEC, and various market participants.

Covered bonds provide a means for issuing commercial banks or thrifts to sell off rights to mortgage payments made by borrowers without selling the mortgages themselves. In current practice, a large percentage of mortgages are originated by banks or thrifts and then sold to an entity which creates MBS which are then sold to investors. In these transactions, ownership of the mortgage is effectively transferred from the mortgage originator to the bond holder and the mortgage originator has no liability if the mortgage is not paid. With covered bonds, the originator of the mortgage is required to place the mortgages on its books, making them liable for payments if the mortgage borrower does not pay. Additionally, as the mortgage remains on the originator's books, the originator is also required to keep capital reserves covering the mortgages. Covered bonds are currently used to finance mortgages in the United Kingdom and Europe, constituting a $3.3 trillion market, and are a promising source of mortgage financing to complement the existing system in the U.S.

On July 15, 2008, the FDIC issued the *Final Covered Bond Policy Statement* which specified actions that the FDIC will take if a covered bond issuer becomes insolvent or is placed into receivership. The *Best Practices for Residential Covered Bonds* is a complement to the FDIC statement by introducing quality standards in areas such as collateral and disclosure. In conjunction with the release of the guidance, the Treasury Department updated its policy to include covered bonds as an approved asset category for Treasury's investments and deposits of public money with commercial counterparties, which will provide credibility for the asset class.

The $11 trillion U.S. mortgage market can benefit from all forms of mortgage finance. As Treasury seeks to encourage new sources of mortgage funding in the United States, improve underwriting standards, and strengthen financial institutions' balance sheets, covered bonds can help provide additional funding to homeowners and strengthen U.S. financial institutions by diversifying risk. America's four largest banks, Bank of America, Citigroup, JPMorgan Chase, and Wells Fargo, have announced plans to establish covered bond programs to launch the market in the United States.

Additional information may be found here: *Best Practices for Residential Covered Bonds*

U.S.–CHINA STRATEGIC ECONOMIC DIALOGUE

Initiated in 2006, the U.S.-China SED is a semiannual forum bringing together the two countries' highest-level officials to discuss key economic issues. The intent is to improve officials' understanding of the interests and challenges faced by their counterparts on issues of relevance to both economies, to improve policy coordination on areas of mutual interest, and to institutionalize a forum for addressing sensitive issues. Since its inception, the U.S.-China SED has held four full meetings with discussions on issues including management of financial and macroeconomic cycles, market access, trade, property rights protection, food and product quality, financial regulation, energy management, environmental policy, and other issues. The latest U.S.-China SED was held in Annapolis, Maryland in June 2008.

As the coordinator for the U.S. Government, the Department of the Treasury has worked closely with other agencies in the federal government to develop meeting agendas, establish policy goals, and facilitate implementation of final agreements. Key achievements during the December 2007 and June 2008 meetings included:

- Launching negotiations for a bilateral investment treaty to help open new opportunities for U.S. and Chinese investors
- Signing of a Ten-Year Energy and Environment Cooperation Framework focused on creating a new energy-efficient model for sustainable economic development
- Reaching agreements to further open financial markets in the areas of banking, insurance, and securities
- Expanding coordination on management of product quality and food safety
- Expanding efforts to address economic imbalances related to trade, investment, and exchange rates
- Establishing guidelines to improve transparency in administrative rule-making and innovation policy

By establishing this dialogue, both sides have committed to addressing potentially sensitive economic issues of interest in a central forum. Through the U.S.-China SED, the two countries' officials have reached important policy decisions and established relationships building mutual trust and promoting improved coordination. The fifth U.S.-China SED is scheduled to be held in Beijing, China in December 2008.

Additional information may be found here: *U.S.-China SED*

FISCAL YEAR 2008 PERFORMANCE BY STRATEGIC GOAL

EFFECTIVELY MANAGED U.S. GOVERNMENT FINANCES

Tax returns filed electronically

In fiscal year 2008, a total of 98.5 million tax returns were filed electronically, a 10 percent increase over 2007. Although the Department has not yet reached the Congressional goal of having 80 percent of tax returns filed electronically, in fiscal year 2008 the Department achieved 63 percent for individual taxpayers including taxpayers who filed solely to claim the economic stimulus. Treasury continues to promote the use of the IRS Free File program as a means of increasing E-Filing. A recent survey showed that 96 percent of those who used the Free File program found it easy to use, 98 percent said that they would recommend it to others, and 95 percent said that they would use it again.

Increase electronic payments

In fiscal year 2008, the Department issued 116.2 million economic stimulus payments. However, only 36.2 percent were made electronically. Overall, 79 percent of Treasury payments and associated information were made electronically. Treasury continues to promote the use of direct deposit for government payments through the Go Direct campaign. There were 901,054 conversions from paper checks to direct deposit during the third year of the campaign. This is an increase over the 510,045 conversions during the campaign's second year. The total number of conversions since the inception of the campaign is over 2.1 million for a return on investment of $184.7 million.

Debt financing

Debt financing operations are critical to ensuring that the government has the money needed to continue its operations. In fiscal year 2008, the Department conducted more than 200 auctions, resulting in the issuance of over $5.6 trillion in marketable securities. Treasury successfully resumed the issuance of the 52-week bill on a monthly basis in order to meet increased demand for borrowing. Additionally, the minimum bid at Treasury auctions was reduced from $1,000 to $100 to broaden the potential investor pool

Saving bonds

Issuing savings bonds is an important aspect of debt financing and the Department is committed to offering them in an efficient manner. There are approximately $700 billion in paper savings bonds outstanding. Going forward, Treasury is encouraging its customers to purchase and manage their holdings online using TreasuryDirect. TreasuryDirect allows customers to buy savings bonds and convert paper bonds to an electronic version, increasing efficiency in management and servicing of bonds over the long-term. To mitigate risks associated with online financial transactions, Treasury continually seeks ways to increase security. For example, TreasuryDirect Access Cards are distributed to account holders, providing a unique and secure means to access their accounts. While the website remains the primary means of communicating with the public about Treasury securities, outreach through other channels, such as financial literacy programs, will target customers unaccustomed to conducting transactions online. Although a date has not been set for the withdrawal of paper bonds from sale, the intent is to move investors to TreasuryDirect as the preferred way to buy and hold savings bonds.

Need to address international tax issues

The Treasury Department is working to improve international tax administration to effectively deal with increased tax issues associated with globalization for both individual and corporate taxpayers. In fiscal year 2008, Treasury issued guidance addressing offshore and cross-border compliance risks. Collaboration with foreign tax administrators was expanded by the addition of Japan's National Tax Agency to the Joint International Tax Shelter Information Centre, an organization created by the tax agencies of the U.S., Britain, Canada, and Australia to identify and curb abusive cross-border transactions and schemes. The Treasury Department has tax representatives in ten international cities, and in fiscal year 2009 tax representatives will be placed in Beijing, China.

Need to address high rates of erroneous payments

The Department continues to have high rates of erroneous payments within the EITC program, however, improvements in 2008 allowed for removal of the long-standing EITC *Federal Managers' Financial Integrity Act of 1982* (FMFIA) Material Weakness. In fiscal year 2008, as part of the effort to complete the *Study of Universal Use of Advanced Payment of Earned Income Credit* mandated by Congress, Treasury took several steps to address the issue. These steps included improving communication with taxpayers and tax practitioners, reaching out to employers to gain their insights into the benefits, costs, risks, and barriers if the EITC program were expanded, and enhancing the training of examiners reviewing EITC returns. In fiscal year 2008, $3.2 billion in revenue was protected through examination of returns claiming the EITC credit and document matching programs.

U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

Contributed to reforms at the IMF, World Bank, and other international institutions

In fiscal year 2008, the Department was actively involved in reforms at international financial institutions. One of the more outstanding achievements was reform at the IMF. Based on the Department's recommendation, the IMF has restructured its voting system to expand participation for emerging market countries, coordinated development of investment guidelines for sovereign wealth funds, and undertaken management reorganization saving some $100 million in annual expenses. With these changes, the IMF is redefining its role in international markets to better match global exchange and investment needs.

Banking regulators finalized U.S. Basel II rules

In November 2007, federal banking regulators (the Federal Reserve, FDIC, OCC, and OTS) reached final agreement on U.S. rules implementing the Basel II Capital Accord. The agencies issued a notice of proposed rulemaking in July 2008 and are expected to implement final rules in 2009. The new provisions effectively marry banks' internal risk management systems with their capital requirements, more directly linking asset risks with cash holdings. In addition to the standard Basel II rules, the proposed U.S. rules preserve two requirements from current U.S. regulations — a conforming leverage ratio and prompt corrective action requirements — to maintain consistency in supervisory quality. Implementation of the rules is required for the country's ten largest banks. Other banks are currently permitted to implement the new rules on an optional basis and will otherwise continue to be subject to previous capital requirement regulations.

Provided loans, investments, financial services, and technical support through the CDFI Fund

The CDFI Fund provides capital, loans, and tax credits to specialized financial institutions that finance economic development in underserved communities. The Fund competitively awards amounts to organizations that offer a wide array of banking services, including loans, investments, and financial education to underserved populations and communities. The Fund also provides incentives for community development by allocating federal tax credits to organizations that attract investors for commercial, retail, industrial, and mixed-use development projects. These organizations sell these credits to investors, which can be applied against federal income taxes, in order to generate funds for projects in target markets. Investments associated with the CDFI Fund contributed to the creation or maintenance of 29,539 jobs in fiscal year 2008, surpassing the program target of 28,676 jobs.

Market conditions complicate efforts to mitigate risks at national banks and thrifts

Current market conditions can be attributed in part to poor risk management practices at financial institutions and insufficient government regulation of lending activities. While the vast majority of national banks and thrifts remain well capitalized, there are some which remain over-exposed to riskier mortgage assets or highly leveraged investments. Over the past year, the OCC and OTS have made pointed efforts to work with national banks and thrifts to reduce exposure to risky assets and improve risk management, as outlined previously in the *Key Initiatives* section. However, current strained markets for some products, and over-exposure by some institutions to softer regional markets, have complicated efforts to manage these risk exposures. Assets with uncertain valuations remain on financial institutions' books – removing them will require time and effective risk management. Deleveraging, as banks reduce holdings in certain assets, has also incurred substantial costs. Until these assets can be removed from institutions' balance sheets, new lending will remain constrained. The OCC and OTS will continue to work with national banks and thrifts to isolate risky investments and work towards developing strategies to limit exposure to future losses.

Incomplete regulatory restructuring of the financial system

The current "siloed" system of regulatory oversight in the United States is incompatible with financial markets characterized by cross-sector convergence and market globalization. Many of the recent problems in financial markets have stemmed from a confusing and sometimes insufficient mix of state and federal financial regulations, lack of appreciation for the growing complexity of cross-sector financial transactions and institutions, and lack of understanding of the riskiness of certain investments. Issuing the *Blueprint for a Modernized Financial Regulatory Structure* in March 2008 capped the Department's analytical review of the financial system. Included in the report are a series of near, intermediate, and long-term measures to improve regulatory oversight and restructure the "siloed" system. Common across these measures is a recognized need to establish stronger federal oversight of mortgage origination, insurance practices, clearing operations, and banking regulation. These policy recommendations are outlined previously in the *Key Initiatives* section. As of the end of fiscal year 2008, most recommendations from the *Blueprint* had yet to be implemented.

Incomplete reforms of Medicare and Social Security

The financial conditions of Medicare and Social Security remain dire. Based on actuarial assumptions published in March 2008, the Medicare Hospital Insurance trust fund is projected to begin paying out more in expenditures than it receives in taxes and dedicated revenues by the end of 2008. With the deficit between expenditures and revenue expected to continue rising, the fund is expected to be exhausted by 2019. Under current assumptions, Social Security is similarly projected to begin paying out more in benefits than it receives in income and payroll taxes in 2011, with the fund exhausted by 2041. The current actuarial deficit to cover all expected future payments for Social Security recipients is $13.6 trillion. (The actuarial deficit is the required funding needed today to pay for the existing liabilities of all current contributors and recipients.) In addition, the Medicare Supplementary Medical Insurance program that covers prescription drug benefits is projected to require general revenue financing that will grow faster than the economy and beneficiary incomes. These budgetary shortfalls will require policy action to ensure the solvency of the two funds and manageable provision of prescription drug benefits. Given the Secretary's position as Chairman of the Boards of Trustees for the Social Security and Medicare trust funds, in fiscal year 2008 the Department issued five articles offering policy recommendations to address funding problems at the two funds. Government action on these recommendations, however, was limited during 2008, due to significant attention directed at immediate financial challenges.

Protectionist interests impede the ability to maintain open economies

Preservation of open international trade and financial channels has become more challenging in today's economic environment. Collapse of the Doha Round talks in July 2008, heightened concerns about investments by sovereign wealth funds and foreign government-owned enterprises and delayed consideration of the U.S.-Colombia Free Trade Agreement highlight these challenges. The Treasury Department supports the expansion of trade and investment opportunities which can promote economic development and security. While the number of U.S. free trade agreements negotiated with Treasury Department input increased in 2008, delayed implementation of these agreements has limited their benefit for the U.S. economy. The Department will continue to actively participate in the U.S. Government's efforts to open access to foreign markets and promote trade and investment growth.

Improve productivity management relating to the printing and engraving of currency notes

The manufacturing of currency notes experienced a 0.6 billion unit (7.2 percent) reduction in quantity ordered by the Federal Reserve, a drop from 8.3 billion notes in 2007 to 7.7 billion in 2008. This reduction in the Federal Reserve order was large enough to affect a 12 percent drop in BEP's productivity between fiscal years 2007 and 2008.

Improve supply management for bullion coin production

As the economy and financial markets softened, investors sought the perceived safety of precious metals. Revenue from the sale of gold, platinum, and silver bullion coins more than doubled, increasing to $949 million in fiscal year 2008 from $356 million in fiscal year 2007. However, successful sales efforts in the bullion product line posed a new set of challenges. The volume of precious metal blanks suppliers were able to provide on time and production capacity limits at the Mint constrained the number of bullion products that could be produced. These forces compelled the Mint to temporarily suspend sale of certain bullion coins as production was unable to meet demand.

Manage cost issues related to the penny and nickel

For the third year in a row, the penny and nickel cost more to produce than their face value. Two primary factors affected the cost to produce these coins. First, the slowing economy reduced demand for circulating coins, increasing the fixed production cost per unit. Shipments from the Mint to the Federal Reserve fell from 15.4 billion coins in 2007 to 8.6 billion in 2008. Second, global price increases for copper, nickel, and zinc, the metals used to produce the penny and nickel, drove up per unit production costs. Between September 2004 and September 2008, spot prices for copper, nickel, and zinc increased by 141.5 percent, 34 percent, and 78 percent, respectively. The Department is working with Congress to determine more cost-effective ways to produce circulating coins in the future.

PREVENTED TERRORISM AND PROMOTED THE NATION'S SECURITY THROUGH STRENGTHENED INTERNATIONAL FINANCIAL SYSTEMS

Persuaded a number of the world's leading financial institutions of the risks of dealing with Iran and Iranian banks

A precautionary advisory and an online warning were issued to U.S. banks about the risks of doing business with Iran. Specific attention focused on the Central Bank of Iran which has engaged in deceptive financial conduct, including requesting that its name be removed from global transactions to make it more difficult for intermediary financial institutions to determine the true parties in the transaction. Simultaneously, Treasury continued to take targeted financial actions against Iranian individuals and entities engaged in Iran's proliferation activities or support to terrorist groups. Bank Melli, Iran's largest bank, was designated for providing services to entities involved in Iran's nuclear and ballistic missile programs, including entities listed by the United Nations for their involvement in those programs. Bank Mellat was designated for providing bank services in support of Iran's nuclear entities. A vast majority of the world's leading financial institutions have dramatically scaled back or completely cut off their dealings with Iran and its banks as a result of mutually reinforcing actions taken by government and private sector entities. These actions helped protect the integrity of the financial system from illicit conduct while supporting a multilateral effort to reach a negotiated solution on Iran's nuclear program.

Designated and blocked key Zimbabwe regime supporters

In January 2008, OFAC designated two Zimbabwean entities and two individuals as part of an increased effort to pressure those who are aiding Robert Mugabe's efforts to cripple Zimbabwe. In July 2008, the President signed a new Executive Order to expand sanctions against the Government of Zimbabwe and significantly enhanced OFAC's ability to designate additional individuals and entities. This included entities owned or controlled by the Government of Zimbabwe or an official of the Government, or those that have participated in human rights abuses. OFAC designated 17 entities including several working with their government in an unofficial capacity. Designations included one individual whose support for Robert Mugabe's regime contributed to the undermining of democratic processes and institutions in Zimbabwe.

Completed actions against FARC

The *Foreign Narcotics Designation Kingpin Act* gives Treasury the authority to apply economic sanctions against foreign narcotics trafficking worldwide. In fiscal year 2008, Treasury designated 15 key commanders of FARC leadership, parts of the FARC's money laundering network, senior Venezuelan officials supporting the FARC, and members of the FARC's international committee. According to a federal indictment, FARC is responsible for 60 percent of the cocaine that is brought into the United States, and is directly involved with its production and distribution. Four successive actions throughout the year focused on disrupting FARC's money laundering operations through the international financial system. These actions are part of an ongoing U.S. Government effort under this Act to apply financial measures against foreign drug kingpins.

Led efforts within the Financial Action Task Force (FATF)

Critical to Treasury's strategic goal of preventing terrorism and strengthening national security is identifying systemic vulnerabilities that terrorist and other criminals can exploit to finance their operations and interests. Treasury led or co-chaired several important working groups within the FATF that produced valuable guidance and reports for identifying and addressing these vulnerabilities in the international financial system, including Iran, Pakistan, Sao Tome and Principe, Turkmenistan, Uzbekistan, and the northern part of Cyprus. As a result, the FATF issued public statements expressing concern and alerting jurisdictions worldwide to the risks arising from the deficiencies in those anti-money laundering/counter-terrorist financing (AML/CFT) regimes.

Increased collaboration with Intelligence Community

Treasury enhanced its efforts to provide timely, accurate, actionable, and policy-relevant intelligence analysis on the financial underpinnings of threats to national security. This analysis took the form of tactical and strategic assessments to inform policymaking and support enforcement actions. The Department strengthened relationships with its Intelligence Community counterparts and other partners in fiscal year 2008 through exchanges and assignments at the working level. Treasury hosted representatives from the National Security Agency, the Defense Intelligence Agency, United States Central Command, and other key partners to improve coordination. Treasury liaison officers participate in rotations within the Intelligence Community in the United States and overseas.

Implemented efforts to increase Bank Secrecy Act effectiveness and efficiency

Treasury placed additional emphasis on providing guidance and feedback to regulated industries, engaging specific financial institutions and industries to learn more about the practical implications of regulatory requirements, and providing additional feedback to industry. A proposal was announced to significantly simplify the requirements for depository institutions to exempt their eligible customers from Currency Transaction Reporting. In fiscal year 2008, the draft rule on Chapter 10 was published, an effort to overhaul Bank Secrecy Act regulations for inclusion in the new Code of Federal Regulations, to provide greater clarity in regulations and make it easier for industry to follow, as well as more intuitive and responsive to industry feedback. This simplified approach serves as an important factor of the Department's anti-money laundering mission by facilitating compliance by financial institutions. Additionally, the Department worked collaboratively with other federal banking agencies to assess different approaches to examinations that are commensurate with risk.

Need to fully implement AML/CFT laws in key countries

As a leader and representative of the Financial Action Task Force (FATF), the Department is responsible for encouraging countries to comply with international AML/CFT standards. Using these standards to determine compliance, FATF assessed 37 countries in fiscal year 2008 and the Department served as an assessor to 12 of these mutual evaluations. Despite Treasury's work, there is still room for improvement in implementing these laws in key countries. In particular, Pakistan has passed an anti-money laundering law, but has yet to implement it. Additionally, many Gulf countries have yet to adequately protect against vulnerabilities from cash courier systems.

Need to implement a mechanism for validating performance results

A composite performance measure was developed to rate the impact of activities related to the Department's efforts to prevent terrorism and safeguard U.S. and international financial systems. Determining this impact has proved to be extremely difficult; currently the only validation is from internal customers and the Department. An external validation process needs to be determined.

MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Issued audit reports

TIGTA conducted audits and investigations to ensure fair administration of the nation's tax system and accountability for more than $2 trillion in tax revenue collected each year. The audits conducted identify high-risk issues and deficiencies related to the administration of programs and operations. These audits ensure that taxpayers are served appropriately and their rights adequately protected. In fiscal year 2008, TIGTA issued 179 audit reports, making recommendations to improve areas such as tax compliance, security maintenance, systems, and operations, resulting in $2.4 billion in potential financial benefits.

Enhance security of information technology

The Treasury Department strives to provide a secure information technology infrastructure. Treasury strengthened its networks by encrypting 99.8 percent of laptops, 99.7 percent of digital assistants, testing 98 percent of system contingency plans, certifying and accrediting 97 percent of systems, strengthening security policies, and implementing enhanced safeguards to reduce exposure to Internet-based threats. However, the Department did not meet its goal of 100 percent compliance with Security Configuration requirements.

The Department recognizes the importance of cyber security in fulfilling its mission. In fiscal year 2008, Treasury made significant progress in strengthening security configuration management, which was noted as a significant deficiency in fiscal year 2007. The Federal Information Security Management Act (FISMA) 2008 audit found no significant deficiencies in information security, and the Department's remaining material weakness in this area was formally closed.

Created the Privacy and Treasury Records office

Treasury is committed to maintaining, collecting, using, and disseminating information necessary to carry out its mission. PTR was created to strengthen the Department's privacy program and records management. PTR will ensure that Treasury has a system in place to serve and inform the public, and strengthen the Department's compliance with privacy and disclosure requirements.

Developed human capital measures

In fiscal year 2008, the Department developed two human capital performance measures. The first measure is designed to assess progress in developing a high-performance, talented, and diverse workforce; the second measure is designed to assess Treasury's standing as a highly desirable employer of choice.

Strengthen corporate leadership

The Treasury Department has made a profound effort in 2008 to promote corporate governance. In addition to daily meetings of the senior leadership team, weekly bureau head meetings, and monthly Treasury-wide council meetings, the Department has taken several actions to improve corporate management. An Executive Review Board was re-established for major IT capital investments to better engage department and bureau executive leadership in IT decision making.

The Human Capital Strategic Plan was revised, identifying the factors that will shape the future workforce environment of the agency, and the corporate strategies that are needed to meet these challenges. A corporate approach to procurement provided significant savings and improved governance, communication, and training across the agency. A prototype Treasury performance scorecard was developed for the financial outcomes described in the Department's strategic plan.

Corporate governance activities were consistently monitored and any gaps in the process were identified. These included strategic planning, financial management, asset management, information technology, risk management, human capital, procurement, performance management, privacy and records management, and emergency/continuity program management.

Material Loss Reviews

OIG is mandated to conduct MLRs of any Treasury-regulated bank failures resulting in material losses greater than $25 million or two percent of the institution's assets. An MLR examines the cause(s) of the failure, the supervision exercised over the institution, and recommendations regulators can consider to help prevent future failures. Also examined are indicators of fraud that may lead to the criminal or civil prosecution of the perpetrators. In fiscal year 2008, OIG completed one MLR of the NetBank failure and currently has five MLRs in progress.

President's Management Agenda

The PMA is a management initiative instituted in 2001 to improve management practices across the federal government and transform it into a results-oriented, efficient, and citizen-centered enterprise. The PMA is used as a framework to strengthen Treasury's workforce, lower the cost of doing business through competition, improve financial performance, increase the use of information technology and E-Government capabilities, and integrate budget decisions with performance data. Fiscal year 2008 results were similar to fiscal year 2007. Progress steadily improved throughout the year in the areas of E-Government, Performance Improvement, and Human Capital. For additional information see the *Treasury website*.

President's Management Agenda

Initiative	Status				FY 2008 Progress			
	FY 2005	FY 2006	FY 2007	FY 2008	Q1	Q2	Q3	Q4
Human Capital	Y	G	G	G	G	G	G	G
Commercial Services	G	G	Y	Y	Y	Y	Y	Y
Financial Performance	R	R	Y	Y	Y	Y	G	G
E-Government	R	Y	Y	Y	G	G	G	G
Performance Improvement	Y	Y	Y	Y	G	G	G	G
Improper Payments	R	R	R	R	Y	Y	Y	Y
Credit Management	N/A	N/A	Y	Y	Y	G	G	G

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

SUMMARY OF MANAGEMENT CHALLENGES AND HIGH-RISK AREAS

TREASURY-WIDE MANAGEMENT CHALLENGES

Management Challenge	Importance	Progress	Status
Management of Treasury's Authorities Related to Distressed Financial Markets	Protection of the taxpayer from unnecessary risk associated with the implementation of the program	New	New
Regulation of National Banks and Thrifts	Prevent or better mitigate unsafe and unsound practices and protect the financial health of the banking industry	New	New
Corporate Management	Overall agency performance/improved value for the taxpayer	Reasonable	Adequate
Management of Capital Investments	Effective use of taxpayer funds for large capital investments	Significant	Meets Expectations
Information Security	Appropriate protection of electronic information and cyber assets	Significant	Meets Expectations
Linking Resources to Results	Resources that are focused on producing the best value for stakeholders	A cost accounting policy revision and changes to operations allowed removal of this challenge	Closed
Anti-Money Laundering and Terrorist Financing/BSA Reporting	U.S. and international financial systems that are safe	Reasonable	Meets Expectations

IRS MANAGEMENT CHALLENGES

Management Challenge	Importance	Progress	Status
Modernization of the Internal Revenue Service (Computerized Systems and Business Structure) and IRS Business Systems	Improved taxpayer service and efficiency of operations	Reasonable	Meets Expectations
Tax Compliance Initiatives	Improved compliance and fairness in the application of the tax laws	Reasonable	Meets Expectations
Security of the Internal Revenue Service	Appropriate protection of financial, personal, and other information	Reasonable	Meets Expectations
Providing Quality Taxpayer Service Operations	Improved taxpayer service	Significant	Exceeds Expectations
Human Capital	Enables the IRS to achieve its mission	Significant	Exceeds Expectations
Erroneous and Improper Payments	Effective use of taxpayer funds	Reasonable	Adequate
Taxpayer Protection and Rights	Fairness in the application of the tax laws	Significant	Meets Expectations
Processing Returns and Implementing Tax Law Changes During the Tax Filing Season	Improved taxpayer service and efficiency of operations	Significant	Exceeds Expectations
Using Performance and Financial Information for Program and Budget Decisions	Resources that are focused on producing the best value for stakeholders	Significant	Exceeds Expectations
Click on any management challenge for additional information.			

Progress Rating	Description
New	A new management challenge in fiscal year 2008
None	No progress was made on the management challenge
Marginal	Minimal progress was made on the management challenge compared to the prior year
Reasonable	Progress was made in addressing the management challenge, improving from the prior year
Significant	A large amount of progress was made compared to the prior year assessment

Status Rating	Description
New	A new management challenge in fiscal year 2008
Inadequate	Regardless of progress made in the fiscal year, the status of the management challenge remains incomplete and falls significantly short of expectations
Adequate	The current status of the management challenge is acceptable but falls slightly short of expectations set for the fiscal year
Meets Expectations	The current status of the management challenge meets expectations set for the fiscal year
Exceeds Expectations	The current status of the management challenge exceeds expectations set for the fiscal year
Closed	Actions taken resulted in the elimination of the management challenge

HIGH RISK AREA UPDATE: ENFORCEMENT OF THE TAX LAWS

Challenges/Actions

Reduce the opportunity for evasion

- Propose legislation changes targeted at information reporting, compliance by businesses, and strengthening tax administration.

Target specific areas of noncompliance and improve voluntary compliance with extensive research.

- In fiscal year 2008 compliance studies will be completed on S corporations and individuals; in fiscal year 2009 updates to the payment and filing compliance estimates of the tax gap will be completed.
- Research the effect of service and its relationship to taxpayer compliance. In addition, survey taxpayers to see the relationship between complexity, burden, and compliance to improve workload selection formulas and reduce the burden of unnecessary taxpayer contacts.
- Assess outreach and education awareness campaigns that target the EITC eligible and non-compliant population, and adjust as necessary to increase participation and improve compliance. In fiscal year 2008 significant achievements were made: 1) established diagnostic measures for compliance, outreach, and support, 2) developed full cost computation for EITC compliance activities, 3) increased protected revenue from the under-reporter program by 190 percent, 4) increased base compliance activities by 35 percent, 5) reduced the no-change rate on examination cases by 59 percent, 6) realized a return on investment in compliance activities of 12–to-1 for examinations and 67-to-1 for under-reporter cases. In fiscal year 2009, activities from the fourth year of the EITC Return Preparer Study will be completed and short-term outcomes will be analyzed, including penalties and accuracy of returns, and the effect of due diligence visits, education/compliance notices, and phone calls to first-time EITC preparers.

Improve information technology through modernization.

- Execute the following initiatives: In fiscal year 2008 and fiscal year 2009 the process to match information documents to information on a tax return and improved case selection and scoring will be reengineered. In fiscal year 2009 data storage facilities will be enhanced to improve the workload identification. In fiscal year 2009 automated lien delivery will be deployed. In fiscal year 2009 new and improved analytics will be developed that identify issues and select cases for all types of audits. By fiscal year 2009 features will be built and implemented for an electronic transmission capability for additional tax forms on Modernized electronic Filing (MeF). In fiscal year 2009 the Broker Compliance Initiative pilot will be used to identify and address tax schemes of individuals and businesses.

For additional information, click here: *Enforcement of Tax Laws*

HIGH RISK AREA UPDATE: IRS BUSINESS SYSTEMS MODERNIZATION

Problem: The Business Systems Modernization (BSM) program is developing and delivering a number of modernized systems to replace the aging business and tax processing systems currently in use. This effort is highly complex and scheduled to be carried out over a numbers of years, ultimately creating a more efficient and effective IRS. Though the IRS experienced delays and cost overruns in the early years of the effort, improved practices and oversight are now contributing to better delivery of outcomes.

Goal: Meet all BSM project milestones within a cost and schedule variance of 10 percent of the initial estimate.

Challenges/Actions

Fully implement all projects and programs for the Business Systems Modernization program.

- Customer Account Data Engine (CADE) will hold over 200 million individual and business taxpayer's information that will provide flexibility to respond quickly to complex tax law and policy initiatives. Through mid-August 2008 CADE processed 30.5 million individual tax returns which is 21 percent of all individual tax returns filed. Each new release of CADE will expand the functionality CADE can process and thus increase the numbers of returns processed. Under current resource assumptions, IRS has a goal of processing over 90 percent of all returns through CADE by Fall 2012.
- Make similar progress on all other BSM projects: Accounts Management Services (AMS) applies applications that enable IRS employees and taxpayers to access, validate, and update taxpayer accounts on demand. Modernized E-File (MeF) will allow the IRS to store all tax return data in a modernized tax return database allowing all viewers to see an entire tax return online. Custodial Detail Database (CDDB) provides detailed data to support revenue financial reporting. Revenue Accounting Control System (RACS) will reduce the risk of failure to sustain future clean IRS audit opinions, and streamline financial reporting.

For additional information, click here: *IRS BSM*

ANALYSIS OF FINANCIAL STATEMENTS

The complete financial statements and auditor's report are in part III of this report.

CONDENSED CONSOLIDATED BALANCE SHEETS (in Millions):	**2008**	**2007**
Due From the General Fund	$ 10,100,763	$ 9,052,624
Other Intra-governmental Assets	551,115	322,255
Cash, Foreign Currency, and Other Monetary Assets	387,270	92,330
Gold and Silver Reserves	11,062	11,062
Investments and Related Interest	10.576	10,074
Tax, Other, and Related Interest Receivables, Net	30,878	27,559
Other Assets	25,374	12,903
Total Assets	**11,117,038**	**9,528,807**
Federal Debt and Interest Payable	10,075,108	9,029,038
Other Intra-governmental Liabilities	681,621	343,466
Other Liabilities	50,598	35,204
Total Liabilities	**10,807,327**	**9,407,708**
Unexpended Appropriations	271,968	72,317
Cumulative Results of Operations	37,743	48,782
Total Net Position	**309,711**	**121,099**
Total Liabilities and Net Position	**$ 11,117,038**	**$ 9,528,807**

CONDENSED CONSOLIDATED STATEMENTS OF NET COST (in Millions):	**2008**	**2007**
Net Financial Program Cost	$ 12,287	$ 11,735
Net Economic Program (Revenue)/Cost	248	(456)
Net Security Program Cost	342	300
Net Management Program Cost	466	440
Total Net Cost of Treasury Operations	**13,343**	**12,019**
GSE Costs	13,800	—
Net Federal Costs (primarily interest on the Federal Debt)	$ 442,208	$ 429,302

CONDENSED STATEMENTS OF CUSTODIAL ACTIVITY (in Millions):	**2008**	**2007**
Individual and FICA Taxes	$ 2,294,326	$ 2,201,464
Corporate Income Taxes	354,063	395,320
Other Revenues	144,218	142,005
Total Revenue Received	**2,792,607**	**2,738,789**
Less Refunds	(426,074)	(292,684)
Net Revenue Received	**2,366,533**	**2,446,105**
Accrual Adjustment	3,132	5,588
Total Custodial Revenue	**2,369,665**	**2,451,693**
Amounts Provided to Fund the Federal Government	2,366,126	2,445,619
Other	407	486
Accrual Adjustment	3,132	5,588
Total Disposition of Custodial Revenue	**2,369,665**	**2,451,693**
Net Custodial Revenue Activity	**$ 0**	**$ 0**

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (in Millions):	2008	2007
Beginning Balance	$ 48,782	$ 46,644
Budgetary Financing Sources	482,150	447,331
Other Financing Sources (Uses)	(23,838)	(3,872)
Total Financing Sources	458,312	443,459
Net Cost of Operations	(469,351)	(441,321)
Net Change	(11,039)	2,138
Cumulative Results of Operations	**37,743**	**48,782**
Beginning Balance	72,317	68,270
Appropriations Received	681,473	451,222
Appropriations Used	(481,735)	(447,057)
Other	(87)	(118)
Total Budgetary Financing Sources	199,651	4,047
Total Unexpended Appropriations	**271,968**	**72,317**
Net Position - Year End	**$ 309,711**	**$ 121,099**

CONDENSED COMBINED STATEMENTS OF BUDGETARY RESOURCES (in Millions):	2008	2007
Unobligated Balance, Brought Forward	$ 57,450	$ 57,540
Recoveries of Prior Year Unpaid Obligations	413	474
Budget Authority	722,859	474,974
Other Budget Authority	(8,558)	(10,008)
Total Budgetary Resources	**772,164**	**522,980**
Obligations Incurred	487,534	465,530
Unobligated Balance	273,235	46,455
Unobligated Balance Not Available	11,395	10,995
Total Status of Budgetary Resources	**772,164**	**522,980**
Total Unpaid Obligated Balances, Net	57,393	52,448
Obligations Incurred, Net	487,534	465,530
Gross Outlays	(487,608)	(460,302)
Recoveries of Prior Year Unpaid Obligations, Actual	(413)	(474)
Changes in Uncollected Customer Payments Federal	71	191
Total Unpaid Obligated Balance, Net, End of Year	**56,977**	**57,393**
Gross Outlays	487,608	460,302
Offsetting Collections & Distributed Offsetting Receipts	(24,740)	(24,232)
Net Outlays	**$ 462,868**	**$ 436,070**

AUDITOR'S REPORT ON THE TREASURY DEPARTMENT'S FINANCIAL STATEMENTS

The Department received an unqualified audit opinion on its fiscal year 2008 financial statements. The auditor reported a material weakness related to financial systems and reporting at the IRS and significant deficiencies related to financial management practices at the departmental level and controls over foreign currency transactions. The auditor also reported an instance of noncompliance with laws and regulations related to Section 6325 of the Internal Revenue Code and that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996. In addition, a potential Anti-deficiency Act violation related to transactions and activities of the Financial Crimes Enforcement Network was reported.

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Systems and Reporting at the IRS	1	0	0	0	1

Limitations on the Principal Financial Statements

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

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

Major Highlights

The following provides the highlights of Treasury's financial position and results of operations for fiscal year 2008.

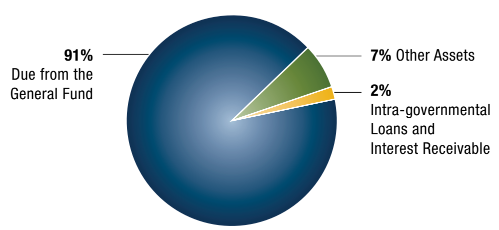
MAJOR HIGHLIGHTS

The following provides the major highlights of Treasury's financial position and results of operations for fiscal year 2008.

Assets. Total assets increased from $9.5 trillion at September 30, 2007, to $11.1 trillion at September 30, 2008. 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 ($10.1 trillion). This account represents future funds required from the General Fund of the U.S. Government to pay borrowings from the public and other federal agencies.

The majority of loans and interest receivable ($264.9 billion) included in "Intra-governmental" assets are the loans issued by the Bureau of the Public Debt to other federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies.

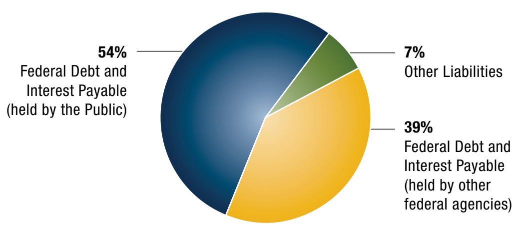
Total Assets



Liabilities. Intra-governmental liabilities totaled $4.9 trillion, and include $4.3 trillion of principal and interest payable to various federal agencies such as the Social Security Trust Fund.

Liabilities also include federal debt held by the public, including interest, of $5.8 trillion; this debt was mainly issued as Treasury Notes. The increase in total liabilities in fiscal year 2008 over fiscal year 2007 ($1.4 trillion and 14.9%) is the result of increases in borrowings from various federal agencies ($257 billion), and federal debt held by the public, including interest ($759.4 billion). Debt held by the public increased primarily because of the need to finance budget deficits.

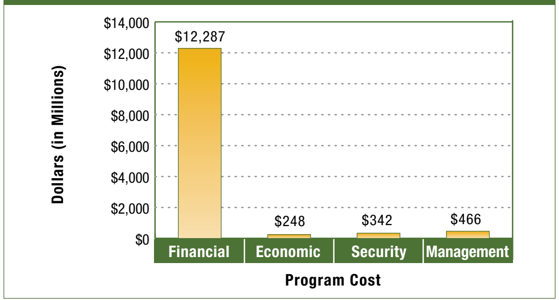
Total Liabilities



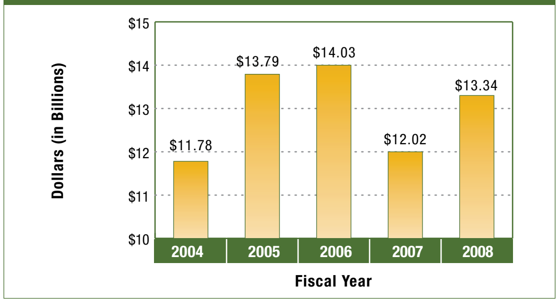
Net Cost of Treasury Operations. The Consolidated Statement of Net Cost presents the Department's gross and net cost for its four strategic missions: financial program, economic program, security program, and management program. The majority of the Net Cost of Treasury Operations is in the financial program. Treasury is the primary fiscal agent for the Federal Government in managing the nation's finances by collecting revenue, making federal payments, managing federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet demand.

Net cost (not from Treasury operations) includes $13.8 billion related to the GSE Keepwell agreement.

Net Cost of Treasury Operations (in Millions)

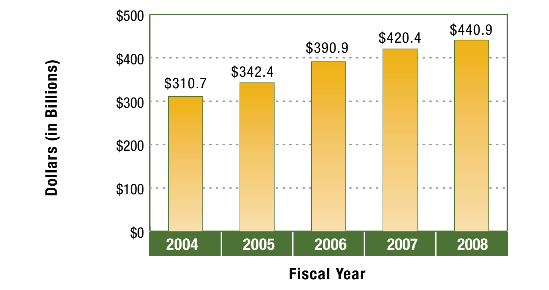


Net Cost of Treasury Operations (in Billions)



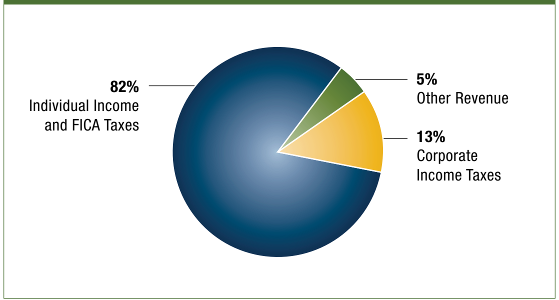
Net Federal Debt Interest Costs. Interest costs have increased over the past four years due to the increase in the federal debt.

Net Federal Debt Interest Cost (in Billions)



Custodial Revenue. Total net revenue collected by Treasury on behalf of the Federal Government includes various taxes, primarily income taxes, user fees, fines and penalties, and other revenue. Over 94.8 percent of the revenues are from income and social security taxes.

Total Revenue (in Trillions)



IMPROPER PAYMENTS INFORMATION ACT AND RECOVERY AUDITING ACT

IMPROPER PAYMENTS INFORMATION ACT

Background

The Improper Payments Information Act of 2002 (IPIA) requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. According to Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (A-123, Appendix C), "significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5 percent and $10 million of total program funding. A-123, Appendix C also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets.

However, 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 OMB approval. Agencies must also perform trend analyses to update the program's baseline error rate in the interim years between detailed program studies. When development of a statistically valid error rate is possible, the reduction targets are revised and become the basis for future trend analyses.

Treasury's Risk Assessment Methodology and Results for Fiscal Year 2008

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

Earned Income Tax Credit

The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers and, if the credit exceeds the amount of taxes due, provides a lump-sum payment in the form of a refund to those who qualify. The fiscal year 2008 estimate is that a maximum of 28 percent ($13.1 billion) and a minimum of 23 percent ($11.1 billion) of the EITC total program payments are overclaims.

The IRS has a robust base enforcement program for the EITC which consists of examinations, math error notices, and document matching and has adopted a two-pronged approach to reduce improper payments:

- Seek opportunities to increase program efficiency within existing resources
- Test potential new approaches and processes and then request implementation funding if the tests prove successful

RECOVERY AUDITING ACT

Background

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

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

Results for Fiscal Year 2008

During fiscal year 2008, $5.0 billion in contracts (defined as issued and obligated contracts, modifications, task orders, and delivery orders) were issued. Improper payments in the amount of $825,279 were identified from recovery auditing efforts, and $839,818 has been recovered, including prior year recoveries, with $1,834 outstanding as accounts receivable on September 30, 2008.

Note: Additional detail on Treasury's IPIA and Recovery Auditing Act Program can be found in *Appendix B*.

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MANAGEMENT ASSURANCES

The Secretary's Letter of Assurance

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

Treasury provides reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act over operations have been achieved, except for the material weaknesses noted below. In accordance with OMB Circular A-123, Appendix A, we provide qualified assurance that internal control over financial reporting is effective as of June 30, 2008. Treasury is not in substantial compliance with the Federal Financial Management Improvement Act due to the material weakness involving revenue accounting systems; this weakness is a significant reason for our qualified overall assurance level for A-123, Appendix A.

Treasury has four remaining material weaknesses as of September 30, 2008, as follows:

Operations:

Internal Revenue Service

- Systems modernization management and controls
- Systems security controls

Financial Management Service

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

Financial Reporting:

Internal Revenue Service

- Revenue accounting systems

The Department made significant progress during fiscal year 2008 by closing two of six material weaknesses. For the sixth straight fiscal year, we identified no new material weaknesses. We will continue to focus on achieving positive results by:

- Emphasizing internal 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

Sincerely,

Henry M. Paulson, Jr.
November 17, 2008

MATERIAL WEAKNESSES, AUDIT FOLLOW-UP, AND FINANCIAL SYSTEMS

SUMMARY OF MANAGEMENT ASSURANCE

Summary of Material Weaknesses						
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS - Revenue Accounting Systems	1	0	0	0	0	1
IRS - Systems Modernization Management and Controls	1	0	0	0	0	1
IRS - Overclaims in the Earned Income Tax Credit Program	1	0	1	0	0	0
IRS - Systems Security Controls	1	0	0	0	0	1
FMS - Systems, Controls and Procedures to Prepare the Government-wide Financial Statements	1	0	0	0	0	1
DO - Systems Security	1	0	1	0	0	0
TOTAL MATERIAL WEAKNESSES	6	0	2	0	0	4

During fiscal year 2008, Treasury closed two material weaknesses: Treasury Departmental Offices Lack of Compliance with the FISMA, and IRS Overclaims in the Earned Income Tax Credit.

As of September 30, 2008, Treasury has four remaining material weaknesses under Section 2 of the FMFIA as shown in the tables below.

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

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS - Systems Modernization Management and Controls	1	0	0	0	0	1
IRS - Overclaims in the Earned Income Tax Credit Program	1	0	1	0	0	0
IRS - Systems Security Controls	1	0	0	0	0	1
FMS - Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements	1	0	0	0	0	1
DO - Systems Security	1	0	1	0	0	0
TOTAL MATERIAL WEAKNESSES	5	0	2	0	0	3

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
TOTAL NON-CONFORMANCES	0	0	0	0	0	0

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

Federal Managers' Financial Integrity Act (FMFIA)

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

- programs achieve their intended results
- resources are used consistent with overall mission
- programs and resources are free from waste, fraud, and mismanagement
- laws and regulations are followed
- controls are sufficient to minimize any improper or erroneous payments
- performance information is reliable
- system security is in substantial compliance with all relevant requirements
- continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels
- financial management systems are in compliance with federal financial systems standards

Deficiencies that seriously affect an agency's ability to meet these objectives are deemed "material weaknesses." Treasury can provide reasonable assurance that the objectives of FMFIA have been achieved, except for the remaining material weaknesses noted in the Secretary's Letter of Assurance. The last identified material weakness is targeted for closure in fiscal year 2012.

Each year material weaknesses, both the resolution of existing ones and the prevention of new ones, receive special attention. Over the past six years, Treasury has made great progress in reducing the number of material weaknesses. During fiscal year 2008, the Department closed two of six material weaknesses and continues to make resolution of these weaknesses a performance requirement for every executive, manager, and supervisor.

Office of Management and Budget (OMB) Circular A-123, Appendix A

The Department continues to strengthen and improve the execution of the Treasury mission through the application of sound internal controls over financial reporting. In response to OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, Treasury developed and implemented an extensive testing and assessment methodology that identified and documented internal controls over financial reporting at the transaction level integrated with the Government Accountability Office's Standards for Internal Control. The testing and assessment were completed across all material Treasury bureaus and offices by June 30, 2008. Treasury provides qualified reasonable assurance that internal controls over financial reporting are effective as of June 30, 2008, due in large part to the revenue accounting system weaknesses at the IRS.

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, 2008, the Treasury Department's financial management systems were not in substantial compliance with FFMIA due to deficiencies with the IRS's financial management systems. The IRS has a remediation plan in place to correct the deficiencies. For each FFMIA recommendation, the remediation plan identifies specific remedies, target dates, responsible officials, and resource estimates required for completion. This plan is reviewed and updated quarterly. (Refer to Appendix D for detailed information.)

Audit Follow-Up

During fiscal year 2008, Treasury placed a renewed emphasis on improving both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the Office of the Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), the Government Accountability Office, and external auditors.

Treasury management at every level will maintain the momentum on accomplishing Planned Corrective Actions (PCAs) timely to resolve and implement sound solutions for all audit recommendations. Although the Department has made great progress, considerably more work lies ahead to integrate the effects of those actions more fully into management's decision-making processes. The Department needs to identify more precisely what it costs to accomplish Treasury's varied missions and develop ways to improve overall performance. This will entail building upon the progress already made in expanding the communication and coordination among the Treasury offices variously involved in strategic planning, budget formulation, budget execution, performance management, and financial management.

Financial Management Systems Framework

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

Treasury's FARS applications operate at a contractor operated hosting facility. In accordance with the guidance contained in the American Institute of Certified Public Accountants' Statement of Auditing Standards (SAS) No. 70, *Service Organizations*, the service provider's independent auditors examined the controls for the dedicated hosting service. In the opinion of the auditors, the description of the controls presents fairly, in all material respects, the relevant aspects of the provider's controls that had been placed in operation as of September 30, 2008. Also, the controls described are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and customer organizations applied the controls contemplated in the design of the provider's controls.

The Department continues to enhance its financial management systems structure. As of September 30, 2008, the number of financial management systems decreased to 60, down from 64 at the end of fiscal year 2007.

The Bureau of the Public Debt's Administrative Resource Center (ARC) has been designated by OMB as a Financial Management Line of Business Shared Service Provider (SSP). The ARC currently services 28 federal entities for core financial systems, including twelve Treasury bureaus and reporting entities. Treasury will continue to evaluate opportunities to consolidate financial management systems and better utilize existing resources. The Department will work with the remaining bureaus to develop plans to migrate to a SSP for core financial systems in accordance with the Financial Management Line of Business requirements.

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

The Department's FARS applications are also used to support other federal agencies. Treasury currently hosts another federal agency for consolidated financial processing and reporting. As a result of this arrangement, Treasury is able to share costs for the maintenance and operation of the FARS applications. In addition, the Department has demonstrated various FARS applications to other agencies. Several of the agencies have implemented FARS applications to run in their own systems environment, reducing their capital investment in systems software development.

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The Department of the Treasury

ANNUAL PERFORMANCE REPORT

PART II

INTRODUCTION

The Annual Performance Report (APR) is written by strategic objective and outcome. Included in the discussion is a summary of why the objective is important, and its associated outcomes. An overall performance statement is provided for each objective, along with charts and tables for cost, budget and performance. Performance chart percentages are calculated based on active performance measures for which targets were either exceeded, met, improved, or not met. Baseline and discontinued measures are not included in the calculations. While baseline measures are not counted in the calculation, they are shown as "met" in the performance tables in this section and in Part IV. Several measures were discontinued and/or base-lined this year as a result of the ongoing analysis of Treasury's performance measures as they relate to outcomes.

A table of key performance measures includes actual data from the last four years, a performance rating for 2008, the fiscal year 2009 target, and a determination of the trends in both actual performance and targets. Trends are indicated by colored arrows, with red indicating an unfavorable direction, green a favorable direction, black indicating no change and the "B" for a measure that is being base-lined this fiscal year.

Results are analyzed for the factors affecting performance for the entire set of measures associated with the strategic objective and its associated outcomes. In some cases, underlying causes are not clear, and this is discussed. Because performance is a mixture of both policy and operations, it is difficult to assess the contribution of them together when trying to measure an outcome.

It is generally easier to assess the performance of established programs than it is policy initiatives. With some exceptions, determining whether or not a policy initiative is successful is subject to legislated outcome, success of government-wide implementation and analyst opinion. To overcome this problem, and to better assess policy performance, Treasury is currently developing measures that gauge the effectiveness of policy initiatives by their traction (how efficiently and effectively policy offices worked with other government offices and/or the extent to which the office influences progress towards an outcome) and impact (whether or not the policy initiative had a positive outcome).

As one example, Treasury has developed a new measure to gauge the performance of the Office of Technical Assistance in providing economic and financial expertise to developing countries. Similar measures are being developed for Terrorism and Financial Intelligence. The process of developing these measures has deepened the understanding and connection between activities and desired outcomes, resulting in measures that the Department believes are much more useful to both performers and evaluators.

Each section of the APR concludes with a "Moving Forward" piece that describes future action to be taken. Actions could include closing performance gaps, developing new measures, or drafting new polices and/or regulations.

A note on cost: Cost is stated as "Performance Cost," and represents imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. **Performance Cost** was used rather than Net Cost because it **more accurately represents the total cost to achieve a result or outcome.** For instance, while the Net Cost to manufacture coins and currency for non-appropriated bureaus such as the U.S. Mint and the Bureau of Engraving and Printing is zero because they are essentially self-funded, the real cost of operating these organizations is over $2 billion once all imputed costs, depreciation, losses and other expenses are included. While performance cost is more than Net Cost, it is less than the Gross Cost reported on the Statement of Net Cost because it excludes accounts that do contribute to the cost of achieving performance for the agency, such as the Exchange Stabilization Fund and the Federal Financing Bank. Fiscal year 2008 is the second year that Treasury has included this information.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

ACCURACY OF PERFORMANCE MEASURES

Measures are classified for accuracy as follows:

- *Reasonable Accuracy:* Judged to be sufficiently accurate for program management and performance reporting purposes (specified in Office of Management & Budget Circular A-11, Section 230-4(f))
- *Questionable or Unknown Accuracy:* Judged to be materially inadequate (specified in Office of Management & Budget Circular A-11, Section 230-4(f) as "materially inadequate")

PROCEDURES FOR CONDUCTING REVIEW OF THE DEPARTMENT'S PERFORMANCE MEASURE DATA

The Department of the Treasury's Office of Strategic Planning and Performance Management prepares the annual report on performance measures and monitors component-submitted performance information. Based on an audit finding in fiscal year 2006, it was determined that improvements to the internal control process for performance measures were needed. Improvements to the process included:

- All measures are now categorized by audit priority as high, medium, or low, based on the relationship to achieving the Department's goals
- A representative sample of measures are selected for review every fiscal quarter
- Supporting documentation from that sample is reviewed for accuracy, reliability and completeness
- All measure calculations are verified, data sources are validated, and comparisons are made to prior year results
- Information related to the measure audit is maintained in hard-copy form and can be reviewed at any time

As a result, performing this process will uncover any potential data or calculation error and will provide additional assurances on the integrity of the information and data presented in the annual Performance and Accountability Report.

COMPLETENESS OF DATA

Not Available: There were no measures in fiscal year 2008 for which data was not available.

Discontinued: The following performance measures were discontinued in fiscal year 2008 and will not have data available for this Report. Explanations for why these measures were discontinued can be found in *Appendix E*.

Bureau	Performance Measure
BPD	Percentage of Government Agency customer initiated transactions conducted online
DO	Audit opinion received on government-wide financial statements
DO	Number of new Free Trade Agreement (FTA) negotiations and Bilateral Investment Treaties (BIT) negotiations underway or completed
DO	U.S. real Gross Domestic Product (GDP) growth rate
DO	U.S. unemployment rate
DO	Management cost per Treasury employee
FinCEN	Number of federal and state regulatory agencies with which FinCEN has conducted memoranda of understanding/ information sharing agreements
IRS	BSM Project Cost Variance by Release/Subrelease
IRS	BSM Project Schedule Variance by Release/Subrelease
Mint	Cycle Time
Mint	Order Fulfillment
Mint	Total Losses
OTS	Difference between the inflation rate and the OTS assessment rate increase
Franchise Fund	Customer Satisfaction Index - Financial System, Consulting & Training
Franchise Fund	Customer Satisfaction Index - Consolidated/Integrated Administrative Management

Bureau	Performance Measure
TTB	Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of number of compliant industry members)
TTB	Cumulative percentage of excise tax revenue audited over 3 years
TTB	Percentage of COLA approval applications processed within 9 calendar days of receipt
TTB	Percentage of permit application (original and amended) processed by the National Revenue Center within 60 days
TTB	Percentage of total tax receipts collected electronically
TTB	Percentage of voluntary compliance in filing tax payments timely and accurately (in terms of revenue)
TTB	Resources as a percentage of revenue
TTB	Unit cost to process an excise tax return
TTB	Unit cost to process a Wine Certificate of Label Approval

Baseline: The following measures established baseline values and targets in fiscal year 2008:

Bureau	Performance Measure
DO	Number of New Trade and Investment Negotiations Underway or Completed
DO	Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce US trade law and international agreements
DO	Changes that result from project engagement (impact)
DO	Scope and intensity of engagement (traction)
FinCEN	Percentage of customers satisfied with WebCBRS and secure outreach
FinCEN	Percent of federal and state regulatory agencies with memoranda of understanding/information sharing agreements
FinCEN	Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system
IRS	Percent of BSM projects within +/- cost variance
IRS	Percent of BSM projects within +/- schedule variance
Mint	Conversion costs per 1,000 coin equivalents (percent deviation from target)
TTB	Amount of revenue collected per program dollar
TTB	National Revenue Center customer satisfaction survey
TTB	Average number of days to process an original permit application at the National Revenue Center
TTB	Percentage of instances where the utilization of the International Trade Database System identified importers without permits as a percentage of total permits on file
TTB	Percent of Voluntary Compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)

Data Reliability: Performance data presented in this report meets the standards for reliability set forth in Office of Management & Budget 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.

GUIDE TO THE ANNUAL PERFORMANCE REPORT

The Department of Treasury Annual Performance Report is organized by strategic goal, objective and outcome. Each goal contains the following information:

- Description of the goal
- For each ***objective*** associated with the goal:
  - Bureaus and policy offices involved in the achievement of the objective
  - Outcomes
  - Budget and performance cost trends
  - Performance to target
  - Performance cost by outcome
  - A list of program evaluations
  - An indication of the quality of the improvement plan for each program
- For each ***outcome*** associated with the objective:
  - A summary performance statement
  - Performance to target
  - A summary of actual performance trends
  - A table of key performance measures
  - Analysis of performance results
  - A moving forward section that describes future actions to address performance shortfalls, improved measurement techniques, and proposed regularity or legislation changes.

STRATEGIC GOAL: EFFECTIVELY MANAGED U.S. GOVERNMENT FINANCES

STRATEGIC OBJECTIVE:
Cash Resources are Available to Operate the Government

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

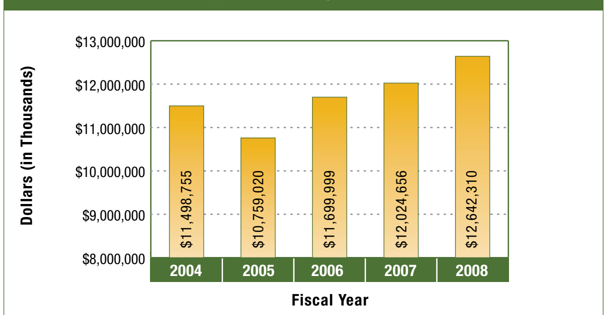
The bureaus and policy offices responsible for the achievement of this objective are:

- Alcohol and Tobacco Tax and Trade Bureau
- Bureau of the Public Debt
- Financial Management Service
- Internal Revenue Service
- The Office of Domestic Finance

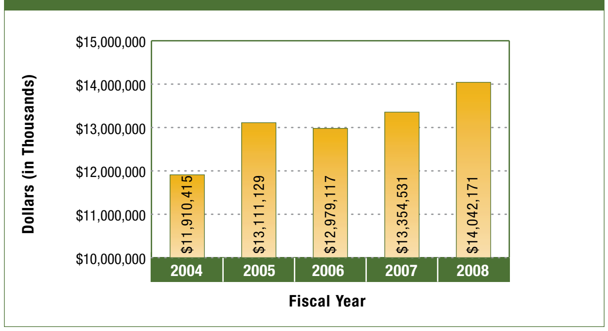
The outcomes associated with this objective are:

- Revenue collected when due through a fair and uniform application of the law
- Timely and accurate payments at the lowest possible cost
- Government financing at the lowest possible cost over time
- Effective cash management
- Accurate, timely, useful, transparent and accessible financial information

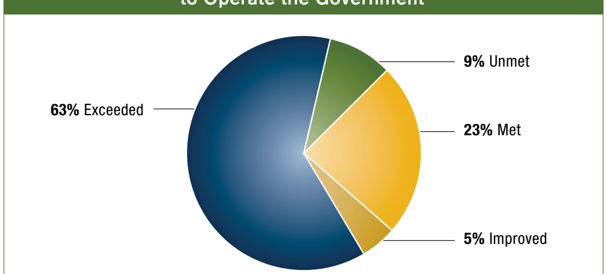
Budget Trend by Objective



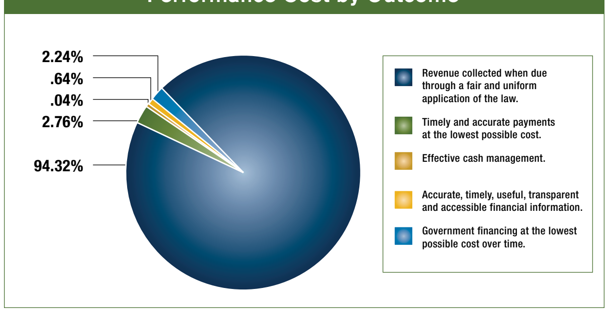
Performance Cost Trend



Cash Resources are Available to Operate the Government



Performance Cost by Outcome



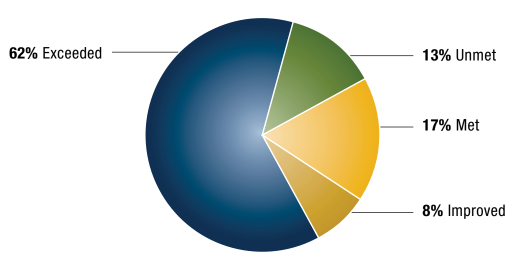
Program Assessment Rating Tool 2008				
Program	Bureau	Year Conducted	Rating	Current Improvement Plan
Administering the Public Debt	BPD	2003	Effective	▲
Collections	FMS	2004	Effective	▲
Debt Collection	FMS	2003	Effective	▲
Government Wide Accounting & Reporting	FMS	2006	Moderately Effective	▲
Payments	FMS	2005	Effective	▲
Criminal Investigation	IRS	2005	Moderately Effective	▲
Earned Income Tax Credit	IRS	2002	Ineffective	▲
Health Care Tax Credit Administration	IRS	2006	Results Not Demonstrated	▲
Examination	IRS	2005	Moderately Effective	▲
Retirement Savings Regulatory Program	IRS	2006	Adequate	▲
Submission Processing	IRS	2005	Moderately Effective	▲
Taxpayer Advocate Service	IRS	2004	Moderately Effective	▲
Taxpayer Service	IRS	2004	Adequate	▲
Tax Collection	IRS	2008	Moderately Effective	▲
Collect the Revenue Program	TTB	2005	Effective	▲
Click on program name to obtain more information.				

REVENUE COLLECTED WHEN DUE THROUGH A FAIR AND UNIFORM APPLICATION OF THE LAW

Based on the performance results, Treasury was generally successful in achieving revenue collected when due through a fair and uniform application of the law in fiscal year 2008.

Fiscal Year 2008 Results

Revenue Collected when Due through a Fair and Uniform Application of the Law



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	26	65%
Favorable downward trend	▼	1	3%
Unfavorable upward trend	▲	3	8%
Unfavorable downward trend	▼	5	13%
No change in trend, no effect	▶	1	3%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	4	10%
TOTAL		40	100%
Discontinued		8	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percentage collected electronically of total dollar amount of federal government receipts	FMS	79%	80%	101%	Exceeded	80%	▼	▲
Unit cost to process a federal revenue collection transaction	FMS	$1.30	$1.23*	105%	Exceeded	$1.30	▼	▲
Amount of delinquent debt collected per $1 spent	FMS	$40.00	$54.82* +	137%	Exceeded	$43.00	▲	▲
Amount of delinquent debt collected through all available tools ($ billions)	FMS	$3.40	$4.41+	130%	Exceeded	$3.90	▲	▲
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral	FMS	95%	99%	104%	Exceeded	97%	▲	▲
Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)	TTB	Baseline	94%	100%	Met	92%	B	B
Customer contacts resolved per Staff year	IRS	8,000	12,634	158%	Exceeded	9,686	▲	▲
Customer Service Representative (CSR) level of service	IRS	82%	52.8%	64%	Unmet	77%	▼	▼
Examination Quality (LMSB) – Industry	IRS	88%	88%	100%	Met	88%	▲	▲
Percent of business returns processed electronically	IRS	20.8%	19.4%	93%	Improved	22.9%	▲	▲
Percent of individual returns processed electronically	IRS	61.8%	57.6%	93%	Improved	64%	▲	▲
Field collection embedded quality	IRS	86%	79%	92%	Unmet	80%	▼	▼
Field examination embedded quality	IRS	87%	86%	99%	Improved	87%	▶	▲
Taxpayer self assistance rate	IRS	51.5%	66.8%	130%	Exceeded	64.2%	▲	▲
Refund timeliness - Individual (paper)	IRS	98.4%	99.1%	101%	Exceeded	98.4%	▶	▲

*Indicates estimates for fiscal year 2008 data
+ Data does not include offset collections from the stimulus package

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

The table above is a sample of the measures associated with the achievement of the revenue collection outcome. Analysis of fiscal year 2008 performance is based on the best data available. Based on the full suite of measures relating to this outcome, Treasury exceeded 62 percent of its targets, met 17 percent, missed 13 percent, and improved eight percent. Three measures were not met, but performance improved over fiscal year 2007. Eight measures were discontinued in fiscal year 2008.

The IRS is the largest contributor to this outcome. In fiscal year 2008, IRS met or exceeded 75 percent of their 32 performance targets, up from 62 percent in fiscal year 2007. On average, all measures were within 6.5 percent of their targets for fiscal year 2008. Removing the three measures most affected by the implementation of the stimulus package, *Customer service representative level of service*, *Customer contacts per staff year*, and *Taxpayer self assistance rate*, the average difference to target would have been 3.0 percent. These results indicate the IRS is reasonably accurate in setting performance targets, allowing for better assessment of their achievement of program goals.

The FMS successfully achieved its performance measures and generally continues to set aggressive targets. In fiscal years 2005 and 2006 the FMS missed the target for the measure *Percentage collected electronically of total dollar amount of federal government receipts;* since then FMS has worked to promote the use of electronic technologies for revenue collection, successfully exceeding the target by one percent this year.

During fiscal year 2008, TTB discontinued five performance measures and established two new measures. The new measures reduce the need for estimation and use updated assumptions, offering the bureau better indicators to assess the performance of the *Collect the Revenue* program.

The activities associated with *Revenue collected when due through a fair and uniform application of the law* are taxpayer service, revenue processing, and enforcement.

Taxpayer Service and Revenue Processing

Internal Revenue Service

The IRS delivered another successful filing season in fiscal year 2008. The late enactment of the Alternative Minimum Tax legislation and the increased workload associated with the implementation of the Economic Stimulus Package posed unique challenges. Forms and systems changes and increased customer service volume coincided with normal preparations associated with delivering the filing season.

In fiscal year 2008, the total revenue collected by the IRS was $2.74 trillion. Customer contacts per staff year increased over 65 percent from fiscal year 2007, total telephone demand increased 90 percent (402 million versus 211 million), and the taxpayer self-assistance rates increased 35 percent. The significant increase in customer contacts stressed existing systems, resulting in a lower customer level of service score – 52.8 percent versus a target of 82 percent. Despite these challenges, the IRS processed more than 154.3 million individual returns, a 10 percent increase, issued 107.6 million refunds totaling $369 billion (including $94.3 billion through 116.2 million stimulus payments, EITC, and child tax credit refunds), and completed 52 million automated calls, a 123 percent increase. These accomplishments were realized while maintaining Account and Tax Law Accuracy rates of over 90 percent.

Additional highlights of the filing season include:

- Fielded 40.4 million telephone calls, an increase of 21 percent due to the large number of taxpayer inquiries regarding the economic stimulus
- Expanded partnerships with nonprofit and community organizations, offering almost 12,000 free tax preparation sites nationwide (volunteers at these sites prepared 3.5 million returns for low-income and elderly taxpayers, an increase of 33 percent)
- Expanded return preparation at the IRS Taxpayer Assistance Centers, assisting with over 575,000 returns, a 42 percent increase over last year

The economic stimulus substantially increased customer inquiries and filings. Over 347 million visits were made to IRS.gov in 2008, up 61.8 percent over 2007. Specifically, over 39 million taxpayers used the web application *Where's My Refund?* to check the status of their refunds and over 38.7 million taxpayers used the web application, *Where's my Stimulus Payment?* to check on the status of their payment. IRS processed 13.7 million more paper individual returns and 4.9 million more electronic returns in 2008 than 2007, largely due to filings necessary to qualify for a stimulus payment. The increase in paper filings reduced the *Percent of Individual Returns Processed Electronically* to 57.6 percent, 4.2 percentage points below the target of 61.8 percent. (Excluding the additional paper filings for stimulus payments, the percentage of individual returns filed electronically was 63 percent.) For fiscal year 2008, *Customer Service Representative Level of Service* was 52.8 percent, roughly 29 percentage points below the target of 82 percent, due to high call volumes associated with the stimulus.

Over 4.7 million tax returns were prepared and submitted through IRS Free File in fiscal year 2008, increasing 23 percent over the previous year. A recent survey showed 96 percent of those who used the program found it easy to use, 98 percent said they would recommend Free File, and 95 percent said they would use it again. Business returns filed electronically reached 19.4 percent, 1.4 percentage points below the target of 20.8 percent, and home computer filing increased to 26.8 million, a 20 percent increase over 2007. Tax professional use of E-File increased to 61.8 million returns, up nine percent over last year.

To manage costs associated with the Health Care Tax Credit, the IRS tracks program correspondence, registration, and program participation expenditures. For fiscal year 2008, the cumulative cost per taxpayer served was $16.94, up 13.5 percent from $14.93 in fiscal year 2007. The IRS associates this shortfall to a decrease in the number of taxpayers eligible for the credit and reduced taxpayer contact associated with better public understanding of the program.

IRS works to improve service and efficiency through modernization of its computer systems. In fiscal year 2008, the IRS Business System Modernization Program met cost and schedule estimates for most releases. Specific systems associated with the modernization include the Customer Account Data Engine (CADE), Modernized E-File program, and Account Management Services (AMS).

The 2008 CADE release was online before the filing season and processed 30.6 million returns, a substantial increase from the 2007 posting of 11.2 million returns. The system additionally issued 28.8 million refunds, totaling more than $44.1 billion. Compared to the legacy system which updates weekly, CADE settles daily, allowing refunds to be processed on average five days faster, and updates taxpayer account information immediately for customer service personnel. The daily processing capabilities of CADE enabled economic stimulus payments to be made to taxpayers ahead of the published schedule.

Modernized e-File (MeF) provides E-Filing capability for large corporations, small businesses, partnerships, and non-profit organizations. MeF enables taxpayers to file all of their tax forms electronically, eliminating the need for the IRS to match paper documents to electronic returns. The system also permits more robust error checking and data validation before returns are processed, reducing the number of returns that need manual intervention and correction. In fiscal year 2008, 3.2 million corporate, non-profit, and partnership returns were accepted, a more than 50 percent increase over the previous year. The fifth release of this program went into production as planned early in 2008, including capabilities to process foreign corporate tax returns and Form 990N for small tax-exempt organizations.

The Accounts Management System (AMS) is designed to improve system performance by bridging the gap between new initiatives like CADE and existing legacy systems. Significantly, AMS allows on-demand, real-time access, validation, and update of taxpayer accounts across IRS systems.

Alcohol and Tobacco Tax and Trade Bureau

TTB, through its *Collect the Revenue* program, collects excise taxes associated with the sale of alcohol, tobacco, firearms, and ammunition. In fiscal year 2008, TTB collected $14.6 billion in federal taxes from 9,200 excise taxpayers. For every dollar expended by its program offices, TTB collected $313 in revenue. TTB has had relative success in promoting voluntary compliance from industry members through its educational outreach efforts, as evidenced by the 94 percent compliance rate for large excise taxpayers in fiscal year 2008.

TTB targets non-compliant industry members utilizing a risk model developed with data received from audits and investigations, industry member submissions, and intelligence received from internal and external sources. In fiscal year 2008, TTB completed 179 audits, or 95 percent of its audit plan, collecting $18.3 million in additional tax, penalties, and interest. TTB also initiated 285 revenue related investigations, many of which involved small producers, tobacco importers, and claims verification.

In fiscal year 2008, TTB processed $287 million in drawback claims. Under current law, producers who use non-beverage alcohol in the manufacture of medicines, food products, flavors, extracts, perfume, or other non-potable products may be eligible to claim drawback of excise taxes paid on distilled spirits used in their products. To assess drawback claims, the TTB Laboratory analyzed 13,572 submitted samples. TTB also analyzes beverage alcohol and tobacco product samples to assign or verify a tax classification. For this purpose, TTB analyzed 1,339 beverage alcohol samples associated with pre-import evaluation, the 5010 tax credit, and the alcohol beverage sampling program. Another 457 tobacco samples were analyzed to ensure products were appropriately classified for tax purposes, a 47 percent increase over the previous fiscal year.

Financial Management Service

The FMS is responsible for managing the federal government's collection system. In fiscal year 2008, FMS collected a record $3.195 trillion through a network of more than 9,000 financial institutions, 80 percent of which was collected electronically. FMS exceeded its collections from fiscal year 2007 by 2.6 percent. FMS is making significant progress towards achieving its long-term goal of having 90 percent of the dollar amount of all collections made electronically.

The Electronic Federal Tax Payment System (EFTPS) is a tax payment system that allows businesses and individuals to more conveniently make their federal tax payments electronically, supporting the initiative to increase electronic collections. In fiscal year 2008, more than 97.9 million tax payments were processed through EFTPS, which represented an 8.7 percent increase over the previous year. Dollar receipts were $2.18 trillion, up 4.3 percent. *EFTPS Online*, a component of EFTPS, had total collections of $439 billion on a volume of 30.6 million transactions, representing a 24.7 percent increase in dollar collections and 37.2 percent increase in transaction volume.

Several important programs to enhance electronic non-tax collections include: Pay.gov, Payment Check Conversion Over the Counter (PCC OTC), and Electronic Check Processing (ECP). Pay.gov is a system allowing individuals and businesses to make non-tax payments to 117 federal agencies over the Internet. Since inception in 2005, it has processed approximately 38.5 million transactions valued at $135.3 billion. In fiscal year 2008, Pay.gov collected $48.7 billion, versus $37.9 billion collected in fiscal year 2007. As one example, TTB expanded its E-Filing program to allow excise taxpayers to file and pay taxes and file monthly operational reports through Pay.gov; currently 39 percent of TTB's taxpayers are registered to use the system.

The PCC OTC program converts paper checks received at federal agency point of sale locations throughout the United States and overseas into electronic transactions and deposits funds into the Treasury. The PCC OTC fully automates the collection, reconciliation, research of returned checks, and reporting processes associated with federal agencies' over-the-counter check collections. The program leverages image technology to provide a complete electronic record of all check images and related financial data accessible via a web based archive. The PCC OTC has been implemented with approximately 41 agencies and collected $11.7 billion during fiscal year 2008.

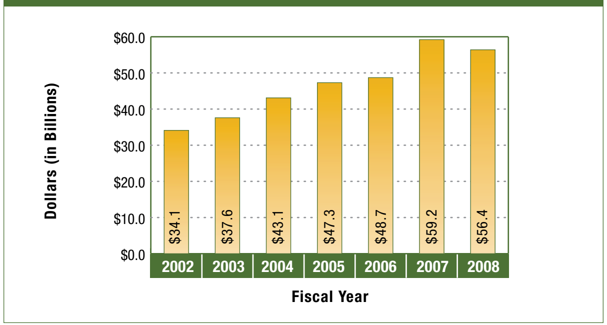
ECP is the system developed by the FMS to provide federal agencies with a centralized, secure paper check clearing process. The process improves availability of funds to the Treasury and allows improved cash management. ECP collected $15.6 billion during fiscal year 2008.

In addition to managing these government collection systems, FMS is also responsible for the collection of delinquent government and child support debt. The *Debt Collection* program provides centralized debt collection management and operational services to federal program agencies and states as required by the *Debt Collection Improvement Act of 1996* and related legislation. In fiscal year 2008, FMS collected a record $59.2 billion in delinquent debt, including debt offset by economic stimulus payments, providing $2.83 billion in past due child support, $2.29 billion in federal non-tax debt, $378 million in state tax offsets, and $400 million in tax levies.

Enforcement

The IRS's enforcement activities are intended to encourage compliance with tax laws. In fiscal year 2008, the IRS collected $56.4 billion through examination and collection enforcement activities; a decrease from $59.2 billion in 2007. (Much of the decrease can be associated with two large settlements in 2007, which inflated figures for that year.) From 2002 to 2008, the IRS has increased revenue from enforcement programs by 65 percent, yielding $56.4 billion in revenue in fiscal year 2008 versus a budget of $10.9 billion. The IRS met or exceeded 78 percent of its enforcement program targets, due to efforts focusing on tax evasion by corporations, high income taxpayers, and other major violators of the tax code. Targeting high-risk categories has improved efficiency, reduced burdens on compliant taxpayers, and focused enforcement presence where it is most needed.

IRS Enforcement Revenue



In fiscal year 2008, the IRS enhanced analytical capabilities in critical programs and implemented systems targeting high-risk cases. As a result, in fiscal year 2008, the IRS made improvements over fiscal year 2007 across a range of program areas. A small sample of these improvements include:

- Identified more than 337,000 potentially fraudulent returns and stopped more than $1.5 billion in fraudulent claims
- Implemented an Industry Issue Focus process that places compliance issues into three tiers, identifying $10.1 billion in additional taxable income not previously reported
- Automated Questionable Refund Program processes, producing a 16 percent labor savings and permitting the consolidation of 10 Fraud Detection Centers into three
- Collaborated with the SEC to resolve issues associated with stock option backdating, resulting in tax and penalty assessments of $1.65 billion
- Increased Automated UnderReporter (AUR) contact closures by almost four percent and dollars collected through the AUR and Information Return processing by 22 percent
- Increased productivity in the AUR notice process facilitating selection of the most productive cases, increasing assessments from $5.1 billion to $6.4 billion
- Enhanced identification and predictability of productive assessments in the Correspondence Examination Program, contributing to a $1.7 billion increase in assessments
- Increased high-income taxpayer audits by 16 percent and small business audits by three percent
- Audited over 13,000 large corporations with assets greater than $10 million for the fourth consecutive year
- Increased collection case closures by 1.4 percent

The IRS continued to vigorously investigate egregious tax, money laundering, and other financial crimes which adversely affect tax administration. Improved case development and selection methods, coupled with heightened fraud awareness resulted in the successful prosecution of taxpayers involved in significant abusive tax schemes, high-income non-filers, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. Highlights for the criminal investigation program include completing 4,044 criminal investigations, achieving a conviction rate of 92.3 percent, maintaining a Department of Justice acceptance rate of 93.6 percent, and obtaining 2,144 convictions.

In 2006, IRS revised its quality systems for examination and collections. The new system imposed stricter standards and increased the number of factors used in the evaluation process. Though embedded quality targets were not met in fiscal year 2008, quality scores for both examination and collection were on average within 96 percent of target. For fiscal year 2008, the score for the measure *the Field Collection Embedded Quality* was 79 percent; seven percentage points below the target of 86 percent. Efforts to reduce the number of aged cases in the quality inventory, coupled with the overall lower quality of the older cases, affected the cumulative score. For the measure *Field Examination Embedded Quality*, the score was 86 percent, missing the target by one percentage point. Action plans have been developed to update communication on quality issues and area "case quality improvement teams," comprised of field managers and quality staff, have been formed to identify improvement opportunities. Improvements to job aids, continuation of quarterly reviews and an annual Quality Summit focusing on specific quality attributes in need of improvement will continue to focus bureau attention on examination.

International tax enforcement

Abusive tax avoidance transactions can appear on many types of tax returns and range from complex, structured corporate transactions that utilize multiple entities, to individual scams and schemes. The use of offshore entities and accounts is also common and the organized promotion of tax shelters makes them available to all types of taxpayers. The variety, size, and nature of tax shelters require an organized approach to detection, deterrence, and enforcement so that abusive transactions can be identified and stopped.

The IRS continues to ensure taxpayers employed overseas comply with the tax laws and works with other countries to negotiate tax treaties. A recent compliance check of locally hired employees of foreign embassies, consulates, and international organizations found some may not have been properly reporting their income or were claiming incorrect deductions or credits related to that income. As a result, 2,100 individuals from 134 countries and international organizations participated in a settlement resulting in assessments of $14.6 million in tax and penalties. However, there are approximately 2,500 noncompliant taxpayers who did not elect to participate in the settlement initiative and are subject to further enforcement activity by the IRS.

The number of returns filed with the IRS with international tax issues is increasing dramatically each year, as is the complexity of the issues encountered on these returns. Actions taken in fiscal year 2008 to address international tax issues include:

- Improved alignment of resources to address international challenges
- Issued guidance to address offshore and cross-border compliance risks and expand relationships and collaboration with foreign tax administrators
- Expanded the Joint International Tax Shelter Information Centre, created by the IRS and the tax agencies of Britain, Canada, and Australia to identify and curb abusive cross-border transactions and schemes, with the addition of the Japanese National Tax Agency
- Opened a second tax office in London, England
- Reached an agreement, in conjunction with the Department of State, to open a tax office at the U.S. Embassy in Beijing, China in early fiscal year 2009

Tax-exempt entity compliance with tax statutes

The IRS also faced ongoing challenges in assisting tax-exempt and government entities in complying with the complicated rules for maintaining special tax status. The IRS continues to ensure that charitable organizations are not used for non-charitable or illegal purposes, including financing terrorist activities. In fiscal year 2008, the IRS took the following actions:

- Launched an e-Postcard (Form 990N) for small tax-exempt organizations to electronically file an annual information notice; approximately 170,000 e-postcards were filed in fiscal year 2008
- Redesigned the form used by tax-exempt entities to report information about their operations

- Developed a pre-screening process to identify employee plan applications that have deficiencies, so taxpayers can correct items in a more timely fashion
- Increased small employer awareness of Pension Plan Correction Programs through new "fix-it" guides and educational workshops

Conclusion

The Treasury Department, through its bureaus FMS, IRS, and TTB, was reasonably successful in achieving the outcome *Revenue collected when due through a fair and uniform application of the law*. Late enactment of Alternative Minimum Tax legislation and implementation of the economic stimulus payment package necessitated realignment of IRS and FMS resources to meet resulting demands.

In fiscal year 2008, 79 percent of the targets were met or exceeded. Reasonably aggressive targets for 2009 have been set by all three bureaus: 67 percent of fiscal year 2009 targets are set to increase. Twelve percent of the targets are flat; two of these did not meet their targets this year, indicating that it is not appropriate to set a higher target in 2009 until current levels can be achieved.

Despite missing some key performance targets for 2008, particularly those for *Customer Service Representative Level of Service*, *Examination Coverage – Business Corporations > $10 Million*, and *Field Collection Embedded Quality*, the IRS generally met or exceeded their performance targets. In some cases measure targets were significantly exceeded, such as *Customer Contacts per Staff Year* and *Taxpayer Self Assistance Rate*, due largely to implementation of the stimulus package. On the whole, the IRS maintains a fairly effective planning and performance management process. Performance results for 2008 were on average within 3.0 percent of program target, if the three measures *Customer Service Representative Level of Service, Customer Contacts per Staff Year,* and *Taxpayer Self Assistance Rate* affected by the stimulus are excluded. (With these measures included the average difference to target was 6.7 percent.) Overall, the IRS exceeded 59 percent, met 16 percent, missed 16 percent, and improved in nine percent of measures. (Two measures were discontinued.) As the IRS revises its strategic plan in fiscal year 2009, it is considering changes to performance measures to obtain a more balanced view of the organization, focusing on the areas of voluntary compliance, customer satisfaction, taxpayer perception, enforcement, modernization, and employee engagement.

The FMS exceeded 100 percent of its targets for fiscal year 2008. Eighty-three percent of targets showed a positive trend, suggesting target setting was reasonable. However, three measures — *Amount of delinquent debt collected per $1 spent*, *Amount of delinquent debt collected through all available tools*, and *Dollar amount of collections transacted through Pay.gov, a government-wide collections portal* — were over 20 percent higher than target. With these three measures excluded, measure results for this outcome were within 3.5 percent of target.

In fiscal year 2008, TTB discontinued several measures and replaced them with new measures that more accurately track performance outcomes. These new measures that will provide greater clarity on bureau operations and permit greater insight into management effectiveness, when there is sufficient data to review.

Moving Forward

FMS is implementing a comprehensive effort to streamline and modernize the processes and systems supporting Treasury's collections and cash management programs. This effort will reduce the complexity of FMS's collections program and improve the ability of FMS and other agencies to manage financial performance. FMS will reduce program complexity by eliminating redundant processes and systems and improve financial performance by consolidating information on revenue collections. One example of this effort is the Transaction Reporting System (TRS). Currently, FMS's collection programs report information externally to many federal program agencies and internally to multiple Treasury Department systems. This use of multiple systems makes it difficult for agencies and Treasury to obtain all the financial information they need in timely fashion. TRS will change this model by serving as a single portal for reporting and retrieving information on revenue collections. This single access point will substantially reduce redundancies in the federal government's collections reporting processes and facilitate information sharing.

As part of their strategic planning process, which is still underway, FMS is developing long-term strategic goals and measures supporting major FMS missions with a target date of 2018. Two of those measures correspond to the Treasury outcome *Revenue collected when due through a fair and uniform application of the law*. Long-term targets for these measures are as follows: 90 percent of the dollar amount of all collections to be made electronically, and $8 billion dollars to be collected annually from delinquent debt referrals.

In addition to these initiatives, the FMS will continue to work with federal agencies on an automated system eliminating the paper checks and deposit ticket used by federal agencies in over-the-counter transactions, primarily through conversion to electronic transactions.

In fiscal year 2009, TTB expects modest improvements in the 94 percent voluntary compliance rate for large taxpayers, due to the large number of newly permitted taxpayers in 2008 and current widespread taxpayer use of Pay.gov. Going forward, efforts to promote voluntary compliance will focus on educational programs, such as the TTB Expo 2009, permitting staff to provide advanced instruction on reporting and payment of excise taxes to broad groups of users.

To improve efficiency, TTB is also exploring options to develop an automated permit application system, reducing the processing and turnaround time for permits. TTB has also developed an aggressive annual audit plan that incorporates a new risk model to take effect in fiscal year 2009. This risk model will be reviewed and updated annually to reduce costs. In fiscal year 2008, TTB found unpaid tax liabilities resulting from the industry's misuse of alcohol as fuel and unsupported exports. By continuing to focus on these areas, TTB can potentially detect and collect millions in additional tax revenue. In fiscal year 2009, TTB expects a slight decline in revenues, largely due to the erosion of tobacco collections related to public policy surrounding tobacco products.

In fiscal year 2009, the IRS faces a variety of challenges; the most significant include legislative changes, the prevalence and complexity of abusive tax avoidance transactions, and an increase in international tax activities. In general, tax law changes have significant impact on the IRS, affecting the scope and effectiveness of its service, the cost to deliver service, and how taxpayers perceive the service provided. The IRS continues to find ways to effectively administer tax law changes in ways that minimize complexity, burden on taxpayers, and the cost of administering the tax code. The IRS expects the percentage of business filers to increase in the future due to increased marketing and expanded business E-File programs, including the acceptance of new forms and schedules. The IRS will continue to pursue additional mandates for all businesses to file electronically, similar to the one in place for large corporations.

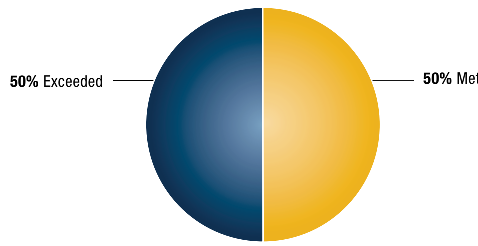
As the flow of trade and capital moves more easily across borders, the global marketplace is continually expanding. Abusive tax avoidance transactions present formidable compliance challenges for IRS. Corporate tax planning is increasingly focused on minimizing the worldwide effective tax rate and organized promotion of shelters is making them available to all types of taxpayers. The variety, size and nature of these shelters require an organized approach to detection, deterrence and enforcement to minimize abuse. IRS is working to ensure tax preparers receive appropriate advice and counsel to fulfill their responsibilities associated with international tax management.

TIMELY AND ACCURATE PAYMENTS AT THE LOWEST POSSIBLE COST

Based on the performance results, Treasury was successful in achieving timely and accurate payments at the lowest possible cost in fiscal year 2008.

Fiscal Year 2008 Results

Timely and Accurate Payments at the Lowest Possible Cost



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	50%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	1	25%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	▶	1	25%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		4	100%
Discontinued		1	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percentage of paper check and electronic funds transfer (EFT) payments made accurately and on-time	FMS	100%	100%	100%	Met	100%	▶	▶
Percentage of Treasury payments and associated information made electronically	FMS	79%	79%	100%	Met	80%	▲ (green)	▲ (green)
Unit cost for federal government payments	FMS	$0.40	$0.39*	103%	Exceeded	$0.40	▲ (red)	▲ (red)

* Indicates estimates for fiscal year 2008 data

Legend	Symbol
Favorable upward trend	▲ (green)
Favorable downward trend	▼ (green)
Unfavorable upward trend	▲ (red)
Unfavorable downward trend	▼ (red)
No change in trend, no effect	▶ (black)
No change in trend, favorable effect	▶ (green)
No change in trend, unfavorable effect	▶ (red)
Baseline	B

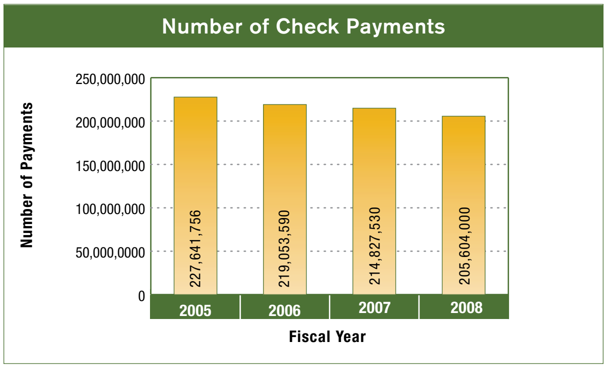
Analysis of Performance Results

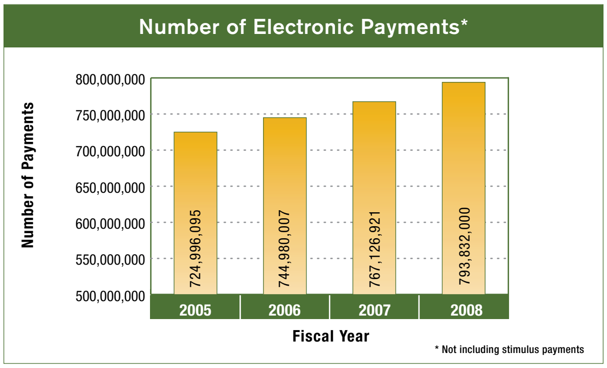
In fiscal year 2008, Treasury exceeded targets for 50 percent of its measures and met 50 percent for this outcome. One measure was discontinued in fiscal year 2008.

The third long-term goal for FMS is to have 90 percent of all payments made electronically by 2018. During fiscal year 2008, FMS continued to work towards this goal by expanding and marketing the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. This helped decrease the number of paper checks issued, the reissuance of lost, stolen or misplaced checks, and minimize costs associated with postage.

On February 13, 2008 President Bush signed into law the *Economic Stimulus Act of 2008* providing stimulus payments to United States taxpayers, Social Security beneficiaries, and disabled veterans or their survivors. FMS was responsible for disbursement of these payments, in addition to their standard responsibilities. As of October 3, 2008, FMS had issued a total of 116.2 million economic stimulus payments valued at $94 billion. Over 42 million payments were issued by direct deposit, with the remaining 74.1 million issued by paper check. As part of managing disbursement, FMS offset 2.8 million stimulus payments for delinquent non-tax, state tax, and child support debts valued at $1.5 billion.

Over the past several years, FMS has steadily processed fewer paper checks and processed more electronic payments. (Please see the accompanying charts.) The FMS nationwide campaign *Go Direct* is entering its fourth year. This campaign encourages current federal benefit check recipients to switch to direct deposit. *Go Direct* recently concluded an extremely successful third year, in which 901,054 conversions were attributed to the campaign. The current number of total conversions obtained since the inception of the campaign is over 2.2 million, cutting costs by $184.7 million. In April 2008, the FMS implemented Direct Express, providing an electronic payment option for federal check recipients who do not have bank accounts. The FMS worked closely with the Social Security Administration and other organizations to develop and implement the program. To date, over 110,000, enrollments have been processed.





In fiscal year 2008, the FMS continued to make considerable efforts to incorporate new payment technologies. Issuance of a *Stored Value Card (SVC)*, similar to a credit or debit card, which uses an encrypted computer chip to process "electronic money" stored on the card, has reduced the amount of U.S. currency transported, circulated, and managed at military facilities throughout the world. For the organizations responsible for providing cash management functions at these locations, the SVC program improves financial accountability and reduces risk and workload. For those serving in the United States Armed Forces, the SVC program offers increased financial flexibility, security, and convenience. Since it was introduced in 1997, over 12.4 million electronic fund transfer transactions with a dollar value in excess of $2 billion were processed through the SVC program.

The Payments Modernization (PAM) project is an effort to replace the current software applications that are used to disburse some $1.5 trillion in payments. Ultimately, PAM will be a single application that will generate check, wire transfer, and Automated Clearing House payments for federal program agencies. In addition to standardization, FMS is modernizing the technologies employed in the development of the system, using commercial software products where feasible. The project incorporates new and enhanced functionality to support improvements in the payment process.

Several factors affected the cost to make federal government payments over the past few years, including inflation, infrastructure spending, cost associated with initiatives performed within the Government-wide Accounting program, and the change in FMS's cost allocation methodologies. Due to the inflation factor, the cost of consumables has increased in recent years. For example, the check stock cost increased by $4.9 million and postage costs have increased by $2.5 million in fiscal year 2007.

The *Unit cost for federal government payments* measure includes electronic payment, check payment, and other special payment mechanisms as well as the processes of reconciliation and claims. For fiscal year 2008 the actual was $0.387, slightly below the previous year's figure of $0.392. Various programs to promote electronic payments and increase system efficiency were largely responsible for the reduction. FMS generally sets targets in line with inflation estimates and expected conversion rates from paper to electronic payments.

The FMS continues its efforts to expand the use of electronic payments and decrease check payment volume. In some cases, investments in electronic payments systems or events of the year, such as the wars in Iraq and Afghanistan or natural disasters, can increase costs. In fiscal year 2008, the expansion of the SVC program in Afghanistan and Iraq, supporting the military bases and ships at sea, increased short-term costs as systems were put in place. While the program saves the government money in the long run by eliminating coin, currency, money orders, and other labor-intensive payment mechanisms; initial necessary investments in infrastructure, such as setting up kiosks, can cause costs to increase.

Conclusion

In general Treasury, through the FMS, successfully achieved timely and accurate payments at the lowest possible cost, based on current measures and targets. However, the unit cost for federal government payments has been increasing since fiscal year 2005. As the acceptance of electronic payments continues to expand, increased efficiency should result in cost reductions. While cost measures provide some view of operations, adding measures for cycle time and quality management would provide additional information regarding Treasury's ability to achieve this outcome.

Moving Forward

FMS will continue its efforts to have 90 percent of all payments made electronically by 2018. In fiscal year 2009 the FMS will expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. This will help decrease the number of paper checks issued and minimize costs associated with postage, the re-issuance of lost, stolen and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits. FMS will continue to implement the successful *GoDirect* campaign to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs.

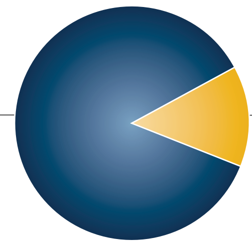
FMS plans to continue to issue 100 percent of payments accurately and on-time. The Secure Payment System used by program agencies to certify checks, clearinghouses, or wire payments to recipients in a secure environment is critical for achieving performance goals.

GOVERNMENT FINANCING AT THE LOWEST POSSIBLE COST OVER TIME

Based on the performance results, Treasury was successful in achieving or exceeding government financing at the lowest possible cost over time in fiscal year 2008.

Fiscal Year 2008 Results

Government Financing at the Lowest Possible Cost Over Time



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	29%
Favorable downward trend	▼	2	29%
Unfavorable upward trend	▲	2	29%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	1	14%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		7	100%
Discontinued		1	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Cost per debt financing operation	BPD	$263,306	$237,636*	110%	Exceeded	$275,610	▲	▲
Cost per federal funds investment transaction	BPD	$75.55	$57.81*	123%	Exceeded	$69.11	▼	▼
Percent of auction results released in two minutes +/- 30 seconds	BPD	95%	100%	105%	Exceeded	95%	▶	▲
Cost per TreasuryDirect assisted transaction	BPD	$9.25	$7.23*	122%	Exceeded	$9.34	▲	▼
Cost per TreasuryDirect online transaction	BPD	$4.34	$3.76*	113%	Exceeded	$4.34	▲	▲
Percentage of retail customer service transactions completed within 12 business days	BPD	90%	99.86%	111%	Exceeded	90%	▶	▲

* Indicates estimates for fiscal year 2008 data

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Treasury exceeded the target for 86 percent of its measures and met 14 percent of measures relating to this outcome. One measure was discontinued.

In order to cost-effectively finance the government, Treasury must efficiently execute its securities auctions. By minimizing the time that bidders are exposed to the risk of adverse market movements, participants are likely to bid at more favorable rates and yields to the federal government. The BPD consistently releases securities auction results within two minutes, plus or minus 30 seconds, of the auction close.

Several important government financing initiatives were accomplished in 2008. In April 2008, the Department launched a new Treasury auction system and has since successfully held over 125 announcements and auctions. This new system, created by BPD in conjunction with the primary dealer community and the Federal Reserve Bank of New York, offers the Treasury Department a secure and robust auction system. The contingency capabilities and flexibility of the system substantially exceed the previous system. Also in April 2008, the Department reduced the minimum bid at Treasury auctions from $1000 to $100, broadening the potential universe of investors in Treasury markets and increasing access to retail investors. Additionally, in June 2008, the Office of Debt Management successfully resumed the issuance of the 52-week Treasury bill on a monthly basis.

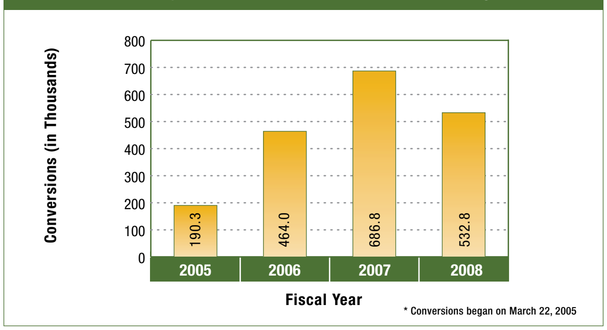
Conclusion

In fiscal year 2008 Treasury successfully met or exceeded the targets that were established to demonstrate the achievement of financing the government at the lowest possible cost over time; however the costs associated with this outcome continue to increase. TreasuryDirect's costs and the costs associated with debt financing operations have risen since 2006. The primary sources of these increases are volume sensitivity to movement in market rates, implementation of new auction systems, and inflation. While cost measures provide some view of operations, adding measures for cycle time and quality management would provide additional information regarding Treasury's ability to achieve this outcome.

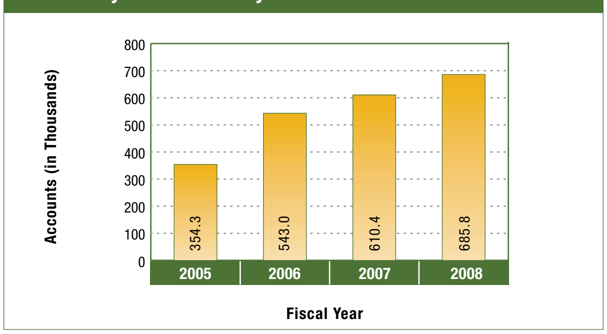
Moving Forward

It is essential that BPD maintain comprehensive contingency plans and strong security controls to manage government borrowing activities. In the Wholesale Securities Services area, BPD is working with primary dealers to ensure that at least 90 percent of dealers can participate in Treasury auctions from contingency locations by fiscal year 2012. Operational testing of these contingency plans will ensure the overall readiness of the system and ensure the continuity of the Treasury auction process. BPD will continue to look for additional ways to improve its operations.

Paper Savings Bonds Converted to TreasuryDirect*



TreasuryDirect Primary Accounts Established to Date



Although a date has not been set for the withdrawal of paper bonds from sale, BPD is working to issue all Treasury securities electronically. For retail securities, BPD is encouraging investors to utilize the TreasuryDirect system. The primary challenge in this effort is communicating to customers the benefits of purchasing securities and managing their holdings online in TreasuryDirect.

BPD will continue to enhance the system through security upgrades and new registration options for trust, estate, and organizational accounts.

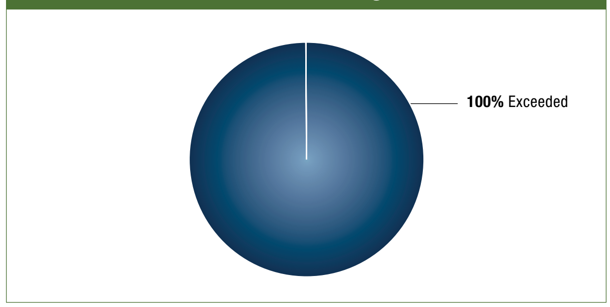
Treasury still needs to develop an improved measure for evaluating Treasury's progress in minimizing the cost of financing the government over time.

EFFECTIVE CASH MANAGEMENT

Based on the performance results, Treasury was successful in achieving effective cash management in fiscal year 2008.

Fiscal Year 2008 Results

Effective Cash Management



Summary of Actual Trends for the Prior Four Years

Favorable downward trend	▼	1	100%
Unfavorable downward trend	▼	0	0%
No change in trend, favorable effect	►	0	0%
Baseline	B	0	0%
Discontinued		0	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Variance between estimated and actual receipts (annual forecast)	DO	5%	4.6%	108%	Exceeded	5%	▶	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

The Department of the Treasury manages the government's central operating account and cash position, supporting gross annual transactions totaling $15 trillion. The Department's Office of Fiscal Projections provides forecasts of federal receipts, outlays, and debt transactions to ensure that funds are available on a daily basis to cover federal payments. By increasing the accuracy of fiscal projections, the Department is able to maximize earnings on investments of operating cash and minimize borrowing costs, having a direct and material impact on the government's net operating cost.

Treasury invests its excess cash, or cash in excess of Treasury's Federal Reserve account balance, through three primary mechanisms:

- The legacy Treasury Tax and Loan (TT&L) program
- The Term Investment Option (TIO) program
- The Treasury Reverse Repurchase Agreement (Repo) program

During fiscal year 2008, Treasury invested 23 percent of net investable funds in the legacy TT&L program, 71 percent in the TIO program, and six percent in the Repo program. The following table highlights a comparison against previous years:

Treasury's Cash Balance FY 2005–2008 % Net Investable Balance

	TT&L	TIO	Repo	Net Invested Funds
FY 2005	38%	62%	0%	100%
FY 2006	34%	60%	6%	100%
FY 2007	23%	68%	9%	100%
FY 2008	23%	71%	6%	100%

Treasury earned $603 million in interest on funds invested through TT&L, TIO, and Repo in fiscal year 2008, compared to $1,171 million in fiscal year 2007. The decrease in earnings is primarily a result of two factors, a 25 percent decrease in the average investment balances between fiscal year 2007 ($24.0 billion) and fiscal year 2008 ($17.8 billion); and a 44 percent reduction in the Federal Funds rate between fiscal year 2007 (5.2 percent) and fiscal year 2008 (2.9 percent).

Treasury's rate of return on cash investments is generally measured against the TT&L rate, which is equal to the Federal Funds rate less 25 basis points. In fiscal year 2008, Treasury's average rate of return on funds invested through the TT&L, TIO, and Repo programs was the TT&L rate plus 17 basis points (or the average effective Federal Funds rate less 8 basis points). This was an improvement of 47 percent over fiscal year 2007, when Treasury earned an average of 11 basis points above the TT&L rate.

To analyze the effectiveness of the cash management techniques employed, the Department measures the variance between actual and projected receipts. The Office of Fiscal Projections successfully exceeded its target despite several unique events that introduced uncertainty into forecasting models, including the economic stimulus package, stress in global credit markets, restructuring of the Federal Reserve's balance sheet, and a spike in deposit insurance outlays, in addition to the broader economic slowdown impacting tax receipts. In fiscal year 2008 the revenue forecast was 4.6 percent, better than the target of five percent, but failing to improve over the previous year's 2.1 percent. Actual receipts were below forecasted levels due to a reduction in tax payments made by individuals coupled with a lower than anticipated Unemployment Trust Fund Deposit made by states, which may relate to the current weak employment reports. Additionally, Federal Reserve Bank earnings also came in lower than forecasted.

In fiscal year 2008, the Department's Office of the Fiscal Assistant Secretary introduced new policies to improve the management of investment derived from Treasury's term investments with commercial financial institutions. The rules for establishing the term investment offering amounts, interest rates, and counterparty limits were revised, resulting in additional earnings on operating cash balances of $36.8 million. Furthermore, the Department expanded its repurchase agreement investment program, by adding a new bank counterparty to the program and expanding back office capacity, resulting in additional repurchase earnings of $2.2 million. In addition to these operational improvements, the Treasury Department proposed legislation to broaden its statutory authority to allow investments of operating cash with additional classes of counterparties.

The current financial climate is causing consideration of new variables and factors in establishing investment mix. Shortage of capacity in one or more of the investment tools is a result of banks either not having an interest in holding Treasury funds at expected rates or not having collateral acceptable to Treasury to pledge in support of investments received. A lack of investment capacity in one of the tools removes that tool from the mix, forcing consideration of other investment alternatives. A further consideration is that the Federal Reserve recently began paying interest on bank reserves that financial institutions keep on deposit in the Federal Reserve System. This is now an implicit cost that Treasury must consider when determining its daily investment strategy.

Conclusion

Effective management of daily cash position and minimizing borrowing costs over time is essential to ensure that government activities and services continue uninterrupted. Based on the one measure and information provided, Treasury is successfully achieving this outcome. However, one measure is an insufficient indicator of the Department's success or failure in this area. The Department will need to consider development of additional measures that provide a more comprehensive assessment of Treasury's cash management operations.

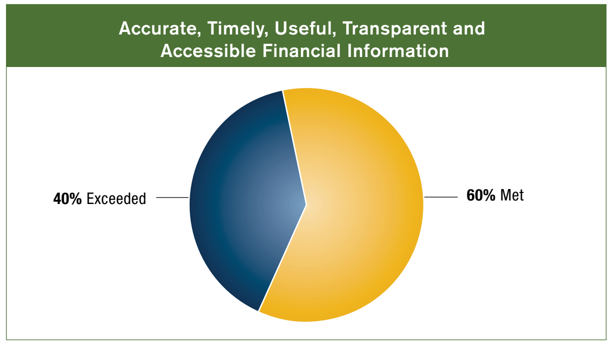
Moving Forward

Treasury anticipates that forecasting government receipts and outlays in fiscal year 2009 will continue to be challenging. Volatility caused by changing economic conditions, new programs and initiatives enacted by Congress to address systemic risks, and market concerns will have to be addressed in forecasting models. The Department will continue to maintain a five percent target variance for forecasts of receipts.

ACCURATE, TIMELY, USEFUL, TRANSPARENT AND ACCESSIBLE FINANCIAL INFORMATION

Based on the performance results, Treasury was successful in providing accurate, timely, useful, transparent and accessible financial information in fiscal year 2008.

Fiscal Year 2008 Results



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	0	0%
Favorable downward trend	▼	1	20%
Unfavorable upward trend	▲	1	20%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	3	60%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		5	100%
Discontinued		1	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Cost per summary debt accounting transaction	BPD	$9.91	$8.29*	116%	Exceeded	$10.01	▼	▼
Release federal government-wide statements on time	DO	Met	Met*	100%	Met	Met	▶	▶
Percentage of government-wide accounting reports issued accurately	FMS	100%	100%	100%	Met	100%	▶	▶
Percentage of government-wide accounting reports issued timely	FMS	100%	100%	100%	Met	100%	▶	▶
Unit cost to manage $1 million of cash flow	FMS	$11.72	$9.21*	121%	Exceeded	$13.39	▲	▲

* Indicates estimates for fiscal year 2008 data

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Treasury exceeded targets for 40 percent of its measures, met 60 percent, and discontinued one measure relating to the achievement of this outcome. In fiscal year 2008 a Market Room was established to monitor global financial markets and leverage the expertise of individuals across the Department. The Market Room was established during a critical period and has been an invaluable resource for Treasury and other agencies in Washington, DC. The Office of Debt Management also initiated the design of a new, transparent risk management system with assistance from the BPD, FMS, and the Federal Reserve Bank of New York. Funding and design plans for the new Treasury Debt Management System are now in place, with expected phased deployment of the system beginning in fiscal year 2009.

FMS's Government-wide Accounting and Reporting program manages the federal government's accounts through the central accounting and reporting system. In fiscal year 2008, FMS met the 45-day reporting deadline for issuance of the fiscal year 2007 *Consolidated Financial Report of the United States Government*, as it has in prior years. This report presents a picture of government-wide finances that complements traditional federal government budget information, and is critical to a fully informed budget process. FMS, in coordination with the Office of Management and Budget (OMB)[1], continues to make improvements to its policies, procedures, information systems, and internal controls associated with compiling and issuing the *Consolidated Financial Report of the United States Government*. These improvements resulted in the elimination of 35 of 81 open Government Accountability Office (GAO) findings and recommendations in the fiscal year 2007 Audit Report. Additionally, ten new recommendations were reported. FMS, in coordination with OMB and the requisite federal agencies, will continue to work to resolve these preparation issues.

1 The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required annually to submit financial statements for the U.S. government to the President and Congress. The *Government Management Reform Act of 1994* has required such reporting, covering the Executive branch, starting with financial statements prepared for fiscal year 1997. 31 U.S.C. 331(e).

Treasury continues to release the *Monthly Treasury Statement*, the monthly public source of budgetary results, on the eighth business day of each month. This release schedule allows Treasury to provide agency financial managers complete and accurate financial data on a timely basis for use in preparation of their financial statements. FMS also performs the accounting for the federal government's operating cash, and provides critical support related to government-wide cash forecasting and cash management functions.

One of FMS' major initiatives is to modernize long standing federal accounting processes and provide agencies with methodologies and tools to improve the accuracy and consistency of their financial data. This initiative, the Government-wide Accounting Modernization program, will improve the reliability, usefulness, and timeliness of the government's financial information, provide agencies and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings. It will also improve the budgetary information being collected from the agencies at the transaction level.

For the measure *Unit cost to manage $1 million of cash flow*, costs for fiscal year 2008 were $9.21. The result was substantially lower than the result for fiscal year 2007 ($10.36) although still higher than the result for fiscal year 2006 ($8.67). Cash flow and costs associated with government-wide accounting are expected to fluctuate in fiscal year 2009.

Conclusion

For fiscal year 2008 Treasury was successful in providing accurate, timely, useful, transparent and accessible financial information. Although the measure *Unit cost to manage $1 million dollars of cash flow* exceeded its target in 2008, over time the cost to manage $1 million has been increasing, resulting in an unfavorable actual trend. For the remaining measures, target and actual trends have both been positive. The one caveat relates to the measure *Cost per summary debt accounting transaction*, where long-term target trends remain favorable, even though year-over-year changes show continued increase in costs. This is due largely to steps taken in earlier years to improve cost-efficiency. In general, cost measures offer a limited view of operations – addition of cycle time and quality measures would offer additional information regarding Treasury's ability to successfully provide financial information.

Moving Forward

Going forward FMS plans to continue its efforts to improve efficiencies and lower the costs associated with managing the nation's money. In fiscal year 2009, FMS will continue moving forward on the Financial Information and Reporting Standardization (FIRST) initiative. This initiative integrates budget and financial reports from federal program agencies. FIRST will improve the consistency of the budgetary and proprietary accounting data recorded in agency financial statements and reported to FMS. FIRST is designed to provide authoritative information, contained in Treasury's central accounting system, to the agencies to facilitate the reconciliation process for specific intra-governmental transactions.

FMS will continue to update and improve the government-wide accounting processes to provide more useful and reliable financial information. FMS is building and implementing a system to improve the exchange of financial information between FMS, federal program agencies, the Office of Management and Budget, and the banking community. Once the Government-wide Accounting Modernization program is completed it will replace current government-wide accounting functions and processes that are both internal and external to FMS. Additionally, it will improve the reliability, usefulness, and timeliness of the government's financial information, provide better access to information, and will eliminate duplicate reporting and reconciliation burdens for agencies.

A new measure will be developed in fiscal year 2009 to replace the discontinued measure. *Audit opinion on government-wide financial statements.*

STRATEGIC GOAL: U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

STRATEGIC OBJECTIVE:

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad

Economic growth stimulates economic opportunity, mobility, and security for Americans and others around the world. Promoting the development of new markets in the U.S. ensures that all Americans benefit from economic growth. The expansion of underdeveloped economies abroad opens markets, enhances regional stability, reduces the spread of disease, creates opportunities for profitable trade, and demonstrates democracy in action. Treasury promotes economic growth through direct and indirect regulation of financial markets; regulation of national banks and thrifts; implementation of policies promoting international trade, investment and economic security; programs encouraging investment in economically distressed communities; and policy initiatives directed at expanding the capacity of financial institutions to provide affordable credit, capital and financial services to the American people.

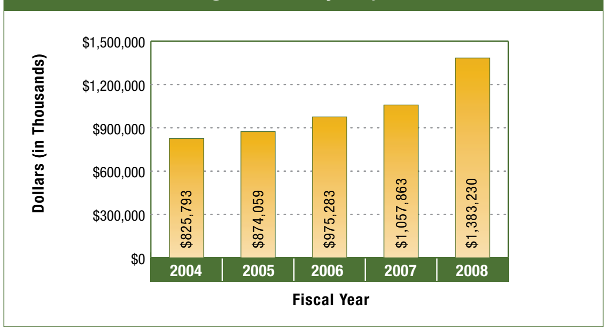
The bureaus and offices responsible for achievement of this objective are:

- Alcohol and Tobacco Tax and Trade Bureau
- Community Development Financial Institutions Fund
- The Office of the Comptroller of the Currency
- The Office of Domestic Finance
- The Office of Economic Policy
- The Office of International Affairs
- The Office of Thrift Supervision

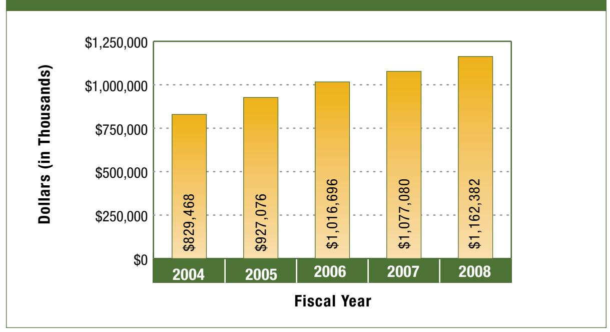
The outcomes associated with this objective are:

- Strong U.S. economic competitiveness
- Competitive capital markets
- Free trade and investment
- Prevented or mitigated financial and economic crises
- Decreased gap in global standard of living

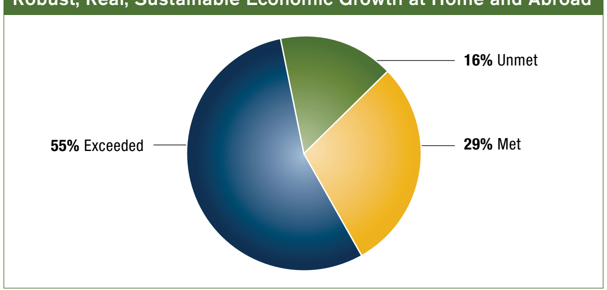
Budget Trend by Objective



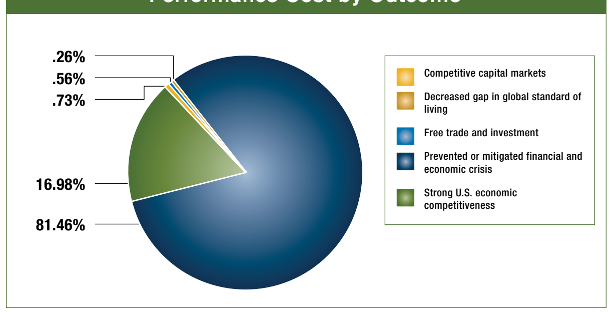
Performance Cost Trend



Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad



Performance Cost by Outcome



Program Assessment Rating Tool 2008				
Program	Bureau	Year Conducted	Rating	Current Improvement Plan
Bank Enterprise Award	CDFI	2002	Results Not Demonstrated	▲
Financial and Technical Assistance	CDFI	2004	Adequate	▲
New Markets Tax Credit	CDFI	2004	Adequate	▲
African Development Fund	DO	2003	Results Not Demonstrated	▼
Asian Development Fund	DO	2005	Results Not Demonstrated	▼
Debt Restructuring for Heavily Indebted Poor Countries	DO	2007	Moderately Effective	▲
Global Environment Facility	DO	2004	Results Not Demonstrated	▲
International Development Association	DO	2002	Adequate	▲
Office of Technical Assistance	DO	2003	Adequate	▲
Tropical Forest Conservation Act	DO	2007	Moderately Effective	▲
National Bank Supervision	OCC	2002	Effective	▼
Thrift Institution and Savings Association Supervision	OTS	2002	Effective	▼
Protect the Public Program	TTB	2002	Adequate	▲

Click on program name to obtain more information.

Assessing the Effectiveness of Economic Policy

The Department's economic policy efforts can be separated into two categories: policy initiatives and established programs. The differences between them have largely to do with timing in the policy process. Policy initiatives generally include efforts to influence economic growth and financial market activity through the development of new legislation or government-wide policy. Substantial analytical effort is used to understand a problem, develop alternatives and ultimately propose a legislative or administrative solution. Final legislation or administrative decision is then implemented by Treasury or other government agencies. Conversely, established programs are typically legislated to operate within an existing office, with specific objectives and defined management scope. These offices generally manage government efforts related to a designated problem, within clearly defined missions and goals.

Given the differences in scope and mission, it is generally easier to assess the performance of established programs than policy initiatives. With some exceptions, determining whether or not a policy initiative is successful is subject to legislated outcome, success of government-wide implementation, the test of time, and analyst opinion. To overcome this problem, and to better assess policy performance, Treasury is currently developing measures which gauge the effectiveness of policy initiatives by their traction (how efficiently and effectively policy offices worked with other government offices and/or the extent to which the office influences progress towards an outcome) and impact (whether or not the policy initiative had a positive outcome). As one example, Treasury has developed a new measure for fiscal year 2008 to gauge the Office of Technical Assistance's (OTA) performance in providing assistance to developing countries, assessing the ability of the office to establish good working relationships with client countries and influence positive policy outcomes. A measure assessing the performance of economic policy development is currently being designed for the Office of Economic Policy utilizing a similar approach, with completion expected for fiscal year 2009. Currently, most performance measures evaluating Treasury's management of economic affairs correspond to established programs and not to policy initiatives. Given this reality, analysis of this objective is divided into two components: one reviewing policy initiatives more qualitatively, the other analyzing established programs more quantitatively.

Assessing the Performance of Economic Policy Initiatives

Policy performance in addressing U.S. economic challenges was mixed. Turmoil in financial markets, the ongoing housing correction, and record high energy prices had substantial impact on economic performance in fiscal year 2008. Treasury, working with other federal agencies, state governments, other national governments, international organizations, and various private sector participants, took exceptional steps to address these challenges and work to prevent and mitigate financial and economic crises. Many of these efforts were successful; some were less successful than others. The key economic policy initiatives the Department engaged in, discussed in detail in the Management Discussion and Analysis section, include:

- Development of specific recommendations for regulators and financial industry participants to address weaknesses in the financial system through the PWG and international groups
- Development (and implementation) of the economic stimulus package under the Economic Stimulus Act of 2008
- Assistance to homeowners through support for legislation providing temporary tax relief, FHA modernization (in particular creation of the Hope for Homeowners program), higher conforming limits for mortgages and GSE reform
- Helping homeowners through public and private sector initiatives, such as FHASecure and HOPE NOW
- Finding solutions for troubled non-depository financial institutions
- Contributing to placement of Fannie Mae and Freddie Mac into conservatorship
- Implementation of measures to bolster regulation of national banks and thrifts
- Issuing the *Best Practices for Residential Covered Bonds* and working with financial institutions to establish a U.S. covered bond market
- Developing legislation allowing Treasury to increase liquidity in financial markets
- Establishing a Temporary Guarantee Program for money market funds
- Serving as primary coordinator for U.S. policy for the U.S.-China SED

Individual Department offices within Treasury made significant contributions to these efforts.

- The Office of Economic Policy provided detailed analysis on key elements of the turmoil, including subprime mortgage defaults, credit market disruptions, general conditions in housing markets and sources of higher commodity prices. Findings from this analysis were used by policymakers across government to formulate policy action. For the economic stimulus package, the Office of Economic Policy worked collaboratively with the Council of Economic Advisors to estimate the impact and effectiveness of different policy approaches and finalize the package's composition. The Office of Economic Policy also contributed to the development of Hope for Homeowners, a program to help those at risk of default or foreclosure refinance into more affordable mortgage loans.
- The Office of Financial Markets (OFM) provided direct support to the PWG, including coordinating meetings, developing briefing materials and drafting the *Policy Statement on Financial Market Developments*. OFM also analyzed a range of issues related to securities and futures markets (including credit rating agencies; capital market competitiveness; broker-dealer, investment advisor and money market fund regulation; international accounting and auditing issues; mutual recognition of comparable foreign regulatory agencies; energy and agricultural commodity price volatility; CFTC reauthorization; House and Senate energy bills; and oversight of exempt commercial markets) and organized and chaired monthly staff meetings of the Interagency Financial Markets Group.

- OFM and the Office of Financial Institutions Policy (OFIP) contributed significantly to the *Blueprint for a Modernized Financial Regulatory Structure.* OFIP played the lead role in policy actions associated with the restructuring of Fannie Mae and Freddie Mac.
- OFM and the Office of International Affairs coordinated Treasury's participation in the formulation of international recommendations for policy action through the FSF, G-7, G-20 and other groups. In addition, the Office of International Affairs coordinated U.S. Government bilateral negotiations on regulatory and policy arrangements with other national authorities.
- OCC and OTS, as the primary regulators of national banks and thrifts, implemented measures ensuring stability at these financial institutions. Both supervisors introduced new regulatory guidelines for financial operations, issued new guidance for management of mortgages and assisted homeowners in finding solutions to avoid foreclosure.
- To facilitate student loan funding after the seizing of key funding markets, the Office of Domestic Finance worked closely with the Department of Education and the Office of Management and Budget to develop measures to ensure uninterrupted access to federal student loans for eligible applicants. Shortly following passage of the Ensuring Continued Access to Student Loans Act of 2008 in May, the Departments of Education and Treasury unveiled a four-point plan to ensure continued access to federal student aid. Included were two new programs to 1) ensure lenders could originate Federal Family Education Loans and not lose money, and 2) provide liquidity to lenders unable to raise capital cost-effectively in the market. Hundreds of lenders participated in one or both programs, enabling funding of student programs for the 2008-2009 academic year.
- Formation of a Market Room within Treasury to monitor financial market activity, pulling talent from various offices across the Department, contributed to timely response to market events. Formed before the crisis began in August 2007, the Market Room is now a permanent intra-agency body within Treasury.
- Through the U.S.-China SED, the Joint Economic Committee, the Financial Services Working Group and the Investment Forum, Treasury offices continue to engage China as a strategic economic partner. Through these dialogues, the Department has focused on engaging Chinese government officials on the importance of diversifying their economy beyond export driven growth, developing tools to manage a market-driven economy, developing greater exchange rate flexibility, and opening markets to foreign goods and financial services. The fifth U.S.-China SED will be held in Beijing, China in December 2008.

Conclusion

It is inherently difficult to assess the success or failure of policy initiatives shortly after implementation. Lack of data and different possible interpretations of results complicate meaningful evaluation of program performance. Still, while financial market challenges remained the primary focus of policy attention at the end of fiscal year 2008, significant achievements in mitigating financial turmoil and stabilizing economic conditions were evident. While there had been significant difficulties at individual financial institutions, systemic failure of the banking system was not evident. Where economic growth had turned negative at the end of 2007, the stimulus package implemented beginning in May helped stabilize the economy in the middle of 2008. Through the end of the fiscal year, more than two million at-risk homeowners were helped by HOPE NOW, FHASecure and other public and private initiatives, preventing foreclosures. International initiatives succeeded in improving coordination between national authorities to address market conditions. Measures were proposed to address troubled assets at financial institutions and inject capital into financial markets. Restructuring of Fannie Mae and Freddie Mac reduced uncertainty related to outstanding GSE bonds and the continuity of markets for mortgage financing. Initiatives to find alternative funding for student programs had succeeded by the beginning of the 2008-2009 year in providing educational funding for millions of students. Although Treasury has no performance measures to evaluate the success of policy initiatives in sustaining economic growth, the Department made exceptional efforts during fiscal year 2008 to stabilize financial markets and the broader economy.

Moving Forward

The Department will continue to monitor market events, analyze existing conditions, and take action as necessary to promote real, robust and sustainable economic growth. Credit markets continue to experience weakness moving into fiscal year 2009. The Emergency Economic Stabilization Act of 2008 (signed into law October 3, 2008) is intended to promote market stability and protect the U.S. economy, by authorizing Treasury to purchase and guarantee troubled financial assets and make equity investment in banks. The Act establishes a new Office of Financial Stability in the Treasury Department to implement a $700 billion Troubled Asset Relief Program (TARP). Operations of the TARP will be overseen by a Financial Stability Oversight Board comprised of the Secretary of the Treasury, the Chairman of the Federal Reserve, the Director of the FHFA, the Chairman of the SEC, and the Secretary of HUD. In addition, TARP will be audited by a Special Inspector General, will be subject to audits by the GAO, and will have its activities reviewed by a Congressional Oversight Panel. The Office of Financial Stability will be required to report on TARP activities on a monthly basis and make special reports on asset holdings for every $50 billion in purchases. Treasury will work to ensure provisions under the Act are implemented efficiently and effectively to protect taxpayer interests, provide market stability, help families stay in their homes, and encourage return to market normalcy.

Additional future challenges for Treasury:

- The PWG is expected to issue its update on implementation of recommendations from the *Policy Statement on Financial Market Developments* before the end of 2008. This update will review progress by state and federal government agencies, private sector interests, and non-governmental organizations in addressing identified structural weaknesses. The update is expected to include additional recommendations to improve financial market oversight and industry practices.
- The current "siloed" system of financial industry regulation in the U.S. is incompatible with a financial market where sector lines have blurred and market globalization necessitates international regulatory coordination. The *Blueprint for a Modernized Financial Regulatory Structure* issued in March offered a series of near, intermediate, and long-term solutions to structural weaknesses in the regulatory system, most of which have not yet been implemented. Implementation of financial regulatory reforms in 2009 will be critical.
- Efforts to reform Social Security and Medicare are stalled given the focus on economic and financial conditions. The $13.6 trillion actuarial deficit for Social Security will have to be addressed in the near future. The projected insolvency of the Medicare trust fund by 2019 and growing prescription drug benefit expenditures will need to be addressed in the immediate future. The Treasury Department in fiscal year 2008 issued five policy briefs proposing specific reforms of Social Security which have yet to receive dedicated policy attention. Implementation of entitlement reform is an essential Treasury policy objective for 2009.
- Market conditions have complicated efforts to mitigate risks at national banks and thrifts. Strained markets for some financial products and over-exposure by some regional banks and thrifts to areas deeply affected by falling home prices have constrained management of risk exposure. The OCC and OTS will continue to work with these banks and thrifts to isolate risky assets and implement strategies limiting risk exposure.
- Protectionist interests are increasingly eroding international trade and financial linkages. Collapse of the World Trade Organization's Doha Round of trade talks in July 2008, heightened concerns about investments by sovereign wealth funds and other foreign government-owned enterprises, and delayed consideration of the U.S.-Colombia Free Trade Agreement, have limited efforts to open international markets to U.S. commerce. Opening foreign and domestic markets for goods and

services is vital for sustaining a robust and growing U.S. economy. Treasury will endeavor to resume the opening of global markets in 2009.

Assessing the Effectiveness of Established Programs

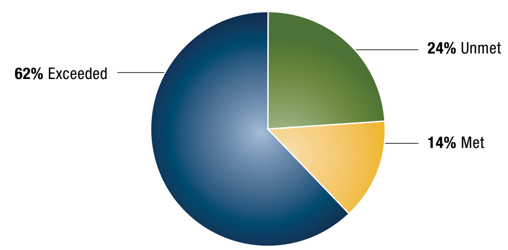
For established programs, performance in improving economic opportunity, mobility, and security was moderately strong. Performance exceeded target levels for 55 percent of measures, met target levels for 29 percent, and did not meet target levels for 16 percent. (Seven measures were discontinued and seven measures were base-lined in fiscal year 2008.) For active measures, 35 percent of performance targets showed trend improvement, 13 percent of targets were flat with neither improvement or decline, and 52 percent showed target trend decline. For actual trend results, 58 percent of results showed trend improvement, ten percent had flat trends, and 32 percent showed trend declines. The average deviation from target (the average percentage difference of actual to target) for all measures was 20 percent.

STRONG U.S. ECONOMIC COMPETITIVENESS

Strong U.S. economic competitiveness is crucial for robust economic growth worldwide, continued investment in the United States, and job creation. The Treasury Department develops policies and programs intended to promote a prosperous financial infrastructure, a balanced macro economy, market efficiency, technological readiness, and innovation. For fiscal year 2008, Treasury generally met or exceeded its performance targets for established programs promoting U.S. economic competitiveness.

Fiscal Year 2008 Results

Strong U.S. Economic Competitiveness



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	11	52%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	4	19%
Unfavorable downward trend	▼	3	14%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	3	14%
TOTAL		21	100%
Discontinued		3	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Administrative cost per number of Bank Enterprise Award (BEA) applications processed	CDFI	$1,455	$3,070	-11%	Unmet	$1,455	▲	▲
Administrative costs per financial assistance application processed	CDFI	$6,920	$7,200	96%	Unmet	$6,920	▲	▲
Administrative costs per number of Native American CDFI Assistance applications processed	CDFI	$9,090	$10,990	79%	Unmet	$9,090	▼	▲
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed	CDFI	$4,875	$7,400	48%	Unmet	$4,875	▼	▲
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance ($ million)	CDFI	$750	$621	83%	Unmet	$635	▲	▼
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI program awardees	CDFI	28,676	29,539	103%	Exceeded	30,000	▲	▲
Average number of days to process an original permit application at the National Revenue Center	TTB	Baseline	64	100%	Met	72	B	B
National Revenue Center (NRC) customer satisfaction survey	TTB	Baseline	90%	100%	Met	85%	B	B
Percent of electronically filed Certificate of Label Approval applications	TTB	52%	62%	119%	Exceeded	52%	▲	▲
Percentage of instances where the utilization of the International Trade Database System identified importers without permits as a percentage of total permits on file	TTB	Baseline	15%	100%	Met	16%	B	B

See Appendix for additional information regarding calculation of "Percent of Target Achieved."

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance for established programs promoting strong U.S. economic competitiveness exceeded target levels for 62 percent of measures, met target levels for 14 percent of measures, and did not meet target levels for 24 percent of measures for fiscal year 2008. (Three performance measures were discontinued.) Fifty-six percent of performance targets showed trend improvement, 33 percent showed target trend decline and 11 percent showed neither decline or improvement. For actual trend results, 61 percent of results showed trend improvement, 33 percent showed trend declines and six percent showed neither decline or improvement. These results indicate that these programs generally succeeded in achieving their performance goals.

Community Development Financial Institutions Fund

The Community Development Financial Institutions Fund provides grants and loans to financial institutions (Community Development Financial Institutions, or CDFIs) which provide capital, credit and financial services to underserved populations and economically distressed communities. Performance results for 2008 were mixed: 12 measures exceeded target levels and five measures did not meet target levels. The greatest shortfall, covering four of the five unmet measures, was in management of administrative costs. The Fund's activities are divided into four components:

- The CDFI Program provides direct funding to CDFIs. In fiscal year 2008, the CDFI Program distributed $54.2 million in funding. The CDFI Program did not meet two performance targets in 2008. *Administrative costs per financial assistance application processed* were $7,200, four percent higher than the target of $6,920. The cost target for 2009 is again $6,920. The amount of money CDFIs were able to attract from private investors leveraging their participation in the CDFI Program was $621 million, 17 percent below the target of $750 million. This deficit, however, was largely anticipated given conditions in financial markets. The private funding target for 2009 is $635 million. For other performance measures, the CDFI Program met or exceeded target levels. Eighty percent of CDFIs increased their total assets over the previous year (versus a target of 70 percent), the percentage of eligible areas served by more than one CDFI increased to 3.4 percent (versus a target of 3.0 percent) and CDFIs helped provide funds creating or maintaining an estimated 29,539 jobs in underserved communities (versus a target of 28,676 jobs).
- The BEA Program provides cash awards to banks which increase their investment in low-income communities and CDFIs. The BEA Program registered an increase from $227 million to $232 million in program participants' qualified investments between fiscal years 2007 and 2008, despite financial market challenges. However, administrative costs per application were $3,070, 111 percent higher than the target of $1,455. The cost target for 2009 is $1,455. The number of small businesses and commercial real estate properties located in underserved communities and financed by program applicants met performance targets, also despite financial market problems.
- The NMTC Program permits taxpayers to receive credit against federal income taxes for making qualified equity investments in designated Community Development Entities. The NMTC Program competitively awarded $3.3 billion in tax credit allocations in fiscal year 2008, surpassing the target of $2.5 billion. However, administrative costs per application were $7,400, 52 percent higher than the target of $4,875. The cost target for 2009 is $4,875. In fiscal year 2008, 73 percent of CDE loans and investments were made in severely distressed communities, exceeding the target of 66 percent.
- The Native Initiatives component of the CDFI Fund provides financial assistance, technical assistance and training to CDFIs and other entities seeking to become CDFIs in Native American communities. The initiative registered a 19 percent increase in total assets for 2008, beating the target increase of 15 percent. However, administrative costs per application in fiscal year 2008 were $10,990, 21 percent higher than the target of$9,090. While this was substantially below fiscal year 2007 costs of $13,510, the target is again set at $9,090 for fiscal year 2009.

Alcohol and tobacco industry regulation

The TTB protects consumers of alcohol and tobacco products from fraud and deception through industry regulation. Importers and bottlers of alcohol beverages are required by law to obtain a Certificate of Label Approval (COLA) or certificate of exemption from label approval from TTB for most alcohol beverages prior to introduction into the market. Through September 30, 2008, TTB processed 133,427 COLA applications. Sixty-two percent of applications were received electronically through COLAs Online, significantly beating the target of 52 percent and 2007 actual result of 51 percent. The increase in online applications was due in large part to outreach efforts by the

Advertising, Labeling, and Formulation Division through educational workshops, one-on-one demonstrations to large filers, and the first annual TTB expo.

The three additional performance measures for TTB were new for fiscal year 2008. Two were customer service measures replacing measures which were discontinued in 2008. The third is a measure assessing TTB's enforcement of product labeling non-compliance among alcohol and tobacco importers. In fiscal year 2008, TTB issued 105 cease and desist letters to tobacco importers identified by the bureau as operating without a permit.

Office of Financial Education

Treasury, through the Office of Financial Education, coordinates government efforts to promote financial education through outreach activities across the country. In fiscal year 2008, Treasury held several large events, including a major conference on banking the "unbanked" in New York City, two roundtables on multicultural issues, and an international conference including 43 countries from the Organization for Economic Co-operation and Development and the Organization of American States. Promotion of the *MyMoney.gov* and 1-888-MyMoney toll-free hotline resulted in 510,900 visits and 1,100 calls, respectively. On an inter-agency basis, the office supports initiatives by the President's Advisory Council on Financial Literacy, which for fiscal year 2008 included issuance of new financial education curriculum for middle school and high school students, creation of a Community Financial Access Pilot to expand financial education in low- and moderate-income communities, and development of a baseline survey to examine financial literacy among U.S. adults.

Managing international negotiations concerning energy and the environment

Recognizing the linkages between economic development and protection of the environment, Treasury created a new organization within the Department to manage environmental and energy issues as they relate to economic policy. This organization was centrally involved in the launch of a Clean Technology Fund by the U.S., Britain, Japan, Germany, and France. The Fund's goal is to reduce the growth of greenhouse gas emissions in developing countries through the financing of clean energy technologies. Introduction of these technologies will help reduce global emissions and migrate emerging markets' development paths towards lower carbon emission systems in anticipation of a more environmentally sustainable global climate framework. Treasury also actively engaged Chinese officials in discussions of energy and environment issues through the U.S.-China SED.

Conclusion

The CDFI Fund continues to provide important financial assistance to troubled regional markets. The Fund provided substantial benefits to low-income and underserved communities by attracting private resources and expanding job creation. However, cost management at the Fund will require significant attention in 2009. Fund cost targets for 2008 have been retained for 2009 in anticipation of this effort.

TTB discontinued several measures in 2008 and replaced them with new measures that more accurately track performance outcomes. These new measures will provide greater clarity on bureau operations and permit greater insight into management effectiveness, when there is sufficient data to review. TTB plans to continue their successful marketing efforts to promote COLAs Online to educate users about the benefits of using the E-Filing system. Dramatic improvements in online applications such as from 2007 (51 percent of applications) to 2008 (62 percent of applications), however, are unlikely for 2009.

Moving Forward

Given challenging economic conditions, the CDFI Fund's role in providing financing for low-income and economically-distressed communities will continue to be essential. Provisions in the *Housing and Economic Recovery Act of 2008* created a new competitive grant program, entitled the Capital Magnet Fund, within the CDFI Fund, which will support affordable housing and economic development in underserved areas most directly affected by the housing crisis. The Director of CDFI is actively participating in implementation of TARP, serving as primary advisor on issues related to housing conditions in low-income communities.

TTB will continue to work to reduce costs associated with COLA applications, improve processing time and seek to migrate users to the COLAs Online system. TTB plans to begin using the International Trade Database System to identify illicit alcohol importers in 2009, in addition to tobacco importers.

Three recommendations of the GAO's December 2006 report have not yet been implemented by the Office of Financial Education but are slated to be addressed in fiscal year 2009. These include:

- Conducting usability testing to measure the quality of users' experiences with the Commission's website
- Develop a customer satisfaction measure to assess users' experiences with the website
- Provide for independent third-party review of financial education resources among federal agencies and review the availability, utilization, and impact of financial literacy materials

The Office of Economic Policy is currently developing a new composite measure to assess its performance in providing micro- and macroeconomic analysis. The measure will be linked to achievement of two outcomes: strong U.S. economic competitiveness and prevention or mitigation of financial or economic crises. Variables which are being considered for the measure include: timeliness of release of analysis from receipt of data or assignment, accuracy of analysis, whether or not analysis is communicated effectively to stakeholders, the degree to which research and analysis were used to formulate policy or recommendations, and whether or not analysis is done proactively or reactively. This measure is expected to be completed by the end of fiscal year 2009.

COMPETITIVE CAPITAL MARKETS

Prosperous capital markets play an important role in facilitating economic growth by inspiring investor confidence and ensuring fair asset pricing. Treasury strives to preserve the integrity of the U.S. market, which is essential to maintaining competitiveness.

Treasury does not have performance measures linked to promoting competitive capital markets. Most efforts related to this outcome are policy initiatives, such as the *Blueprint for a Modernized Financial Regulatory Structure* discussed earlier in this section. The Department's *Capital Markets Competitiveness Action Plan*, initiated in 2006 by the Secretary, elevated the federal government's policy debate on regulatory impediments to U.S. financial market competitiveness. In March 2007, a conference on U.S. capital market competitiveness was hosted by Treasury to sharpen dialogue on the issue. In June 2007, Treasury participated in the PWG's appointment of two blue ribbon panels to develop best practice guidelines for hedge fund managers and investors, an initiative which followed the March conference. At the same time, development of the *Blueprint* was announced to outline regulatory reforms aimed at improving capital market competitiveness. With the credit crisis, the *Blueprint* assumed greater urgency and was refocused towards fundamental reform of the financial regulatory system. Treasury will continue to work with national, state, and international government organizations to reform the financial regulatory system and restore confidence in the integrity and competitiveness of financial markets.

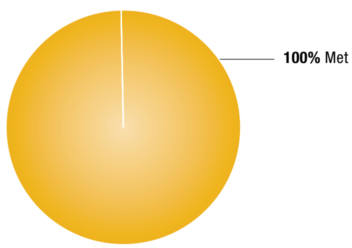
Going forward, the Department will develop a suitable performance measure to assess progress in maintaining competitive capital markets.

FREE TRADE AND INVESTMENT

Open foreign and domestic markets for goods and services are vital for a robust, growing and sustainable U.S. economy. While protectionism has strengthened over the last year, Treasury continues to work to maintain open markets for American products. For fiscal year 2008, Treasury met or exceeded its performance targets for established programs seeking to promote free trade and investment.

Fiscal Year 2008 Results

Free Trade and Investment



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	0	0%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	2	100%
TOTAL		2	100%
Discontinued		1	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Number of New Trade and Investment Negotiations Underway or Completed	DO	Baseline	14	100%	Met	6	B	B
Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce U.S. trade law and international agreements	DO	Baseline	68	100%	Met	68	B	B

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance for established programs promoting free trade and investment cannot be determined from performance measure analysis, as two new measures were added for 2008 and one measure was discontinued. Qualitative analysis of results, though, suggests that these programs succeeded in achieving their performance goals.

Foreign investment in the U.S. and U.S. investments overseas are major sources of economic growth. The Office of International Affairs serves as chair of the inter-agency

Committee on Foreign Investment in the United States (CFIUS) to ensure that foreign investment does not pose a national security risk. In fiscal year 2008, CFIUS issued updated guidance to investors on investment practices, following passage of new legislation last year. Treasury's on-going Open Investment Initiative is intended to promote economic growth by 1) highlighting the benefits of international investment, 2) warning against the dangers to the U.S. and global economies from protectionism, and 3) explaining U.S. investment policy in the context of economic security. The Initiative emphasizes the need for open investment channels to promote growth and development, both for the U.S. and world economies. Similarly, the International Trade Program seeks to promote growth through lower trade barriers. Through multilateral and bilateral negotiations with foreign counterparts, the programs seek to ensure open markets for U.S. exporters, financial services suppliers and investors.

In fiscal year 2008, the Office of International Affairs had two performance measures associated with this outcome. The first measure, the number of trade and investment negotiations either underway or concluded, was initiated at a level of 14. The fiscal year 2009 target for this measure, however, is six, due to uncertainty associated with future free trade negotiations. The second measure, the number of specific trade actions to enact, implement, and enforce US trade law and international agreements, was initiated at a level of 68 actions. The target for 2009 is also 68 actions.

Conclusion

Given that both current measures are new, there is little quantitative evidence to judge the effectiveness of performance in trade negotiations and enforcement actions. Additional data in future years will provide greater clarity on program effectiveness.

Moving Forward

Efforts to expand international trade and investment linkages are increasingly overshadowed by growing protectionist sentiment. Collapse of the World Trade Organization's Doha Round of trade negotiations in July 2008, failure to pass the U.S.-Colombia Free Trade Agreement and concerns about investments by sovereign wealth funds and foreign government-owned enterprises significantly impede U.S. economic engagement with international markets.

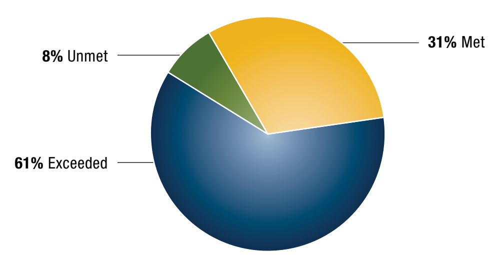
While bilateral negotiations continue, it is essential that multilateral negotiations resume to address outstanding global trade and investment issues. Enforcement actions in the current economic climate will likely continue to outpace expectations, given heightened concerns about unfair practices in a slowing economy.

PREVENTED OR MITIGATED FINANCIAL AND ECONOMIC CRISES

Prevention and mitigation of financial and economic crises have obvious economic benefits. Treasury's focused policy efforts to address financial and economic market conditions during fiscal year 2008 have been outlined in the sections above and the Management Discussion and Analysis. While Treasury generally met or exceeded its performance targets for established programs seeking to prevent or mitigate financial and economic crises, given troubled conditions at some national banks and thrifts, it is necessary to examine existing measure targets or establish new performance measures.

Fiscal Year 2008 Results

Prevented or Mitigated Financial and Economic Crisis



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	4	31%
Favorable downward trend	▼	1	8%
Unfavorable upward trend	▲	1	8%
Unfavorable downward trend	▼	3	23%
No change in trend, no effect	▶	2	15%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	2	15%
TOTAL		13	100%
Discontinued		3	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Changes that result from project engagement (impact)	DO	Baseline	3.1	100%	Met	3.1	B	B
Scope and intensity of engagement (traction)	DO	Baseline	3.7	100%	Met	3.7	B	B
Percent of national banks with composite CAMELS rating of 1 or 2	OCC	90%	92%	102%	Exceeded	90%	▶	▼
Percentage of licensing applications and notices completed with established timeframes	OCC	95%	95%	100%	Met	95%	▶	▶
Percentage of national banks that are categorized as well capitalized	OCC	95%	99%	104%	Exceeded	95%	▶	▶
Percentage of national banks with consumer compliance rating of 1 or 2	OCC	94%	97%	103%	Exceeded	94%	▶	▲
Rehabilitated national banks as a percentage of problem national banks one year ago (CAMELS 3, 4 or 5)	OCC	40%	47%	118%	Exceeded	40%	▶	▲
Total OCC costs relative to every $100,000 in bank assets regulated	OCC	$9.55	$8.39	112%	Exceeded	$9.22	▼	▼
Percent of safety and soundness exams started as scheduled	OTS	90%	94%	104%	Exceeded	90%	▶	▲
Percent of thrifts that are well capitalized	OTS	95%	98.4%	104%	Exceeded	95%	▶	▼
Percent of thrifts with a compliance examination rating of 1 or 2	OTS	90%	95.8%	106%	Exceeded	90%	▶	▲
Percent of thrifts with composite CAMELS ratings of 1 or 2	OTS	90%	90%	100%	Met	90%	▶	▼
Total OTS costs relative to every $100,000 in savings association assets regulated	OTS	$15.08	$15.10	99.9%	Unmet	$15.07	▲	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance for established programs aimed at preventing or mitigating financial and economic crises exceeded target levels for 61 percent of measures, met target levels for 31 percent of measures and did not meet target levels for eight percent of measures. (Three performance measures were discontinued.) Target trends were generally flat, except for cost measures which have increased over time. Actual trends were mixed, with fewer banks and thrifts receiving CAMELS ratings of one or two and fewer being categorized as well capitalized. Lower actual trends for these measures are indicative of the financial difficulties faced by banks and thrifts during 2008. Still, the fact that most commercial banks and thrifts are well-capitalized suggests that the OCC and OTS generally achieved their performance goals. However, as performance targets at OCC and OTS have been significantly exceeded, and particularly that targets were exceeded during a challenging year, strongly suggests that target levels and measures need to be reevaluated.

Regulation of banks and thrifts

Market conditions in fiscal year 2008 have highlighted the importance of banks' ability to identify, measure, manage, and control risk exposures. As discussed in the Management Discussion and Analysis, supervisory efforts at the OCC and OTS have emphasized the need for sound underwriting and credit administration at financial institutions, diversified sources of bank funding, strong internal controls and risk management systems, timely recognition of losses, and maintenance of adequate loan-loss reserves. Still, the percentage of banks and thrifts with CAMELS ratings of two or higher was lower in 2008 than at any point in the last five years. Favorably, the percentage of rehabilitated national banks of problem national banks was higher in 2008 than 2007. Efforts to improve visibility into the mortgage crisis through creation of a Mortgage Metrics report, stationing of examiners at key banks, analysis of leveraged lending systems and loan syndication, and encouragement of bank participation in HOPE NOW and Hope for Homeowners will continue. The question remains of what future action may be necessary to ensure the banking crisis remains contained.

In addition to regulatory efforts associated with the credit crisis, the OCC and OTS supervise activities in the areas of fair lending and consumer protection, implementation of security measures under the Bank Secrecy Act and Anti-Money Laundering (BSA/AML) Provisions, and preservation of information security.

The OCC and OTS ensure consumers have fair access to financial services and fair treatment in provision of services through ongoing reviews of lending practices. For both the OCC and OTS, the number of regulated institutions with consumer compliance ratings of one or two exceeded targets for 2008 and showed an upward actual trend. This is a positive result for both bureaus. To improve consumer practices at banks and thrifts, the organizations conduct outreach efforts with advocacy groups, research organizations, community development practitioners, and other groups to determine appropriate consumer protection measures and help resolve consumer issues. To facilitate fair lending, the OCC and OTS issue handbooks and provide training to help borrowers determine if services are being offered appropriately, and to help bankers and bank directors better understand their obligations under the law. Banks found to be delinquent in meeting their obligations are referred for investigation to the Department of Justice, with notification to HUD as appropriate. To improve consumer protection, the OCC, OTS, FDIC, and Federal Reserve issued final rules in 2008 on identity theft "red flags", management of address discrepancies, and implementation of the Fair and Accurate Credit Transactions Act of 2003. In November 2007, the agencies and the Federal Trade Commission proposed regulations and guidelines to help ensure the accuracy and integrity of information provided to consumer reporting agencies, primarily by permitting consumers to directly dispute inaccuracies.

BSA/AML provisions remained a priority in 2008. The OCC and OTS conducted on-site examinations of bank compliance with BSA/AML provisions in parallel to safety and soundness examinations and took enforcement action as necessary. The OCC has developed a Money Laundering Risk System that provides over 1,600 national banks risk assessment information, helping facilitate statute compliance.

Administrative results for the supervisory bureaus were mixed. For the OCC, costs per $100,000 in bank assets supervised fell significantly from $8.89 in 2007 to $8.39 in 2008. This was well below the target of $9.55. Still, the percent of licensing applications and notices completed within established timeframes had a lower actual trend than in previous years. For the OTS, costs per $100,000 in thrift assets supervised in 2008 were $15.10, significantly higher than $13.90 in 2007. While most of the cost increase is attributable to costly reviews of holding companies (which are not included in the cost calculation, but have $8.4 trillion in assets) and challenges associated with supervising a large number of small thrifts (some 60 percent of savings associations regulated by OTS have total assets less than $250 million), the results suggest additional cost savings actions may be necessary for 2009. Still, the percentage of safety and soundness exams started as scheduled improved to 94 percent, exceeding target levels and actual results for previous years. These results show both management improvement and need for additional action at both organizations.

Safeguarding critical infrastructure in the U.S. financial system

As the lead agency for management of banking and finance, Treasury is responsible for ensuring security and stability of the financial system in the event of natural or man-made disaster. The Office of Critical Infrastructure and Compliance Policy (OCIP) in Treasury collaborates with other federal and state regulators and the private sector to maintain safeguards against disruptions to critical financial infrastructure.

In Fall 2007, OCIP participated in a three-week pandemic flu exercise involving state and federal authorities, financial industry trade groups, and industry participants. In total some 2,700 organizations participated in the exercise, constituting the largest market-wide exercise to date. Following the exercise, OCIP worked with financial industry participants to develop a report detailing primary findings. After issuance of the report, OCIP hosted the first international symposium bringing together financial authorities and industry participants from around the world to discuss global pandemic flu planning.

To discuss current and emerging cyber threats, in February 2008 OCIP hosted a cyber summit bringing together financial services leaders from the business community, financial regulatory agencies, law enforcement, and the intelligence community. Two organizations representing the public and private sectors were respectively formed following the summit to coordinate management of cyber threats and improve contingency planning. The committees are jointly planning a cyber exercise for Fall 2008 to improve crisis response.

Establishment of new performance measure for the Office of Technical Assistance

In fiscal year 2008, OTA established two new, comprehensive performance measures to assess the effectiveness of assistance programs for client countries. The measures evaluate the traction advisors establish with country leadership and the impact of client country programs implemented with U.S. assistance. The measures determine traction and impact along four dimensions: country integration into the international community, country progress towards strategic goals, human and systems capacity building, and program effectiveness across government and the private sector. The measures were base-lined in fiscal year 2008. The average rating was 3.7 for traction and 3.1 for impact, out of a possible score of 5.0.

Conclusion

The OCC and OTS have made concerted efforts in fiscal year 2008 to supervise risk management at national banks and thrifts and mitigate the effects of the current credit crisis. Still, the failure of eight national banks and thrifts, weakened conditions at other banks and excesses in practices suggest there is room for improvement in supervisory oversight. For performance, better linkage of performance targets for OCC and OTS measures to actual results would improve visibility into supervisory quality. The fact that performance targets were exceeded or met for all but one of the bureaus' measures, despite current challenges in financial markets, suggests that targets could be set more aggressively and measures need to be reevaluated. This is a challenge Treasury will need to confront in 2009.

Implementation of the new OTA measures has provided significantly greater clarity on the impact of the office's operations. While previous measures gauged only the outcome of a client country's policy process, *i.e.* whether or not sustainable economic growth was achieved, the new measures allow for more direct analysis of the consultative role U.S. advisors provide in most countries. Ability to track these measures over time will permit greater understanding of the effectiveness of certain policy approaches and will help define ways in which standard recommendations can be tailored to address country-specific needs.

Additional measures of this type are currently being considered for other policy offices.

Moving Forward

The OCC and OTS' strategic objectives for fiscal year 2008 continue to emphasize supervisory practices that support banks' and thrifts' ability to compete while maintaining safety and soundness. The OCC's priorities for fiscal year 2009 include supervisory issues related to potential adverse changes in national bank asset quality and risk profiles, completing implementation of Basel II capital standards, enforcing compliance with BSA/AML and *USA PATRIOT Act* requirements, and ensuring appropriate follow-up actions associated with financial market turmoil. The Shared National Credit Review undertaken by the OCC, Federal Reserve, OTS, and FDIC will continue through fiscal year 2009, with the agencies working to modernize the collection and analysis of data. The two supervisory bodies will also continue to work with state authorities to improve coordination and establish uniform national standards for banking practices.

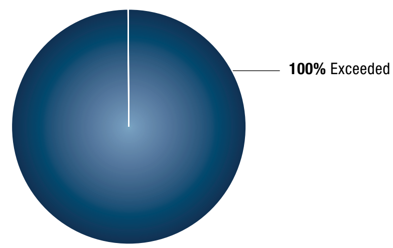
In December 2008, OTS will hold its Third Annual National Housing Forum, bringing together the country's foremost experts in housing and mortgage finance to discuss potential solutions to the nation's housing crisis. The Forum permits financial services industry participants, federal and state regulators, public policy advocates, and financial analysts to discuss financing and reform issues. The OTS is also in the process of drafting a *Financial Institution Reform Initiative* offering recommendations on standards for mortgage brokers and mortgage companies.

DECREASED GAP IN GLOBAL STANDARD OF LIVING

A decreased gap in the global standard of living, associated with improved economic conditions in emerging markets, improves economic opportunity for Americans. For fiscal year 2008, Treasury programs exceeded their performance targets related to decreasing the gap in the global standard of living.

Fiscal Year 2008 Results

Decreased Gap in Global Standard of Living



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	100%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	0	0%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		2	100%
Discontinued		0	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs	DO	90%	93%	103%	Exceeded	90%	▶	▲
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement	DO	90%	94%	104%	Exceeded	90%	▶	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance for established programs seeking to decrease the gap in the global standard of living exceeded target levels. These results indicate that these programs succeeded in achieving their performance goals. However, the target trends for both measures were flat. The fact that performance targets were exceeded or met for the last four years for both of these measures suggests that targets could be set more aggressively.

Reforming international financial institutions

With the adoption of flexible exchange rates and globalization of financial markets over the last decade, the need for IMF lending facilities has diminished. The result has been a reevaluation of policy direction at the IMF to determine future course. The Treasury Department, acting as the U.S. Government's primary economic policy agency, has been an active participant in these deliberations. The Department's primary recommendation for the IMF was to focus more directly on its core mission of analyzing government policies, providing advice to governments based on that analysis, and managing international currency exchange. The Department's review of IMF programs for effectiveness and quality for fiscal year 2008 yielded an improvement rate of 93 percent, exceeding the target improvement rate of 90 percent.

As part of its reform process, the IMF has restructured its voting system to expand representation for emerging market countries. Reforms approved by the voting members of the IMF announced in April 2008 and supported by the U.S. tripled the number of voting shares under the charter, expanding participation and decision-making authority for over two-thirds of the IMF's 185 member countries. The change should provide a stronger voice for low-income countries and improve the working relationship between the IMF and emerging market participants, better reflecting the realities of today's economic landscape.

Based on the Treasury Secretary's recommendation, the IMF has coordinated development of guidelines for sovereign wealth fund investment in foreign markets. In September 2008 the International Working Group of Sovereign Wealth Funds, a body including representatives from 26 sovereign wealth funds working with the IMF, announced preliminary agreement on draft Generally Accepted Principles and Practices (GAPP). The GAPP framework provides a guide for sovereign wealth fund investment practices, governance and accountability arrangements and is expected to be published in October 2008.

Finally, the Treasury Department has actively supported restructuring efforts at the IMF to improve internal management. Cost-cutting initiatives implemented by the

Director of the IMF are expected to provide an estimated $100 million in savings and focus the Fund on core functions. As part of these core functions, the Department has encouraged the IMF to contribute to development of a foreign exchange management system to help reduce conflict between nations over exchange rate management and improve international economic relations.

At the World Bank and European Bank for Reconstruction and Development, Treasury has been supportive of efforts to increase the voice of developing countries to better reflect their development needs and initiatives to channel more resources towards lower-income central European countries. Initiatives to reduce debt levels and improve the debt sustainability of poor countries through the Department's Heavily Indebted Poor Country Initiative and Multilateral Debt Relief Initiative have also yielded favorable results, particularly through active engagement with "emerging creditors" such as China.

In addition to promoting international trade and investment, the Office of International Affairs conducts annual reviews of the grant and loan programs at multilateral development banks to ensure effective practices are utilized to support developing economies. For fiscal year 2008, 94 percent of grant and loan programs at the multilateral development banks were found to have satisfactory frameworks, exceeding target levels and reflecting a positive actual trend.

Efforts to support economic liberalization and development

The Department has a unique position to help transition economies and post-conflict countries as they reconstruct and develop their economies. Treasury financial attachés, technical assistance officers and regional officers engage at all levels of government, helping implement economic policies to promote economic growth and poverty reduction. The Treasury attaché program in particular, whereby attachés are posted in foreign countries considered significant to U.S. domestic or foreign economic policy, has been a central component of this support effort. By November 2008, the Department will have 16 attaché posts established with an additional five planned for deployment in 2009. Specific focus for development and reconstruction activities has been on Iraq, Afghanistan, Georgia, Kosovo, and various African and Latin American countries.

Iraq. Treasury continues to help Iraqi officials formulate and execute sound economic policies and guide their country on a sustainable path towards economic growth and development. As U.S. financial assistance for Iraq declines, Treasury is helping the Government of Iraq manage its own resources to lead reconstruction efforts and provide essential services throughout the country. Treasury has helped Iraq secure important debt relief agreements, remain in good standing on its IMF Stand-By Arrangement and commit to a medium-term reform strategy with the support of the international community.

Afghanistan. Treasury has worked closely with the Afghan government and international institutions to continue Afghanistan's movement towards implementation of macroeconomic policies supporting growth, development and stability. Primary efforts focus on: helping Afghanistan meet its international commitments, particularly in the areas of fiscal sustainability and revenue collection; private sector development; fighting corruption; and countering illicit financial activities.

Georgia. Following the August 2008 conflict with Russia, Treasury has worked with other U.S. Government agencies and international partners to assess economic vulnerabilities in Georgia. Treasury has proposed mechanisms for economic support and worked with Georgian authorities to continue policies bolstering market-led economic and financial market development. Significant efforts have been made to provide a timely support package.

Kosovo. Treasury is providing the new government of independent Kosovo assistance in developing effective economic policies to support growth and national integration. This includes establishing a stable fiscal framework and implementing policies that provide a strong basis for private sector growth, notably in the energy sector. Treasury is also assisting with Kosovo's membership applications to international financial institutions and with efforts to resolve outstanding financial and debt issues with Serbia.

African countries. Economic performance in sub-Saharan Africa has improved dramatically in the last five years. Treasury, with advice and financial support provided through the IMF and debt relief initiatives with other donors, has encouraged African governments to implement macroeconomic policies promoting economic growth. Key action areas include: engaging African government officials on implementation of sound fiscal and monetary policies, working through the IMF to help low-income countries strengthen macroeconomic policy, and providing debt relief on condition of commitment to maintaining macroeconomic stability.

Latin America. Treasury continues to foster the U.S. Small Business Lending Initiative, launched in June 2007, to accelerate job creation and poverty-reduction in Latin America. Since inception, the initiative has generated $68 million in loans and technical assistance grants to commercial banks in Latin America, providing support for small business development. Treasury also is providing technical assistance to countries in Latin America focused on establishing anti-money laundering measures.

Conclusion

Treasury continues to play an important role in the implementation of reforms at international financial institutions and development of programs supporting economic liberalization and development. The IMF's efforts in restructuring management and reorienting strategic focus, however, may be attenuated in fiscal year 2009 if weakened financial conditions increase sovereign demand for IMF lending and analytical support. Expansion of Treasury's attaché program has yielded favorable results and will continue to receive primary attention as means to improve communications with participant countries.

Moving Forward

Treasury will continue to work with international development banks, the IMF, the World Bank, and other organizations to promote economic growth in developing markets. Ongoing reforms at the IMF, World Bank, and other organizations to better integrate emerging market perspectives in policy-making is essential for redefining international financial institutions to better match global markets. As economic reforms in Africa, Latin America, and other parts of the developing world continue, it can be expected that additional reforms will be necessary to reflect changed conditions. Treasury will continue to actively participate in international deliberations seeking ways to reduce the global standard of living gap, with the perspective that stronger international markets benefit the American economy.

STRATEGIC GOAL: U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

STRATEGIC OBJECTIVE:
Trust and Confidence in U.S. Currency Worldwide

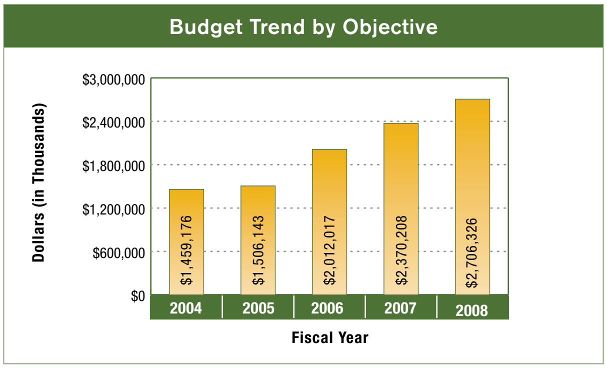
Continued trust and confidence in the integrity of United States currency, and the ready acceptance of U.S. currency as a secure medium of exchange for conducting business transactions, enable the free flow of domestic and global commerce, and contribute to the security and stability of the world's monetary system. Total circulation of U.S. currency around the world exceeds $770 billion, and as much as two-thirds of that circulates outside the borders of the United States. To instill high levels of trust and confidence in the integrity of U.S. currency, the Department's currency products are designed to achieve the maximum possible levels of counterfeiting deterrence, product quality, user acceptance, and cost-effectiveness. To achieve these levels, BEP and the United States Mint manufacture and deliver high-quality U.S. currency notes, coins, and security documents to the United States Federal Reserve and to federal agencies. In addition to producing notes, coins, and security documents, the Department also secures the nation's precious metals reserves.

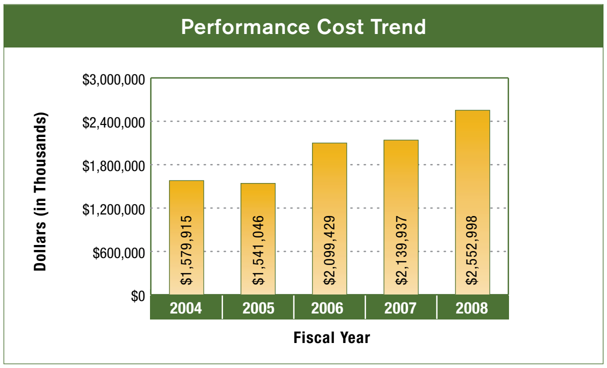
The bureaus and policy offices responsible for the achievement of this objective are:

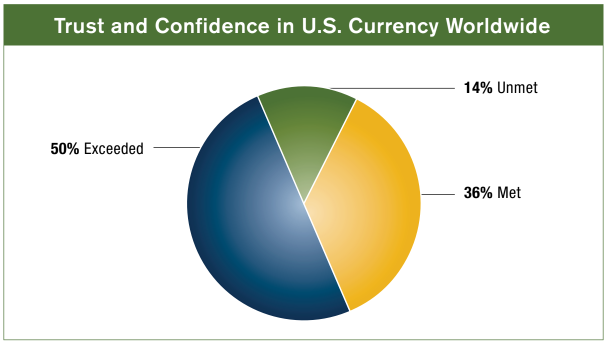
- The Bureau of Engraving and Printing
- The United States Mint
- The Office of the Treasurer of the United States

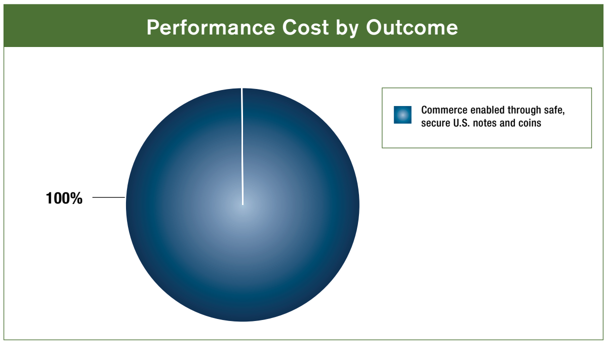
The outcome associated with this strategic objective is:

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









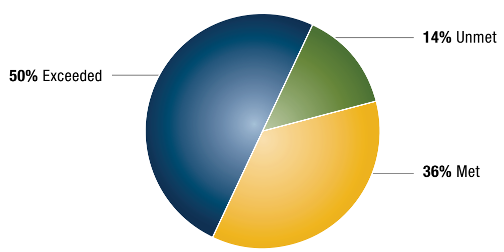
Program Assessment Rating Tool 2008				
Program	Bureau	Year Conducted	Rating	Current Improvement Plan
New Currency Manufacturing	BEP	2003	Effective	▲
Protection and Accountability of Assets	BEP	2006	Effective	▲
Coin Production	Mint	2002	Effective	▲
Numismatic Program	Mint	2004	Effective	▲
Protection	Mint	2005	Effective	▲
Click on program name to obtain more information.				

COMMERCE ENABLED THROUGH SAFE, SECURE U.S. NOTES AND COINS

Based on performance results, Treasury was generally successful at achieving this strategic objective and its associated strategic outcome during fiscal year 2008.

Fiscal Year 2008 Results

Commerce Enabled Through Safe, Secure U.S. Notes and Currency



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	0	0%
Favorable downward trend	▼	6	43%
Unfavorable upward trend	▲	2	14%
Unfavorable downward trend	▼	2	14%
No change in trend, no effect	▶	1	7%
No change in trend, favorable effect	▶	2	14%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	1	7%
TOTAL		14	100%
Discontinued		3	

STRATEGIC OBJECTIVE: TRUST AND CONFIDENCE IN U.S. CURRENCY WORLDWIDE 92

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Manufacturing costs for currency (dollar costs per thousand notes produced)	BEP	$33.00	$29.47	111%	Exceeded	$37.00	▲	▲
Maintain ISO Certification	BEP	Met	Met	100%	Met	Met	▶	▶
Currency production (billion notes)	BEP	7.7	7.7	100%	Met	6.8	▼	▼
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements	BEP	99.9%	100%	100.1%	Exceeded	99.9%	▶	▶
Currency shipment discrepancies per million notes	BEP	0.01%	0.01%	100%	Met	0.01%	▶	▶
Security costs per 1,000 notes delivered	BEP	$5.65	$5.63	100.4%	Exceeded	$5.65	▼	▼
Conversion costs per 1,000 coin equivalents	Mint	$7.09	$8.46	80.7%	Unmet	$7.99	▲	▲
Conversion costs per 1,000 coin equivalents (% deviation from target)	Mint	Baseline	11%	100%	Met	0%	B	B
Protection cost per square foot	Mint	$32.50	$31.76	102%	Exceeded	$31.75	▲	▼
Employee confidence in protection	Mint	86%	81%	94%	Unmet	83%	▼	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

In fiscal year 2008, 14 measures were reported for this objective, one of which was a new measure. Of all 14 measures, 12 measures (86 percent) either exceeded or met their performance targets. Two measures (14 percent) did not meet targets.

While the reported metrics indicate that Treasury met its performance targets for this objective and its associated outcome for fiscal year 2008, performance trends over the past four fiscal years require closer examination. Of these measures, seven (50 percent) showed a positive actual performance trend over time, four (29 percent) showed a negative actual performance trend over time, two (14 percent) showed relatively flat performance over time, and a baseline was being established for one measure (7 percent). Overall, it can be concluded that trended actual performance over time appears to show a trend of improvement when averaged across all measures. Taking into consideration that three measures (18 percent, nearly one-fifth) of the associated performance measures were discontinued in 2008, one might also conclude, however, that the Department still needs to find a stable way of measuring success at achieving this objective and its outcome. Efforts to narrow in on an effective way to measure such success may need to become more aggressive.

When target trends over the past four fiscal years are examined, one finds that six targets have a positive direction (43 percent), two targets (14 percent) exhibited a fairly flat trend, and five (36 percent) displayed a negative direction. A baseline was being established for one measure (seven percent). Averaging these trends across all measures, it can be concluded that the overall trend in target-setting for this objective and its outcome also remained essentially flat. Taken together, the actual performance and target trends over time may suggest that, either more aggressive target-setting is needed to stimulate improved performance, or perhaps new measures may need to be established.

The Bureau of Engraving and Printing

In fiscal year 2008, BEP delivered 7.7 billion paper currency notes meeting Federal Reserve product quality standards and exceeding its performance target for costs per 1,000 notes produced. Notwithstanding, BEP manufacturing costs increased from $28.71 per thousand units in 2007 to $29.47 in 2008, a 2.65 percent increase. The increase was largely due to the annual Federal Reserve order for paper currency shifting toward proportionally greater production of higher-denomination notes which are more costly to manufacture and deliver. In addition, there was a 7.2 percent reduction in total currency notes ordered in 2008 as compared to 2007. Any highly capital-intensive manufacturing operation will tend to incur relatively high proportions of fixed costs; therefore, as production volume decreases, so do the number of units among which those fixed costs can be spread making each unit produced more costly. Reduction in Federal Reserve demand for currency also reduced BEP productivity by approximately 12 percent versus the prior year.

A notable effort in the currency manufacturing arena during the fiscal year included the launch of a redesigned $5 note that went into circulation on March 13, 2008, a product redesign initiated to keep the nation's currency a step ahead of a developing counterfeiting threat.

BEP continued to keep product quality at consistently high levels despite changes in volume. In fiscal year 2008, BEP reported nearly 100 percent of the currency notes delivered to the Federal Reserve met its product quality requirements. As it has for the past six years, BEP maintained ISO 9001 certification in fiscal year 2008 for its currency production quality management system. ISO 9001 certification indicates an ongoing commitment to continuous process and quality improvement. In 2008, BEP also continued efforts to maintain ISO 14001 certification, which it first obtained in 2007. ISO 14001 certification indicates a commitment to high-quality environmental management.

BEP efforts related to protection and accountability over government assets continued to meet performance expectations, and BEP appears on track in its drive to reduce security costs by 43 percent between 2006 and 2012. Measures of shipment accuracy and overall security cost continued to meet targets. Fines, fees, and losses were also well under target.

In 2008, as it has for the past 23 consecutive years, BEP has received an unqualified audit opinion on its financial statements from an independent certified public accounting firm. The Bureau also received an unqualified opinion in 2008, as it has for the past three years, on the effectiveness of its internal controls over financial reporting based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission, a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. (For more information see *http://www.coso.org/aboutus.htm*.)

The United States Mint

For the United States Mint, fiscal year 2008 was a year of mixed results. The slowing economy had a major impact on the Mint's financial results. Total revenue in 2008 reached $2.80 billion, a $165 million (6.3 percent) increase from $2.64 billion in 2007. As a result of operations, the Mint returned $750 million to the Treasury General Fund, down $75 million (9.1 percent) from last year.

During fiscal year 2008, the United States Mint shipped 10.0 billion coins to the Federal Reserve, down from 14.0 billion coins shipped in fiscal year 2007. Circulating coin demand fell from fiscal year 2007 levels because of the economic slowdown and the Federal Reserve's decision to lower inventories. When production volumes decline because of lower demand, the Mint must allocate fixed costs over fewer units, which drives unit costs upward. While declining from last year, the unit cost for penny and nickel denominations remained above face value for the third consecutive fiscal year. Lower volumes also limited the Mint's ability to maintain the cost per 1,000 coin equivalents below target. Quarter and dollar denominations made up a growing portion of total coins shipped because of continued collector interest in the rotating coin designs of the 50 State Quarters and Presidential $1 Coin Programs. This increased the Mint's revenue from circulating operations and also augmented seigniorage (the difference between a coin's face value and its unit cost) per dollar issued. While the total quantity of coins shipped was, on average, 4.4 million coins down from the past four fiscal years, revenue reached $1.29 billion and circulating seigniorage totaled $706 million.

The Presidential $1 Coin Act (Public Law 109-145) mandates Mint to identify, analyze, and overcome barriers to the robust circulation of $1 coins. Promoting circulating usage of the coins is also beneficial to financial results because $1 coins can be minted and issued at a higher seigniorage per dollar than any other denomination. As of September 30, 2008, the United States Mint had approximately $224 million dollar coins in inventory primarily made up of Sacagawea dollar coins produced in 2000 and 2001 ($92 million), and the Presidential dollar coins produced in 2007, the first year of the Presidential Dollar program ($83 million). Net pay for all $1 coins in fiscal year 2008 totaled $240 million. This represents a 49 percent decline from the $467 million coin net pay recorded in fiscal year 2007. The Federal Reserve defines demand for circulating coinage by the net payment (net pay) of coins at the Federal Reserve level. Net pay is the difference between coins deposited and coins withdrawn at the Federal Reserve by depository financial institutions (*i.e.* commercial banks and thrift institutions).

As part of the Mint's continuing work to promote the robust circulation of $1 coins, at the close of fiscal year 2008, the Mint developed a three-pronged strategy to increase transactional demand of $1 coins and began testing it in a four-city pilot program. In addition to standard public relations and advertising efforts used in the past, the bureau focused on retail activation by promoting usage directly with large-scale retailers. A thorough review of the pilot will be conducted when it concludes in November 2008. If successful in generating a significant increase in $1 coins in circulation, the Mint will launch a regional or national program in 2009.

Retail sales of numismatic versions of the Mint's circulating and commemorative coins remained strong in spite of the slowing economy. Numismatic revenue totaled $557 million, outpacing the fiscal year 2007 record total of $552 million. Strong sales of both new and core recurring products drove most of the growth in fiscal year 2008. Net income and seigniorage from numismatic sales increased to $85 million in fiscal year 2008 compared to $76 million last year, an 11.8 percent increase.

The Mint experienced unprecedented sales of its gold, platinum, and silver bullion coins in fiscal year 2008. As the economy and financial markets softened, investors sought the perceived safety of precious metals. Total bullion revenue topped $949 million, a $593 million (166.4 percent) increase from fiscal year 2007. However, in fiscal year 2008, the Mint needed to temporarily suspend the sale of certain bullion products because inventories were insufficient to meet record demand. To address this, the Mint set standard allocation and ordering limits so that scarce products would be equitably distributed among authorized purchasers. The availability of processed precious metals is a worldwide problem, as the Mint must compete with other mints and consumers of metals around the world to acquire a limited supply of precious metal. Despite supply constraints, the Mint remains one of the world's largest producers of gold and silver bullion coins. During the fiscal year, efficient use of production capacity allowed the Mint to achieve record bullion production volume without incurring additional operating costs. The Mint produced 10.5 million (126.8 percent) more ounces of gold, silver, and platinum bullion than fiscal year 2007. Net income from bullion sales increased to $17.8 million in fiscal year 2008 compared to $4.6 million in fiscal year 2007, a sharp 287 percent increase of $13.2 million dollars, nearly quadrupling the prior year's figure.

The Mint is responsible for protecting over $200 billion in United States assets stored in its facilities. The Mint's Office of Protection safeguards both Mint assets and non-Mint assets in its custody, including gold and silver bullion reserves, as well as the Mint's products, employees, facilities, and equipment. During fiscal year 2008, the Mint achieved its target protection cost per square foot metric by reducing expenses for overtime and travel from last year.

Conclusion

Based on the analysis of the results, it can be concluded that the current suite of measures only partially gauges the success of the outcome and objective associated with coins and currency. Improved measures are needed to determine if commerce is effectively enabled for the nation, particularly for coinage. Accurately forecasting demand and maintaining inventory targets will minimize costs related to the entire supply chain. Management of Numismatic product inventory also needs to be addressed to minimize the costs of obsolescence and disposal. Measures providing even more information about process and product quality (such as cycle time and Six Sigma quality measures) could reduce manufacturing costs even further for both BEP and the Mint.

BEP has engaged in an extensive effort to rapidly introduce counterfeit-deterrent currency note redesigns, a necessary step to address the increasing frequency of serious counterfeiting threats, and to bolster global trust and confidence in the integrity of U.S. currency. The only indicator of success in this arena is the estimated counterfeiting rate. Because it is an indicator, setting a target for this would be similar to setting a target for the unemployment rate – it is an important outcome, but it is extremely difficult to draw a direct correlation between it and the actions of the Treasury Department. However, other measures could be considered such as the average cycle time and marginal costs to introduce note redesigns.

Moving Forward

Continual imaginative efforts at counterfeiting U.S. currency and advancements in available technology demand that BEP invest heavily in research and development on counterfeit-deterrent note features. As a manufacturer, BEP has a highly capital-intensive operation with high fixed costs to cover. This forces BEP to squeeze the greatest possible cost efficiencies in its manufacturing operations without sacrificing effectiveness. Volume decreases place even greater pressure on the Bureau. BEP expects that in fiscal year 2009, productivity will drop another eight percent because it is estimated volume will be reduced another 11.7 percent from 2008 levels, to 6.8 billion notes, representing a capacity utilization of only 68 to 85 percent. Electronic commerce, such as internet based electronic transactions and stored value cards, has adversely affected currency use by the public. These and other economic trends increase the potential for further reductions in BEP production volume in the future. This will require BEP to closely monitor and streamline overhead and production process costs to ensure the most efficient production of the nation's paper currency.

To improve efficiency, BEP is engaged in a multi-year project to retool and retrofit its manufacturing processes to increase its flexibility and improve its response to product configuration changes. The project will include installation of new state-of-the-art equipment capable of producing 50-note currency sheets, achieving greater production efficiency than the existing equipment, which produces 32-note sheets. The new equipment will include intaglio presses, electronic inspection systems, and finishing equipment. BEP is also investing in new technologies such as its BEP Enterprise (BEN) program, which will integrate various disparate information technology systems and applications used at BEP. The BEN program is intended to optimize the reliability, integration, and timely collection of real-time performance data from equipment on the production floor. Having this data available when needed will enable production supervisors and program managers to proactively manage manufacturing processes to gain production efficiency, and improve quality and productivity.

Today's operating environment requires BEP to invest heavily in research and development to meet the need for increasingly complex advanced counterfeit deterrent features needed to keep U.S. paper currency on the leading edge in counterfeit deterrence and to garner wide note acceptance by the public. To increase note acceptance, BEP has contracted a research study that is looking at options for enhancing note accessibility for the blind and visually impaired. This study is expected to be delivered in the second quarter of 2009. Additionally, in response to requests posed by the Federal Reserve to lower downstream costs of currency, BEP is also in process of testing various materials to investigate ways to prolong the useful life of currency notes.

BEP is continually evaluating the size and capability of its workforce so as to operate as cost-effectively as possible. BEP increasingly needs employees that possess a high degree of technical skill, and recognizes the need to continue building its workforce's capability to use more advanced equipment and meet new note design requirements. To address this challenge, BEP has implemented a competency and skill assessment and a training program designed to elevate the skill and proficiency levels of the BEP workforce, and provide optimized training where needed. This program should enhance staffing flexibility under a variety of foreseeable production scenarios.

To maintain trust and confidence in U.S. currency, today's operating environment forces BEP to engage in continuous efforts to improve note design, since rapid developments in reprographic technologies and computer-driven printing pose increased challenges to counterfeit deterrence. In response, BEP continues to collaborate with other members of the Advance Counterfeit Deterrent Steering Committee such as the Federal Reserve Board, the United States Secret Service, and other organizations within the Department of the Treasury to determine the effectiveness of current counterfeit deterrent features and evaluate possible future features and designs. The Committee also monitors the reliability of the BEP manufacturing process, the incorporation of new design features, and the effectiveness of those features during the course of daily cash transactions. To stay ahead of increasingly sophisticated counterfeiting threats, BEP is continuing its redesign of U.S. currency. Redesign of the $100 note is underway, and a new design is expected to be approved for production in the 2009 to 2010 time frame.

To monitor ongoing product quality and asset accountability, BEP employs comprehensive security and product accountability programs. BEP is implementing a risk-based management approach to augment and improve these programs, designed to identify and rank risks and vulnerabilities by order of priority, so appropriate attention and resources are allocated to areas of greatest vulnerability. BEP also conducts stringent oversight methods such as physical inventories, unannounced compliance reviews, and independent audits, to assess, test, and monitor the adequacy of internal controls, the physical security of assets and employees, and the adequacy of operating management oversight and the physical security and monitoring infrastructure. For proper asset accountability and security, BEP has policies requiring direct involvement of accounting and security personnel to ensure that proper accountability and security features are identified and addressed during each stage of acquisition and installation of new equipment. Whenever facility space is reconfigured to modify production processes, BEP maintains proper camera coverage and two-person compliance procedures for security and internal financial control. To boost IT security, BEP has evaluated, certified, and accredited all of its IT systems to meet applicable federal requirements, and implemented technologies such as laptop encryption and removable hard drive installation to prevent the compromise of information security, as well as patch management, and active vulnerability scanning and feedback programs to reduce information system vulnerability and improve the resilience of operational capability. Comprehensive succession planning is also being implemented, including emergency delegation of authority, safekeeping of records, and establishment of emergency operating capabilities.

To ensure smooth introduction and ready acceptance of the new redesign of the $100 note and other future redesigned denominations, ongoing domestic and international communication and outreach about note redesign and counterfeit deterrent features is imperative for the business and financial communities such as foreign exchange companies, law enforcement agencies, banking officials, other cash handlers in industry, and to the general public. This is particularly important as international interest in the redesigned $100 note is expected to greatly exceed what was experienced during rollout of previous note redesigns. To secure solid awareness of these changes, BEP is developing an extensive public education strategy to inform target industries and key stakeholder groups about the new $100 note design. This strategy that may involve support from U.S. Foreign Service and other State Department personnel, as well as law enforcement agencies and foreign central banks around the world. It is crucial that users of U.S. currency worldwide be made aware of design changes to avoid confusion over the notes' authenticity when issued by the Federal Reserve, and so people will recognize genuine U.S. currency when they receive it.

Although the Mint has successfully worked to reduce its manufacturing costs, base metal prices continue to make up the largest portion of circulating coinage production cost. Changing the composition of circulating coins to less expensive alternatives can generate significant cost savings and mitigate further reductions in seigniorage should metal market prices again increase for copper, nickel, and zinc. This is an important consideration, since there have been steady increases in the prices of copper, nickel, and zinc over the last few years. Although metals prices have trended downward during fiscal year 2008, the average daily spot price for the month of September increased 141.5 percent for copper, 34.0 percent for nickel, and 78.0 percent for zinc between 2004 and 2008.

The Mint's legislative affairs office and the Department are working to advocate for the passage of legislation granting the Secretary of the Treasury the authority to implement changes in coin material composition without having to first secure congressional approval. This could enable more effective control over the cost of raw materials used to manufacture coin products, and ultimately result in significant savings by providing the Department's flexibility to respond to changing market conditions. Legislation recommended by the United States Mint and Department of the Treasury was introduced in the House of Representatives as H.R. 3330 and in the U.S. Senate as S. 1986, *The Coinage Materials Modernization Act of 2007*. In connection, United States Mint Director testified before the House Subcommittee on Domestic and International Monetary Policy, Trade and Technology on March 11, 2008. H.R. 3330 assigns the responsibility for determining the metal content of all circulating coinage to the Secretary of the Treasury, the approach recommended by the Department to fairly and efficiently manage the highly technical evaluation of alternative metals using a public process with public protections afforded by the *Administrative Procedures Act*. Any other statutory provisions applicable to coinage such as denominations, size, required inscriptions, and other factors would remain unaffected. On May 6, 2008, the United States House of Representatives passed a different approach to the problem by voice vote in H.R. 5512. In response, the Mint Director wrote to the House Subcommittee on Domestic and International Monetary Policy, Trade and Technology on May 6, 2008, stating that the "provisions of the bill are too prescriptive and limiting to allow for the successful implementation of the Act without severely jeopardizing significant and lasting cost savings for the American taxpayer." H.R. 5512 has since been referred to the Senate Committee on Banking, Housing and Urban Affairs, and the Mint continues to discuss the benefits of S. 1986 with the Committee, and is asking for consideration of the legislation during the 110th Congress. Further results of these efforts were pending as of the end of fiscal year 2008.

The Mint is responsible for providing an uninterrupted supply of circulating coinage to meet the needs of the United States. In fiscal year 2009, the Mint will establish a strategic coin reserve to ensure continuous supply of circulating coins in the event of coin demand exceeding production capacity. The strategic reserve will hold sufficient coinage to compensate for an unexpected disruption in operations equivalent to the loss of one circulating plant for a period of three months. Production disruptions beyond that time may require additional measures. The United States Mint plans to build the coin inventory over the next three years by taking advantage of excess production capacity during periods of lower coin demand. The accumulated inventory will also allow the agency to quickly meet any unexpected spikes in coin demand.

The Mint has also established a performance metric to monitor productivity that will be used internally at its manufacturing plants beginning in fiscal year 2009. The metric, related to operating equipment efficiency and covering operating data such as yield, machine throughput, and machine availability, is aimed at improving productivity. Additionally, the Mint is in process of rolling out a suite of new performance measures in fiscal year 2009 that will more clearly link to its outcome. These measures were still under development as of the close of fiscal year 2008.

STRATEGIC GOAL: PREVENTED TERRORISM AND PROMOTED THE NATION'S SECURITY THROUGH STRENGTHENED INTERNATIONAL FINANCIAL SYSTEMS

STRATEGIC OBJECTIVE:
Pre-empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security

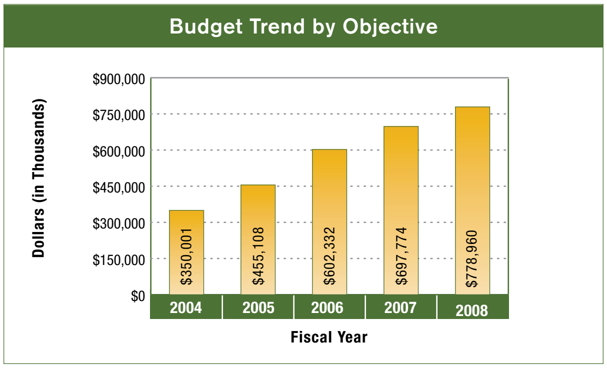
The Office of Terrorism and Financial Intelligence (TFI) is the only organization solely devoted to using financial intelligence to track, degrade, and disrupt threats to U.S. national security. Its unique capabilities leverage intelligence, law enforcement, sanctions, regulatory, and diplomatic tools to achieve Treasury's strategic objective. It is imperative that potential threats to U.S. national security from financial and other support networks of terrorists, weapons of mass destruction (WMD) proliferators, drug traffickers, rogue regimes, and other criminals be impaired. Keeping the world's financial systems accessible to legitimate users and excluding those who wish to exploit these systems for illegal purposes ensures confidence in U.S. and international financial systems. If these systems are safeguarded and transparent, the ability of terrorists, drug traffickers, WMD proliferators, and other criminals to conceal illicit dealings will diminish.

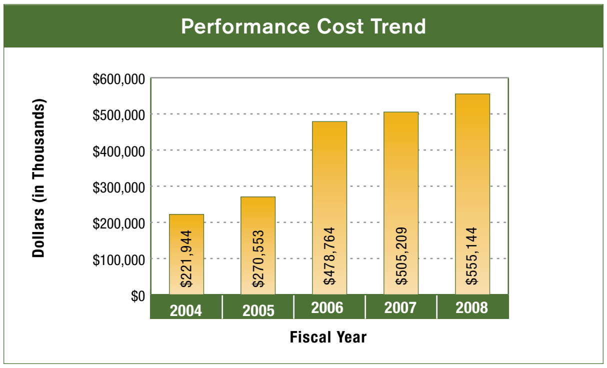
This is accomplished through five unified policy offices and one bureau within the Department:

- The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions
- The Office of Terrorist Financing and Financial Crimes (TFFC) is the policy and outreach apparatus for TFI
- The Office of Intelligence and Analysis (OIA) provides all-source intelligence analysis, leads the Department's integration into the larger Intelligence Community, and provides support to Department leadership on a full range of economic, political, and security issues
- The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA) and other regulatory functions
- The Treasury Executive Office of Asset Forfeiture administers the Treasury Forfeiture Fund, which is the receipt account for the deposit of non-tax forfeitures

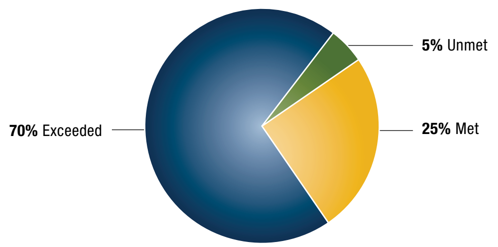
The outcomes associated with this objective are:

- Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks
- Safer and more transparent U.S. and international financial systems

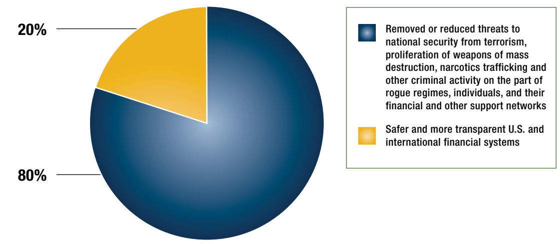




Pre-empted and Neutralized Threats to the International Financial System and Enhanced National Security



Performance Cost by Outcome



Program Assessment Rating Tool 2008

Program	Bureau	Year Conducted	Rating	Current Improvement Plan
Economic and Trade Sanctions Program: Office of Foreign Assets Control	DO	2002	Results Not Demonstrated	▼
BSA Data Collection, Retrieval and Sharing	FinCEN	2005	Moderately Effective	▲
Bank Secrecy Act Administration	FinCEN	2006	Results Not Demonstrated	▲
Bank Secrecy Act Analysis	FinCEN	2006	Adequate	▲

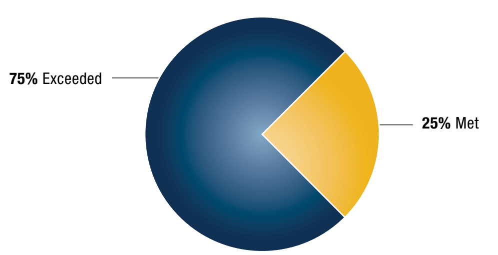
Click on program name to obtain more information.

REMOVED OR REDUCED THREATS TO NATIONAL SECURITY FROM TERRORISM, PROLIFERATION OF WEAPONS OF MASS DESTRUCTION, DRUG TRAFFICKING AND OTHER CRIMINAL ACTIVITY ON THE PART OF ROGUE REGIMES, INDIVIDUALS, AND THEIR SUPPORT NETWORKS

Based on performance results, Treasury was generally successful in achieving this outcome in fiscal year 2008.

Fiscal Year 2008 Results

Removed or Reduced Threats to National Security



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	50%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	2	50%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		4	100%
Discontinued		0	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measures	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Number of open civil penalty cases that are resolved within the Statute of Limitations period	DO	120	233	194%	Exceeded	Discontinued	▲	▲
Increase the number of outreach engagements with the charitable and international financial communities	DO	70%	80%	114%	Exceeded	Discontinued	▼	▼
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40 + 9 recommendations	DO	12	12	100%	Met	Discontinued	▼	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

TFI introduced and began to apply a composite performance measure to improve the assessment of its impact. The following table represents the component areas of TFI's performance measure, aligned with its performance goals and the Department's outcomes. TFI was not given a rating or score, but evidence was collected to support and justify each focus area component. With a more formal methodology and process, a rating will be determined with the intent to score each area and rate their impact.

Treasury Outcomes	Performance Goals	Focus Areas
Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks	TFI effectively employed tools and authorities to further U.S. Government policy objectives and mitigate national security threats	Impact of policy making, outreach, and diplomacy
		Impact of economic sanctions
	Support the formulation of Treasury policy and the execution of departmental authorities through all-source analysis of the global financial network	Impact of information and analysis
	Provide Treasury Department decision makers with timely, accurate, and relevant intelligence support on the full range of economic, political, and security issues	
Safer and more transparent U.S. and international financial systems	Anti-money laundering and combating financing of terrorism regulations are administered effectively and efficiently	Impact of activities to create safer and more transparent financial systems

Supporting Evidence of Performance Results

Advancing U.S. policy goals through the Financial Action Task Force (FATF) and other international bodies

TFFC worked through the FATF, an entity that sets the global standards for combating terrorist financing and money laundering, to identify vulnerabilities in the financial system by issuing guidance, best practices, and recommendations. In fiscal year 2008, TFFC, as a member of the FATF:

- Led an international working group that developed guidance to assist countries in conducting domestic money laundering and terrorist financing risk assessments. The final report, *Money Laundering and Terrorist Financing Risk Assessment Strategies*, identifies key factors to be considered in conducting a risk assessment, including sources of data and methods of analysis
- Co-chaired a working group that identified jurisdictional money laundering/terrorist financing vulnerabilities in the international financial system with respect to Iran, Pakistan, Sao Tome and Principe, Turkmenistan, Uzbekistan, and the northern part of Cyprus. As a result, the FATF issued public statements expressing concern and alerting jurisdictions worldwide to the risks associated with the deficiencies in those AML/CFT regimes
- Co-chaired a working group that produced a comprehensive report describing what constitutes terrorist financing, including its sources, methods of movement, and uses. The report, which includes case examples from around the world, was adopted by the FATF in March 2008, and has been published on the FATF website, *FATF Terrorist Financing Report*
- Worked with interagency partners that contributed to FATF typology studies on: *The Money Laundering and Terrorist Financing Vulnerabilities of Commercial Websites and Internet Payment Systems*

The Department increased its collaboration with interagency partners and international counterparts to establish a comprehensive global system of AML/CFT assessments through the FATF, the various FATF-Style Regional Bodies, the World Bank and IMF. Compliance with international AML/CFT standards is facilitated by auditing the regimes of FATF and member governments, which increased to over 175 countries from 150 compared to 2007.

These evaluation reports also identify deficiencies and ways to strengthen each country's AML/CFT policies and practices. In fiscal year 2008, TFFC achieved its target of assessing 12 countries that were evaluated through FATF. Adoption of the mutual evaluation by the FATF triggers a follow-up review, which establishes an avenue for TFFC to encourage additional measures to strengthen a country's AML/CFT policies and practices. For example, building on the feedback generated from an earlier evaluation, the United Arab Emirates implemented a set of AML/CFT regulatory reforms in June 2008 focusing on the area of customer due diligence.

Treasury is pursuing additional initiatives with international bodies to help identify systemic threats to the international financial system, focusing on policy development to protect the financial system from abuse. For example, TFFC has been working closely with the State Department on a series of targeted sanctions workshops with the European Union aimed at sharing best practices and educating the participants on how to implement an effective sanctions regime against terrorist financing. TFFC has increasingly refined the themes for the workshops to allow for in-depth discussion of specific aspects of targeted economic sanctions, and the most recent workshop in Brussels, in April 2008, focused on bringing together the lessons learned and findings of the entire workshop series, to develop a coordinated U.S.-European Union approach for addressing sanction issues in the future.

Designated terrorist financiers

The Treasury Department continues to target terrorist financiers and facilitators. These efforts include exposing and disrupting terrorist-front charities—a conduit used by groups such as al-Qa'ida, Hamas, Palestinian Islamic Jihad and Hizballah to funnel funds and exploit charitable giving to advance terrorism. As of September 30, 2008 the

Department had designated 539 individuals and entities as terrorists, their financiers or facilitators since the implementation of the Executive Order in September, 2001. In fiscal year 2008, some key designations included:

- Iran's Islamic Revolutionary Guard Corps-Qods Force for providing material support to the Taliban and other terrorist organizations, and Iran's state-owned Bank Saderat as a terrorist financier. The Qods Force is the Iranian regime's primary instrument for providing lethal support to the Taliban. Bank Saderat, which has approximately 3,200 branch offices, has been used by the government of Iran to channel funds to terrorist organizations, including Hizballah and European Union designated terrorist groups Hamas, and Palestinian Islamic Jihad
- Four individuals that hold leadership positions in Lashkar-e-Tayyiba, a Pakistan-based terrorist group with links to Usama bin Ladin and the al-Qa'ida network
- Kuwait-based Revival of Islamic Heritage Society for providing financial and material support to al-Qa'ida and it's affiliates, including Lashkar e-Tayyiba, Jemaah Islamiyah, and Al-Itihaad al-Islamiya
- Four leaders of al-Qa'ida in the Lands of the Islamic Maghreb, who carried out three attacks east of Algiers in June 2008, including a bombing near a train station that killed a French national

Designation programs often have an impact beyond their legal reach. Many banks, around the world, screen their customers and transactions against the U.S. list of designated entities and individuals. Information made public, in combination with designated actions, can have a substantial impact, creating a deterrent effect.

Response by targets and their networks

In fiscal year 2008, OFAC took several actions to lift sanctions on individuals and entities who had changed their problematic behavior or connections. These actions exemplify the impact OFAC designations have on individuals or entities. In June 2008, 60 individuals were removed from OFAC's Specially Designated Nationals list as a result of their severing ties with Colombia's notorious Cali drug cartel and assisting Colombian authorities. This action resulted from close cooperation with the Colombian government. OFAC also lifted sanctions on the China Great Wall Industry Corporation, a Chinese firm designated for providing material support to Iran's missile program. The Chinese firm implemented a rigorous and thorough compliance program to prevent any and all future dealings with Iran.

Combating the proliferation of WMD: Iran

A primary focus of the Department has been addressing the multi-faceted threats posed by Iran. Treasury leadership, working with the Department of State, is implementing a strategy to combat this threat, and application of financial pressure to the Iranian regime consists of three inter-related initiatives:

- Developing and implementing targeted financial measures to combat Iran's proliferation and terrorism support activities
- Maximizing the impact of U.S. financial actions by securing international support
- Engaging in a strategic dialogue with the international private sector to explain the risks of doing business with Iran

In fiscal year 2008, 69 individuals and entities were designated under *Executive Order 13382* as WMD proliferators or their supporters. Since the implementation of the Executive Order in June 2005, over 110 individuals and entities have been designated under this authority. These designations have targeted financial institutions, front companies, military construction firms, transporters, and key personnel in Iran's missile and WMD programs.

In fiscal year 2008, some noteworthy designations included:

- Bank Melli, Iran's largest bank, was designated for providing services to entities involved in Iran's nuclear and ballistic missile programs, including entities listed by the United Nations for their involvement in those programs. Bank Melli handled transactions for Bank Sepah, the Defense Industries

Organization, and the Shahid Hemmat Industrial Group. Bank Melli has provided a range of financial services on behalf of Iran's nuclear and missile industries, including opening letters of credit and maintaining accounts

- Bank Mellat was designated for providing bank services in support of Iran's nuclear entities, including the Atomic Energy Organization of Iran. Bank Mellat services and maintains this organization's accounts, mainly through its financial conduit, Novin Energy. Bank Mellat has facilitated the movement of millions of dollars for Iran's nuclear program since approximately 2003
- The Islamic Republic of Iran Shipping Lines (IRISL), and 18 affiliated entities were designated for providing logistical services to Iran's Ministry of Defense and Armed Forces Logistics (MODAFL). IRISL facilitates shipments of military-related cargo designated for MODAFL and its subordinates. IRISL has deliberately misled maritime authorities through the use of deception techniques, which were adopted to conceal the true nature of shipments ultimately destined for MODAFL. Furthermore, as international attention over Iran's WMD programs has increased, IRISL has pursued new strategies, allowing it the potential to evade future detection of military shipments
- Six Iranian military firms were designated for being owned or controlled by MODAFL and/or the Defense Industries Organization. These firms, which produce a variety of defense-related products, including electronics and communications equipment, aircraft, logistics systems, unmanned aerial vehicles, rocket and missile launchers, and weapons, act as procurement front companies for Iran's military

Over the past year and a half, senior leaders from TFI have met with finance ministry and central bank counterparts from around the world to discuss the importance of ensuring that the international financial system is not tainted by Iran's abuse. TFFC has led the effort to raise the issues of terrorist and proliferation finance bilaterally with international partners and bring these issues to the fore of international organizations and bodies. TFFC accomplished this through the FATF and the Proliferation Security Initiative to ensure effective implementation of the financial provisions contained in the United Nations Security Council Resolutions related to Iran and proliferation finance. The FATF issued guidance in October 2007 to assist jurisdictions in implementing activity-based financial prohibitions contained in *United Nation Security Council Resolution 1737* relating to prevention of WMD proliferation in Iran. This guidance and earlier advisories has produced valuable results, all 34 members of the FATF have implemented additional measures against Iran.

These efforts have been accompanied by international actions which, in turn, reinforce the utility of these targeted financial measures. For example, the most recent *United Nations Security Council Resolution 1803*, adopted in March 2008, called upon its member states to exercise vigilance over their own financial institutions' activities with all financial institutions domiciled in Iran, including their branches and subsidiaries abroad. This provision made special mention of the risks posed by Bank Melli and Bank Saderat. The FATF issued a second statement on Iran in February 2008, sending a clear message to governments and financial institutions worldwide about the threat Iran poses to the international financial system. The actions of the United Nations and FATF were followed by the European Union, which froze the assets of Bank Melli, in June 2008, due to its linkages with Iran's nuclear and ballistic programs.

Response by the private sector

Response by the private sector is a key factor when using targeted financial measures. Rather than defying compliance, or even trying to evade these measures, many members of the banking industry voluntarily go beyond their legal requirements for fear of handling illicit business. This is a result of corporate citizenship and the desire to protect their reputations. Positive, private sector voluntary actions amplify the effectiveness of government-imposed measures, deterring this type of behavior. For example:

- Many leading financial institutions have either scaled back dramatically or even terminated their Iran-related business entirely

- A number of other foreign banks, in Europe, China, and in the Middle East reportedly are refusing to issue new letters of credit to Iranian businesses, and the United Arab Emirates prohibited their banks from issuing letters of credit for businesses whose place of production is in Iran

When the private sector decides to cut off companies or individuals Treasury has targeted, it becomes an even greater reputational risk for others not to follow. The impact of voluntary implementation and compliance makes it even more palatable for governments to impose similar measures, thus creating a mutually-reinforcing cycle of public and private action.

The overall result has been exactly the type of government and private sector collaboration necessary to effectively combat WMD proliferators. In reaction to U.S. and multilateral actions, the world's leading financial institutions have largely stopped dealing with Iran, and especially Iranian banks, in any currency. This represents a substantial success in protecting the integrity of the financial system from Iranian illicit conduct while simultaneously providing leverage to support the multilateral effort to reach a negotiated solution on Iran's nuclear program. It also represents a comprehensive example of TFI utilizing all the tools at its disposal – outreach and policy consultation from TFFC, essential intelligence analysis and support from OIA, implementation of targeted financial measures by OFAC, and the efficient use of regulatory tools by FinCEN.

Rogue nations

The Department intensified its pressure on Burma throughout fiscal year 2008. In September 2007, OFAC designated senior officials from the Government of Burma in response to the violent suppression of democratic protests, and in October 2007, an additional 11 Burmese officials were designated to increase U.S. sanctions against their military regime. Family members or regime leaders were targeted including the financial network of Burmese tycoon Tay Za, an arms dealer with close ties to the military regime. In July 2008, ten companies that were owned or controlled by the Government of Burma or its officials were designated, including companies involved in the gem-mining, timber, and banking industries. Not long after this took place, Burma was struck by Cyclone Nargis. The Department responded by issuing general licenses to facilitate the flow of funds for humanitarian assistance to the Burmese. An additional general license authorized the transfer of funds, unlimited in amount, for personal remittances to or from Burma.

Civil penalties and enforcement

The imposition of civil monetary penalties is an important function of enforcing sanctions, and OFAC's Civil Penalties division is responsible for all actions under the economic and trade sanctions programs administered and enforced by OFAC. A large percentage of penalty cases are based upon the illegal trade of goods and services. In fiscal year 2008, OFAC collected civil penalty in 94 cases, totaling $4,923,342. One country in particular, Iran, accounted for 30 percent of these cases because it has a relatively large economy and appetite for U.S. goods and services. The emphasis on Iran is a practical result of the number of violations investigated, but is also consistent with its priority as a national security threat. In fiscal year 2008, 233 open civil penalty cases were resolved within the statute of limitations period. OFAC also issued new *Economic Sanctions Enforcement Guidelines*, which will guide its enforcement response to apparent violations of the sanctions programs that it administers and enforces, and which will allow it to implement enhanced civil penalties.

Expert support to policymakers

OIA is responsible for providing timely and focused intelligence on economic, political, and security issues to Treasury senior leaders and staff. Areas of high priority include the Committee on Foreign Investment in the United States, Critical Infrastructure Protection, and the U.S.-China SED. In fiscal year 2008 the focus was on enhancing the level of support to the senior leadership for National Security Council (NSC) meetings and key bilateral engagements, while expanding liaison and advisory services to the Department.

In fiscal year 2008, OIA's Intelligence Operations Center completed its transformation into a fully functioning 24/7 facility, to provide timely, accurate, and relevant intelligence to support the following:

- Daily Read Books for the Department's senior leadership
- Treasury's participation in the NSC policymaking process
- Policymaker's engagement with counterparts abroad
- Identification and dissemination of priority intelligence to Treasury decision-makers

OIA established a dedicated Requirements Staff and significantly improved its ability to drive collection of intelligence in response to Departmental requirements—particularly on key terrorist finance, proliferation finance, and economic and financial stability issues. In addition, OIA created "Treasury Intelligence Online"—a secure community of interest on the Intelligence Community's Top Secret-level computer network, allowing the dissemination of its written analytic products to a wider audience in the U.S .Government.

OIA began conducting an annual customer satisfaction survey in fiscal year 2007 to measure its impact in meeting Treasury performance goals and outcomes. The survey is sent after the conclusion of each fiscal year. Survey results for fiscal year 2007 showed that 83 percent of customers were strongly satisfied with the overall accuracy, timeliness, and relevance of OIA's counterterrorism-related products. In fiscal year 2008 the survey was refined to measure the overall level of customer satisfaction with the accuracy, timeliness, and relevance of finished intelligence products and intelligence support on the full-range of issues. At the time of publication, fiscal year 2008 results were not available.

Conclusion

The Department met or exceeded 100 percent of its target levels to achieve this outcome. The current performance measures only partially describe how this outcome is accomplished. The current measures tend to be more operational and output oriented, necessitating a reevaluation of the methodology used to assess the impact of activities.

Moving Forward

TFFC will develop and implement strategies aimed at combating the financial networks that support terrorism, proliferation, and financial crime, while continuing to increase capacity of key activities that provide tools to law enforcement and national security agencies. TFFC will build upon the current targeted financial measures to financially isolate Iran and Syria, state sponsors of terrorism, and to disrupt and dismantle the financial networks that support WMD proliferation. TFFC will continue to advance discussions within the FATF on how the existing AML/CFT international standards should be supplemented, amended, or applied to enhance their effectiveness.

OFAC plans to determine its capacity requirements to effectively investigate terrorist networks and state sponsored terrorism, proliferators of WMDs, foreign narcotics trafficking organizations, and other sanction targets. Licensing, compliance, and enforcement capacity will be analyzed based on the level of Executive Orders, designations of terrorists, WMD proliferators, and other national security threats.

OIA will utilize a comprehensive approach on financial intelligence to respond to the growing demand from Treasury and U.S. Government policymakers for intelligence on the global financial network. The global financial network encompasses the financial underpinnings of national security threats from adversaries financial vulnerabilities, the impact of U.S. targeted financial measures, and threats to international financial stability. The Global Finance Initiative will implement this approach by enhancing OIA's capabilities regarding requirements and collection support, analysis, dissemination and information sharing, policy and strategic planning, and mission support. OIA's Counterintelligence and Security Initiative will augment the Department's ability to detect and thwart threats to Treasury personnel, programs, and information. This initiative will consist of a phased program designed to prevent espionage, as well as identify and neutralize or mitigate threats from compromise.

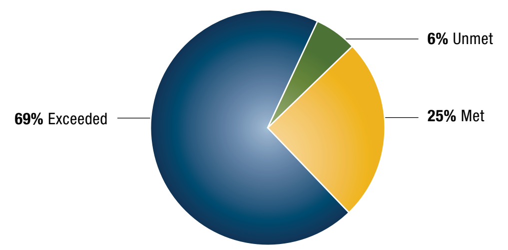
While quantitative measures, such as assets seized or blocked could be used to measure TFI's effectiveness, it only provides a partial view of the entire organization. The newly developed composite measure outlines the functions and roles of each office showing the unique impact of TFI. Additionally, there will need to be a stronger process for validating and justifying each component from an external assessor, to confirm the results. The expectation is that this measure will evolve and change over time as the factors that determine impact are assessed and evaluated. In fiscal year 2009, TFI will obtain additional information and data, and reach a consensus through the Department and the Office of Management and Budget (OMB) on the focus area components and how each will be rated, ultimately rolling up to a composite measure score for TFI as an integrated organization.

SAFER AND MORE TRANSPARENT U.S. AND INTERNATIONAL FINANCIAL SYSTEMS

Based on the performance results, Treasury was successful in achieving this outcome in fiscal year 2008.

Fiscal Year 2008 Results

Safer and More Transparent U.S. and International Financial Systems



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	6	38%
Favorable downward trend	▼	4	25%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	1	6%
No change in trend, no effect	▶	2	13%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	3	19%
TOTAL		16	100%
Discontinued		1	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Average time to process enforcement matters (in years)	FinCEN	1	0.7%	130%	Exceeded	1	▶	▼
Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable	FinCEN	90%	94%	104%	Exceeded	90%	▶	▶
The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable	FinCEN	79%	83%	105%	Exceeded	80%	▲	▲
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule	FinCEN	5.2%	2.5%	152%	Exceeded	5.2%	▶	▼
Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system	FinCEN	Baseline	64%	100%	Met	66%	B	B
Percent of federal and state regulatory agencies with memoranda of understanding/information sharing agreements	FinCEN	Baseline	41%	100%	Met	45%	B	B
Percentage of customers satisfied with the BSA E-Filing	FinCEN	90%	93%	103%	Exceeded	90%	▶	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Regulatory Accomplishments

FinCEN's regulatory policy efforts focus on efficient and effective administration of the BSA. The BSA requires financial institutions to file reports on certain types of financial activity and to establish appropriate internal controls to guard against money laundering, terrorist financing, and other illicit finance. These activities include improving the consistency in the application of BSA regulations, providing guidance on regulatory expectations, conducting studies to provide feedback to stakeholders, and initiating enforcement actions when appropriate.

In fiscal year 2008, FinCEN:

- Published guidance related to a variety of industries, including the AML program rule for dealers in precious metals, stones or jewels
- Drafted a rule on Chapter 10 of the Code of Federal Regulations, providing clarity in regulations and making it easier for the industry to understand
- Published three strategic assessments describing findings from Suspicious Activity Reports (SAR) to provide feedback to stakeholders
- Issued a notice of proposed rulemaking that would simplify the existing currency transaction reporting exemption requirements

Compliance with the BSA

FinCEN continued to increase its engagement in activities that monitor BSA compliance by financial institutions examined by state and federal regulators through entering into an MOU to exchange information. In 2008, FinCEN executed three additional agreements, concluding that 41 percent of federal and state regulatory agencies have entered an MOU or information sharing agreement. The *number of federal and state regulatory agencies with which FinCEN has conducted memoranda of understanding/information sharing agreements* was discontinued in fiscal year 2008 and replaced with the percentage measure because the methodology better reflects the impact of this activity. FinCEN surveyed its compliance MOU holders to determine the impact of the information exchanged, and established a 64 percent baseline of respondents rating the information exchange as valuable; this will improve BSA consistency and compliance. The Inspector General identified compliance with the BSA as a *Management Challenge* again in fiscal year 2008.

FinCEN strives to be responsive to the needs of financial institutions and collaborates to increase their understanding of the BSA. FinCEN's goal is to maintain a 90 percent satisfaction level of its Regulatory Resource Center customers, it exceeded this target with 94 percent of customers rating the guidance as "understandable."

FinCEN works closely with its regulatory partners to take enforcement action against financial institutions that systemically and egregiously violate the provisions of the BSA, including the imposition of civil money penalties when appropriate. In fiscal year 2008, FinCEN surpassed its target for the *average time to process enforcement matters* in one year with an average time of 0.7 percent; this was due to actively managing the casework.

FinCEN established the measure, *percentage of bank examinations conducted by Federal Banking Agencies indicating a systemic anti-money laundering program failure* in fiscal year 2007. This measure is an indicator of trends that identify FinCEN's regulatory compliance and examination efforts on the banking industry. As the percentage fluctuates, FinCEN recognizes that laxity in examinations or increased vigilance in compliance could trigger a downward trend in performance, and sets its indicator levels accordingly. In fiscal year 2008, the percentage of banking institutions cited for program failures during examinations was significantly below the 5.2 percent indicator level, only 2.5 percent were cited. This is primarily attributable to greater consistency among bank regulators in citing instances of program failures.

Analytic efforts in support of detection and deterrence of money laundering

BSA filings are utilized by law enforcement agencies, both domestically and through exchanges with international counterparts to identify, detect, and deter money laundering. FinCEN's analytic efforts focus on developing products and services to help law enforcement agencies enhance detection and deterrence of money laundering, terrorism financing, and other illicit activity. FinCEN continued its support to these agencies by focusing on actionable analysis targeted at high-priority money laundering and terrorist financing targets. Additionally, FinCEN published two comprehensive technical reference guides for law enforcement officials.

FinCEN also serves as the nation's financial intelligence unit (FIU), which is responsible for collecting, analyzing, disseminating, and exchanging information pursuant to a country's AML/CFT regulations. This includes exchange of information with counterpart foreign FIUs in 108 countries that are Egmont Group members. In fiscal year 2008, FinCEN worked with its Egmont Group partners to develop actionable intelligence concerning illicit money flows, and provided technical assistance and training to a number of Egmont candidates and members. For example, FinCEN increased its collaboration with the Mexican FIU, and provided analytical training, on-site visits, supported technology updates, and joint analytical projects. FinCEN is currently working with a Canadian FIU to analyze cross border currency flows, and the Spanish FIU to begin analyzing the flow of Euros into and out of the U.S. and conduct strategic analysis of money laundering typologies. The percentage of customers finding FinCEN's analytical reports highly valuable is measured to show how BSA information is used by law enforcement and international FIUs to identify, investigate, and prevent abuse of the financial system. FinCEN exceeded its target of 79 percent with 83 percent of its customers finding the analytical reports highly valuable.

Accessibility of BSA information

In fiscal year 2008, FinCEN began the process to retire magnetic media filing, maximized BSA E-Filing capabilities and BSA data validation, and implemented data quality measures to improve its management of BSA data and increase coordination and communication with its federal stakeholders. The information and technology used to facilitate analysis are at the core of FinCEN's mission to deter and detect criminal activity, and to safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. FinCEN surveys the users of the BSA E-Filing system to determine the overall satisfaction level and identify where improvements are needed. The percentage of customers satisfied with the BSA E-Filing was 93 percent, although this was a one percent decrease compared to last year, customer satisfaction has been consistent with the target set at 90 percent.

FinCEN focused its efforts related to efficient management, safeguarding, and use of BSA information by improving the overall information infrastructure and enhancing information technology management capabilities. In May 2008, FinCEN implemented a new public website that improved navigation features and allows customers to find information easily. The newly developed site created a more flexible and sustainable structure.

FinCEN conducted a thorough review of its BSA data security program and updated many components of the BSA access program. In fiscal year 2008, FinCEN increased law enforcement access to BSA information through an initiative that significantly increased the number of MOUs with U.S. Attorney's Offices.

Conclusion

The performance measures for fiscal year 2008 showed positive results with the exception of one measure, where the target was not met. In total, 69 percent of targets were exceeded, 25 percent were met, and six percent were not met.

Law enforcement, regulatory, and international users indicate that FinCEN's services are valuable. While it is difficult to formalize performance measures and show impact, the performance measures used provide a reasonable indication of FinCEN's progress in achieving its outcome.

The three key measures, *percentage of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial systems, the percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable*, and *the percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable*, provide a reasonable indication of FinCEN's impact. However, the other performance measures are more output oriented, and the link to achieving the outcome is not as distinct.

Moving Forward

FinCEN's future plans are to improve its ability to strengthen financial system security and enhance U.S. national security to achieve the Department's outcome. FinCEN will continue to reach out to the largest fifteen depository institutions in the U.S. and expand this to include additional financial service industries. In order to learn more about their AML programs FinCEN will develop a strategy for more consistent application of the BSA across industries. FinCEN will develop additional memoranda of understanding to exchange information with state regulators, focusing primarily on insurance commissioners. FinCEN will also conduct and publish additional studies promoting greater awareness of emerging money laundering trends and vulnerabilities, while also providing greater clarity to regulated industries regarding their requirements under the BSA.

FinCEN will improve and expand collaborative relationships with investigative and intelligence agencies to exploit SARs to develop proactive evaluations. FinCEN will implement a process to capture and measure analytic product relevance to support law enforcement. FinCEN also plans to increase analyst exchanges and joint analytic activities with partner FIUs, and expand the complexity of FinCEN products provided to international partners, while also increasing outreach to U.S. law enforcement and regulatory agencies to educate them on the benefits provided by the global network of FIUs.

FinCEN will continue information technology modernization. FinCEN has partnered with the IRS to improve IT processes, and reached an agreement on the governance structure and is charting a path forward.

STRATEGIC GOAL: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

STRATEGIC OBJECTIVE:
Enabled and Effective Treasury Department

The Department of the Treasury strives to maintain public trust and confidence through exemplary leadership by creating a culture of excellence, integrity, and teamwork. The Department is dedicated to serving the public interest and focused on delivering results that align with its strategic objectives. Management enables this through a strong institution that is citizen-centered, focused on achieving results, and transparent and accountable to the American people. Strategies to achieve this objective are aligning and managing resources, investing in people and technology, and conducting independent audits and investigations. The Treasury Department is committed to planning and assessing performance, reviewing results, and continuous improvement.

The bureaus and offices responsible for achievement of this objective are:

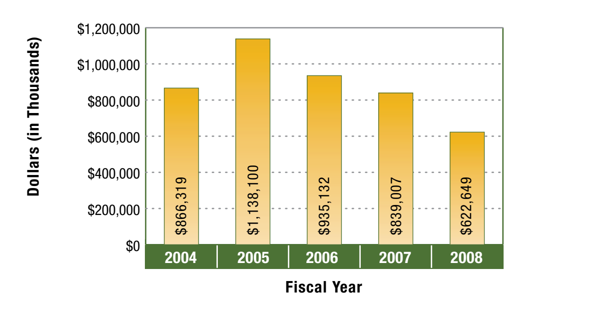
- The Treasury Inspector General for Tax Administration
- Office of the Treasury Inspector General
- Office of the Treasury Assistant Secretary for Management & Chief Financial Officer (ASM/CFO, including Finance, Budget, Planning, Human Capital, Information Technology, Procurement, Privacy, and Operations)

The outcomes associated with this objective are:

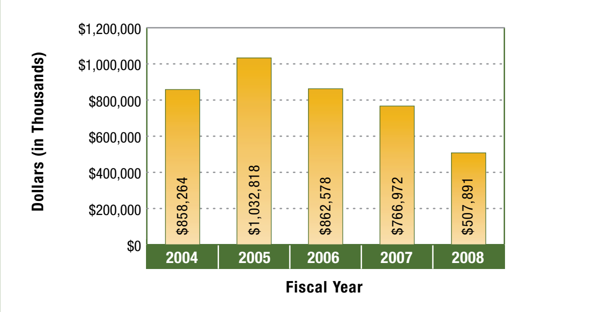
- A citizen-centered, results oriented and strategically aligned organization
- Exceptional accountability and transparency

There are no program evaluations for Treasury management functions.

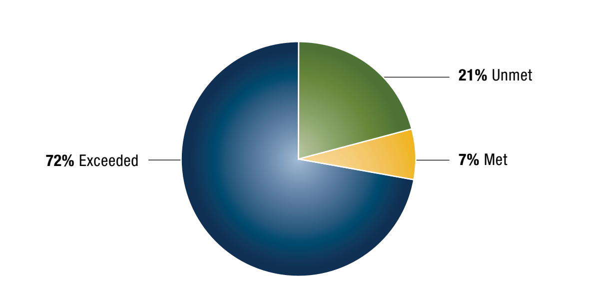
Budget Trend by Objective



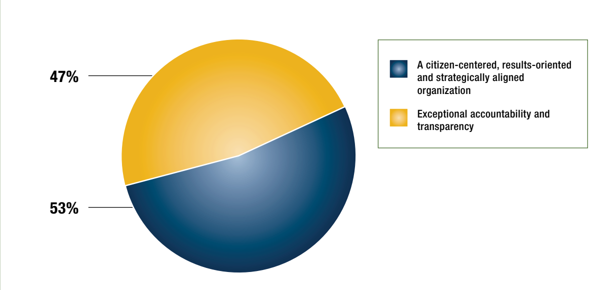
Performance Cost Trend



Enabled and Effective Treasury Department



Performance Cost by Outcome

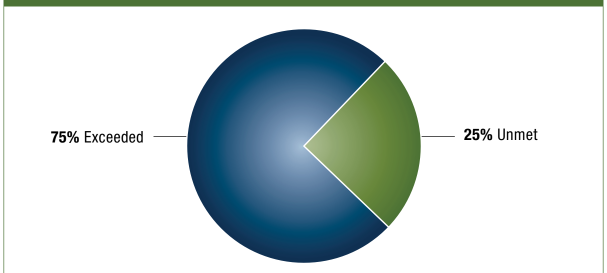


A CITIZEN-CENTERED, RESULTS ORIENTED AND STRATEGICALLY ALIGNED ORGANIZATION

Based on performance results, Treasury succeeded in achieving this outcome for fiscal year 2008.

Fiscal Year 2008 Results

A Citizen-Centered, Results-Oriented and Strategically Aligned Organization



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	3	38%
Favorable downward trend	▼	2	25%
Unfavorable upward trend	▲	2	25%
Unfavorable downward trend	▼	1	13%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	0	0%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		8	100%
Discontinued		3	

Much of management involves staff functions such as finance, procurement, planning, budgeting, human capital, and information technology. These functions critically support bureaus and offices that serve U.S. citizens. Many of Treasury's performance measures are service-oriented, such as:

- Customer Service Representative (CSR) Level of Service (IRS)
- Customer Accuracy - Customer Accounts (IRS)
- Customer Accuracy - Tax Law Phones (IRS)
- National Revenue Center customer satisfaction survey results (TTB)
- Average days to process an original permit (TTB)
- Percentage of retail customer service transactions completed within 12 business days (BPD)
- Increase in the percentage of eligible areas served by a CDFI (CDFI)
- Percentage of customers satisfied with WebCBRS and secure outreach (FinCEN)
- Percentage of customers satisfied with the BSA E-Filing (FinCEN)
- Percentage of FinCEN's Regulatory Resource Center Customers rating the guidance received as understandable (FinCEN)
- The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable (FinCEN)
- The percentage of private industry or financial institution customers finding FinCEN's Suspicious Activity Review (SAR) products valuable (FinCEN)

Analysis of Performance Results

Human Capital

During fiscal year 2008, the Office of the Deputy Assistant Secretary of Human Resources / Chief Human Capital Officer (DASHR/CHCO) began using two performance measures to assess how well employee expectations align with Treasury goals, executive compensation aligns with organization performance, and talent is managed at the Department. The two measures include:

- Results-Oriented Performance Culture System: Evaluates attraction, development, and retention of a high-performance, talented, diverse workforce
- Talent Management System: Evaluates the extent to which Treasury is recognized as a highly desirable employer of choice, offering employees the opportunity to reach their full potential

The first measure *Results-Oriented Performance Culture System* includes the following components:

Component Measure Definition	FY 2008 Actual
Relationship of Senior Executive Service performance ratings and awards, to accomplishment of the agency's strategic goals (measures strategic alignment)	100%
Degree of linkage between all employees' performance appraisal plans and agency mission, goals, and outcomes (measures strategic alignment)	38%
Percent of valid favorable responses from employees in the Federal Human Capital Survey (FHCS) administered by Office of Personnel Management, regarding an agency's achievement of a performance culture (measures results orientation)	54%

The second measure *Talent Management System* includes the following components:

Component Measure Definition	FY 2008 Actual
Competency Gaps Closed in Mission Critical Occupations – the difference between competencies needed by the organization and competencies possessed by employees in the Mission Critical Occupations (measures both results orientation and strategic alignment)	97%
Talent Management Index – a score based on items from the FHCS (measures results orientation)	59%
Employee Job Satisfaction Index - a score based on items from the FHCS	67%

The degree of linkage between employee plans and agency goals was 38 percent. This was largely due to issues associated with the IRS performance management system. The IRS Office of Human Capital is taking appropriate action to address these factors.

This is the first year for these measures. The Department considers these metrics reasonable initial proxies for measuring the human capital element of this outcome. During fiscal year 2008, DASHR/CHCO revised and issued a *Human Capital Strategic Plan for Fiscal Years 2008-2013* that outlines a methodology to recruit, develop and retain a diverse and talented workforce. Additional measures need to be developed to determine the effectiveness the strategies articulated in the plan. DASHR/CHCO also implemented its first human capital operating plan to ensure that steady progress is made towards the goals laid out in the Human Capital Strategic Plan. In combination with the FHCS, these efforts will provide a comprehensive assessment of human capital performance.

Treasury strives to resolve workplace issues in the most fair and constructive fashion. The Department encourages use of the Alternative Dispute Resolution process. Actual performance for the measure *Percent of complainant informally contacting Equal Employment Opportunity (EEO) (for the purpose of seeking counseling or filing a complaint) who participate in the Alternative Dispute Resolution process* was 45 percent, exceeding the target of 30 percent. This represented a 55 percent improvement over fiscal year 2007 actual performance. In light of this performance, 2009 targets should be revisited.

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percent of complainants informally contacting EEO (for the purposes of seeking counseling or filing a complaint) who participate in the Alternative Dispute Resolution process.	DO	30%	45%	150%	Exceeded	30%	▲	▲

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

In 2008 the Department's Office of Civil Rights and Diversity (OCRD) continued its efforts to ensure the Treasury EEO complaint program is managed fairly and effectively. During fiscal Year 2008, the Department issued 316 final agency decisions on complaints of discrimination filed by applicants and employees. Investigations were completed on 407 complaints, taking an average number of 256 days of processing time, showing five percent (improvement/decline) in processing time over fiscal year 2007. OCRD works with the Treasury bureaus to implement methodologies for dispute prevention and early resolution. Alternative Dispute Resolution (ADR) processes also provide for early resolution of EEO complaints. In fiscal year 2008, the Department improved its percentage in ADR participation by 14 percent over 2007.

Information Technology

The Office of the Chief Information Officer (OCIO) provides leadership to the Department and its bureaus in the areas of information and technology management, including development of the Department's IT strategy, management of IT investments, and leadership of key technology initiatives. OCIO facilitates and coordinates the implementation and maintenance of a wide array of applications and networks Department-wide.

In order to help safeguard personal identification information, Treasury has strengthened its networks and applications by:

- Encrypting 99.8 percent of the Department's 61,002 laptops and 99.7 percent of Treasury's 5,946 personal digital assistants
- Testing 98 percent of the system contingency plans, certifying and accrediting 97 percent of Treasury's information systems, and implementing two-factor authentication in the Department's remote system access services
- Strengthening security policies and implementing enhanced safeguards to reduce security exposure to Internet-based threats

Other notable accomplishments included:

- A solid Treasury FISMA Portfolio of IT Systems, collaboratively refined from 738 to 540 in fiscal year 2007 and 504 in fiscal year 2008
- Certification and Accreditation rate of 94 percent fiscal year 2007 and 97 percent fiscal year 2008 for the Treasury Inventory of unclassified systems
- Annual Test of IT Security Controls for 93 percent fiscal year 2007 and 100 percent fiscal year 2008 of Treasury Inventory
- Contingency Plans developed and tested for 93 percent fiscal year 2007 and 98 percent fiscal year 2008 of Treasury Inventory

- National Institute of Standards and Technology compliant Configuration Management Policy in effect for all of Treasury
- IT Security Awareness Training provided to 97 percent fiscal year 2007 and 98 percent fiscal year 2008 of all Treasury employees and contractors
- IT Security Specialty Training provided to 98 percent fiscal year 2007 and 98 percent fiscal year 2008 of all Treasury employees in IT Security roles
- An effective process to monitor progress of all Plans of Action and Milestones recognized as effective by OMB
- A fully deployed and tested back-up capability for the Department's wide-area network

Strategic Sourcing

The Strategic Sourcing program is charged with developing and implementing improvements in acquisition value across the Department. There were three areas of focus in fiscal year 2008: Multi-Function Devices, IT Software, and IT Hardware (Personal Computer's and x86 Based Servers). Successful contracting reduced the cost for these initiatives from $86.5 million to $63 million, with the majority of savings occurring in the IRS.

Performance Management

The Office of Strategic Planning and Performance Management reviews all departmental-level performance measures continually for the strength of the relationship between the desired outcome and what is being measured. These assessments, over time, close the gaps of describing benefits for the people that Treasury serves. Efforts to rationalize measures began in 2005, when approximately 60 percent of measures at the department level were eliminated. Action since the release of the 2007 Treasury Strategic Plan have focused on aligning outcome measures with strategic goals, or in several cases, developing entirely new measures. An example of this was the traction and impact measure that was developed in 2008 for the Office of Technical Assistance in International Affairs.

While progress in measure development and alignment with outcomes is necessary, a tool was needed to provide a corporate, or agency view of overall performance. During 2008, the Department began prototyping a strategic performance scorecard. The scorecard is designed to measure Treasury's performance at achieving strategic outcomes on both an annual and a quarterly basis.

The scorecard is designed to "grade" the performance results for each strategic outcome, based on a percentage of actual performance to target, and on the direction of both actual and target trends over time. The intent of the scorecard is to provide Treasury senior leadership with greater insight into performance across the Department, enable corporate management, and meet the requirements of *Executive Order 13450, Improving Government Program Performance*. The scorecard employs a balanced approach, including information on stakeholder levels of satisfaction, process performance, human capital performance, and both financial and non-financial results. Balanced scorecards are widely used in both the public and private sectors to manage organizational performance and improve strategic management. When used in combination with modern business analytics tools, they provide a powerful way to provide leadership with increased insight into performance.

The Department's vision is to finalize the prototype and implement it on a business analytics tool before the end of fiscal year 2009. The prototype as designed also accommodates a Competitiveness Assessment Process (CAP) that the Department plans to establish. The CAP incorporates a comparison of Department performance against relevant performance benchmarks from the public and private sectors. This process will help the Department improve performance target-setting and goal-setting, and provide impetus that drives the Department into a more deeply-rooted pattern of continuous improvement. Using similar data across multiple performance reporting venues will improve the efficiency and consistency of Treasury performance reporting.

Other accomplishments included:

Each year, the Office of Performance Management and Human Capital work together to provide senior leadership with a Senior Executive Service Organizational Assessment. The intent is to ensure correlation between organizational performance and executive compensation. This process maintains certification for Treasury with the Office of Personnel Management for executive compensation, and has been cited as a best practice by the OMB.

Treasury revised its performance page on its public website to better meet the needs of the public and offer more transparency.

Conclusion

The measures for the citizen-centered, results oriented and strategically aligned organization outcome exceeded their fiscal year 2008 targets. However, the Department acknowledges that work remains to be completed on a suite of new metrics that more directly measure how well this outcome was achieved across all major areas such as human capital, information technology, and financial management.

Moving Forward

In fiscal year 2009, DASHR will continue to focus on strategies for recruiting, developing and retaining a high quality and diverse workforce, ensuring leadership effectiveness through leadership development and succession planning, enhancing human capital workforce metrics, developing human capital action plans, and improving human capital management through feedback from management accountability reviews. Further work on the EEO Audit Program will continue, with audits to be performed on at least two bureaus. The audits will examine the full scope of bureau EEO programs and will make recommendations to improve and strengthen EEO activities. Bureaus will also be assessed for progress in meeting their established disability hiring goals.

Treasury is in process of revising its IT strategic plan to identify the future operating environment and its associated challenges, ranging from cyber security threats to limited resource availability. Strategies will be developed to prioritize Treasury IT spending, leverage existing resources and mitigate vulnerabilities.

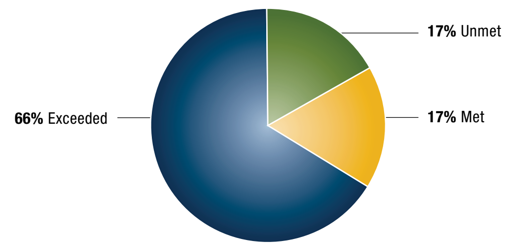
Performance Management will fully develop the performance management scorecard and implement it in fiscal year 2009.

EXCEPTIONAL ACCOUNTABILITY AND TRANSPARENCY

Achieving and maintaining exemplary accountability and transparency is critical for the Treasury Department as the primary financial agency for the U.S. Government. The Department follows proper internal controls that serve to deter and eliminate fraud, waste, and abuse, while increasing efficiency and effectiveness. For fiscal year 2008, Treasury generally met or exceeded its performance targets in providing accountability and transparency.

Fiscal Year 2008 Results

Exceptional Accountability and Transparency



Summary of Actual Trends for the Prior Four Years

Trend	Symbol	Count	%
Favorable upward trend	▲	2	33%
Favorable downward trend	▼	0	0%
Unfavorable upward trend	▲	0	0%
Unfavorable downward trend	▼	3	50%
No change in trend, no effect	▶	0	0%
No change in trend, favorable effect	▶	1	17%
No change in trend, unfavorable effect	▶	0	0%
Baseline	B	0	0%
TOTAL		6	100%
Discontinued		0	

Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available in the Appendix.

Key Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Number of, material weaknesses (Significant Management Problems Identified by Government Accountability Office (GAO), the Inspectors General and/or Bureaus) closed	DO	3	2	67%	Unmet	0	▼	▼
Number of completed audit products	OIG	56	64	114%	Exceeded	60	▲	▲
Percent of statutory audits completed by the required date	OIG	100%	100%	100%	Met	100%	▶	▶
Percentage of audit products delivered when promised to stakeholders	TIGTA	60%	65%	108%	Exceeded	65%	▲	▼
Percentage of recommendations made that have been implemented	TIGTA	80%	85%	106%	Exceeded	83%	▲	▼
Percentage of results from investigative activities	TIGTA	76%	78%	103%	Exceeded	78%	▲	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B

Analysis of Performance Results

Performance for measures assessing accountability and transparency exceeded target levels for 66 percent of measures, met target levels for 17 percent of measures, and did not meet 17 percent of measures for fiscal year 2008. Eighty-three percent of performance targets showed trend improvement and 17 percent showed trend decline. For performance actual results, 33 percent of results showed trend improvement and 67 percent showed trend decline. These results indicate that these programs generally succeeded in achieving their performance goals.

On a Department-wide basis, the measure *Number of Material Weaknesses (Significant Management Problems Identified by GAO, the Inspectors General and/or bureaus) Closed* did not meet expectations, closing two material weaknesses compared to a target of three. However, 2008 performance was not as strong as 2007 when there were no material weaknesses.

The Department of the Treasury has two offices of Inspectors General that provide independent oversight of the Department's activities.

The Treasury Inspector General for Tax Administration (TIGTA) audits and investigates the Internal Revenue Service (IRS) to 1) ensure accountability for more than $2 trillion in tax revenues and 2) that IRS is managed fairly and effectively. Investigative work includes the areas of employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration. During fiscal year 2008, TIGTA met or exceeded 100 percent of its performance measure targets. TIGTA actions potentially impacted approximately 5.7 million taxpayers' accounts and achieved the following year-over-year results:

- Issued 179 audit reports in 2008, as compared with 180 in 2007
- Produced financial accomplishments of $2.4 billion as a result of audits and investigations; this compares with $3.5 billion in financial accomplishments in 2007, a decrease of 31.4 percent

- Cases of employee misconduct in 2008 at 1,569 cases dropped from 2007 cases of 1,663, a decrease of 94 cases or 5.7 percent
- Percentage of investigations generating positive results dropped from 81 percent in 2007 to 78 percent in 2008, a reduction of 3.7 percent
- Cases accepted for criminal prosecution dropped from 206 cases in 2007 to 171 cases in 2008, a notable decrease of 17 percent
- TIGTA opened 434 unauthorized access cases in 2008 versus 521 in 2007, a decrease of 16.7 percent
- Unauthorized access cases closed decreased from 621 cases in 2007 to 491 cases in 2008, a decrease of 20.9 percent
- Personnel actions against IRS employees decreased from 594 actions in 2007 to 471 actions in 2008, a difference of 20.7 percent

Changes from fiscal year 2007 to fiscal year 2008 are the result of the shifting nature of TIGTA's investigative inventory. As the external fraud affecting IRS operations has increased, TIGTA has refocused its investigative activity on external crimes impacting federal tax administration.

The Office of Inspector General (OIG) is responsible for the audit and investigation of all non-IRS Treasury programs and operations. OIG auditors conduct financial, performance, and information technology audits. These audits are intended to save taxpayer dollars, improve the effectiveness and efficiency of Treasury programs and operations, help prevent waste, and detect fraud and abuse in Treasury programs and operations. OIG investigators conduct a variety of investigations, covering financial crimes, corruption, other crimes, and employee misconduct. Fiscal year 2008 results included:

- Completed 100 percent of its statutory audits on time, the same as 2007
- Completed 64 audit products, the same as 2007
- Referred 93 investigations for criminal or civil prosecution, or for administrative action as compared with 188 cases in 2007. However, 70 of the 188 cases were one-time referrals from a GAO public transit subsidy investigation. Adjusting for this outlier, the number of referrals made in fiscal year 2008 is within 89 percent of the target. A management vacancy and a new emphasis on closing older cases accounted for the small shortfall in reaching the target.
- Reviewed 2,588 complaints for potential investigation or inquiry
- Opened 84 new investigations
- Achieved administrative corrective action on 23 investigation cases

The Office of the Deputy Assistant Secretary for Privacy and Treasury Records (PTR) was established in fiscal year 2008, and serves the American public and the Treasury community by setting the standard for the protection, access, and appropriate disclosure of Treasury's information assets. PTR also maintains a Treasury Orders and Directives program that maintains current Departmental policies, activities, and procedures.

The PTR strengthens the Department's privacy programs by combining key privacy functions and elevating the privacy program to directly report to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The realignment of information privacy, civil liberties, records management, library, and disclosure functions into one office promotes an integrated approach to information management and protection across the Department. PTR developed fiscal year 2008 goals and objectives that support PTR core values of service, quality, excellence, and teamwork. The combined efforts of the PTR team ensure that the Treasury community has the knowledge resources needed to serve the public, while strengthening the Department's compliance with privacy and disclosure requirements, safeguarding personally identifiable information, and promoting process transparency, accountability, and timeliness.

Conclusion

For the six performance measures used to gauge the success in achieving this outcome, five were either met or exceeded and one was unmet.

Moving Forward

In fiscal year 2009, TIGTA anticipates major challenges in adapting to the increasingly complex and potentially high-risk issues associated with IRS operations. Some of these issues include: detection and investigation of fraud and electronic crime, procurement activities, taxpayer privacy, increased requests for IRS program reviews from Congress and other IRS stakeholders, investigating crimes involving Electronic Tax Administration and potential security breaches in a growing number of IRS modernized systems. TIGTA plans to continue:

- Performing audit work that balances statutory audit coverage and discretionary audit work
- Addressing major management challenges such as security of the IRS, taxpayer protections and rights, and providing quality taxpayer service
- Monitoring the IRS's modernization efforts to identify problems the IRS may encounter as it implements new programs and information systems
- Investigating complaints of wrongdoing that could potentially impact the integrity of tax administration, including threats to IRS electronic systems and information
- Conducting investigations which concentrate on employee integrity, employee and infrastructure security, and external attempts to corrupt tax administration

As the IRS continues to modernize and automate its operations, TIGTA auditors and investigators must be appropriately trained to operate in this environment. TIGTA initiated the following actions to address these challenges:

- Created of the Office of Inspection and Evaluations to provide TIGTA additional flexibility, capacity and capability to improve tax administration and promote good government. This function was created and staffed entirely by realigning existing resources
- Implemented a bureau-wide electronic learning management system that: 1) assesses current skill levels, and 2) identifies critical skills needed for all major TIGTA occupations. Based on results, TIGTA will develop a strategic recruitment program to fill critical vacancies with the skills needed to carry out increasingly complex oversight activities
- Established TIGTA's first *Senior Executive Service Candidate Development Plan*. The objective of the plan is to identify the actions necessary to promote a greater understanding of the mission and culture of the federal government, and to train outstanding leaders and prepare them for the Senior Executive Service

OIG is developing two new performance measures to gauge the performance of the Investigations budget activity.

OIG will continue to focus its resources on conducting mandatory audit work, including MLR of failed financial institutions. However, due to the demands that the MLR work has placed on OIG resources, OIG expects to perform fewer audits during fiscal year 2009 on other important Treasury programs such as combating terrorist financing and money laundering. Fraud investigations at failed banks are expected to increase over the next three years, and OIG will need to adjust its priorities and resources to accommodate these demands.

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The Department of the Treasury

ANNUAL FINANCIAL REPORT

PART III

MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

November 17, 2008

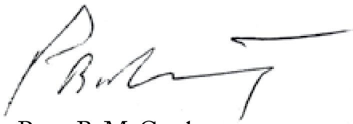
Secretary Paulson's message describes the Department of the Treasury's unprecedented role and expanded responsibilities in helping to stabilize the nation's economy. During the first critical weeks following enactment of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act, Treasury professionals in the areas of procurement, financial management, information technology, human capital, and operations acted swiftly to ensure that these functions were mobilized to support rapid implementation. We anticipate a continuing critical role for these teams in fiscal year 2009 in support of the Troubled Asset Relief Program and the newly established Office of Financial Stability.

During the course of the year, Treasury took a number of steps to strengthen corporate management councils and forums, including bureau head meetings and active Department-wide functional councils headed by the Chief Financial Officer, the Chief Information Officer, the Chief Human Capital Officer, the Senior Procurement Executive, and the Director of Emergency Programs. To strengthen the Department's privacy, governance, disclosure, and record-keeping programs, a new Office of Privacy and Treasury Records was established by combining key functions and elevating the integrated effort to report directly to the Assistant Secretary for Management. The Department also re-energized the E-Board Information Technology Investment Oversight forum to provide increased executive-level strategic direction and scrutiny of major projects, and strengthened corporate management of shared services by initiating an ongoing Working Capital Fund Review Program with participation by all bureaus.

The Department of the Treasury once again received an unqualified audit opinion on its financial statements. We are working diligently to resolve financial systems material weaknesses which are preventing the Department from achieving full compliance with federal financial systems requirements and, along with weaknesses in non-financial areas, result in providing only qualified assurance that the Department is meeting federal financial management and internal control objectives. The Department closed two long-standing material weaknesses in fiscal year 2008, and no new weaknesses were identified, leaving four open material weaknesses as of September 30, 2008. These remaining weaknesses involve complex solutions that will require several years of sustained, hard work to resolve. The last of the Department's material weaknesses is scheduled to be closed in fiscal year 2012. The Department will also need to devote special attention to the Management Challenges outlined by the Department's Inspectors General. These challenges do not necessarily indicate deficiencies in performance; however, they represent inherent risks that must be monitored continuously. This is especially true of the new challenges the Department faces in working to stabilize and improve the distressed financial markets.

In the coming months, as our nation awaits the beginning of a new Administration, the dedicated men and women of the Department of the Treasury will continue to carry out the vital mission of the Treasury Department on behalf of the American people, while making all necessary preparations to support a smooth and effective transition.

Sincerely,



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

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CONSOLIDATED BALANCE SHEETS

As of September 30, 2008 and 2007

(In Millions)

ASSETS	2008	2007
Intra-governmental Assets		
Fund Balance *(Note 2)*	$ 275,368	$ 74,767
Loans and Interest Receivable *(Note 3)*	264,854	236,932
Advances to the Black Lung Trust Fund *(Note 4 and Note 26)*	10,484	10,058
Due From the General Fund *(Note 4)*	10,100,763	9,052,624
Accounts Receivable and Related Interest *(Note 10)*	396	466
Other Intra-governmental Assets	13	32
Total Intra-governmental Assets	**$ 10,651,878**	**$ 9,374,879**
Cash, Foreign Currency, and Other Monetary Assets *(Note 5)*	387,270	92,330
Gold and Silver Reserves *(Note 6)*	11,062	11,062
Loans and Interest Receivable *(Note 3)*	172	175
Credit Program Receivables - Mortgage Backed Securities *(Note 3)*	3,385	0
Investments in Government Sponsored Enterprises *(Note 4, Note 7, and Note 13)*	7,032	0
Investments and Related Interest *(Note 7)*	10,576	10,074
Reserve Position in the International Monetary Fund *(Note 8)*	4,750	4,464
Investments in International Financial Institutions *(Note 9)*	5,546	5,521
Tax, Other, and Related Interest Receivables, Net *(Note 10)*	30,878	27,559
Inventory and Related Property, Net *(Note 11)*	698	638
Property, Plant, and Equipment, Net *(Note 12)*	2,077	2,086
Other Assets *(Note 3)*	1,714	19
Total Assets *(Note 13)*	**$ 11,117,038**	**$ 9,528,807**
Heritage Assets *(Note 12)*		
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable *(Note 4 and Note 14)*	$ 4,262,414	$ 3,974,788
Other Debt and Interest Payable *(Note 14)*	14,164	14,164
Due to the General Fund *(Note 4, Note 5, and Note 22)*	667,112	328,973
Other Intra-governmental Liabilities *(Note 17)*	345	329
Total Intra-governmental Liabilities	**$ 4,944,035**	**$ 4,318,254**
Federal Debt and Interest Payable *(Note 4 and Note 14)*	5,812,694	5,054,250
Certificates Issued to Federal Reserve Banks *(Note 5)*	2,200	2,200
Allocation of Special Drawing Rights *(Note 5)*	7,630	7,627
Gold Certificates Issued to Federal Reserve Banks *(Note 6)*	11,037	11,037
Refunds Payable *(Note 4 and Note 21)*	3,076	1,684
D.C. Pensions and Judiciary Retirement Actuarial Liability *(Note 15)*	8,803	8,992
Other Liabilities *(Note 17, Note 24 and Note 25)*	17,852	3,664
Total Liabilities	**$ 10,807,327**	**$ 9,407,708**
Commitments and Contingencies *(Note 16, Note 24 and Note 26)*		
NET POSITION		
Unexpended Appropriations: Earmarked Funds *(Note 22)*	$ 200	$ 200
Other Funds	271,768	72,117
Subtotal	271,968	72,317
Cumulative Results of Operations: Earmarked Funds *(Note 22)*	37,586	35,385
Other Funds	157	13,397
Subtotal	37,743	48,782
Total Net Position *(Note 18)*	**$ 309,711**	**$ 121,099**
Total Liabilities and Net Position	**$ 11,117,038**	**$ 9,528,807**

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

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2008 and 2007

(In Millions)

	2008	2007
Cost of Treasury Operations: *(Note 19)*		
Financial Program:		
Gross Cost	$ 14,569	$ 13,980
Less Earned Revenue	(2,282)	(2,245)
Net Program Cost	**$ 12,287**	**$ 11,735**
Economic Program:		
Gross Cost	$ 5,339	$ 5,660
Less Earned Revenue	(5,091)	(6,116)
Net Program Cost	**$ 248**	**$ (456)**
Security Program:		
Gross Cost	$ 346	$ 302
Less Earned Revenue	(4)	(2)
Net Program Cost	**$ 342**	**$ 300**
Management Program:		
Gross Cost	$ 631	$ $883
Less Earned Revenue	(165)	(443)
Net Program Cost	**$ 466**	**$ 440**
Total Program Gross Costs:	**$ 20,885**	**$ 20,825**
Total Program Gross Earned Revenues	**(7,542)**	**(8,806)**
Total Net Cost of Treasury Operations	**$ 13,343**	**$ 12,019**
GSE Costs (Entity) *(Note 24)*	$ 13,800	$ 0
Total Net Cost of Treasury Operations plus GSE	**$ 27,143**	**$ 12,019**
Federal Costs: *(Note 19)*		
Federal Debt Interest	$ 453,347	$ 432,153
Less Interest Revenue from Loans	(12,439)	(11,714)
Net Federal Debt Interest Costs	**$ 440,908**	**$ 420,439**
Other Federal Costs *(Note 19)*	$ 8,332	$ 8,863
Less GSE Revenue (non-Entity) *(Note 24)*	(7,032)	0
Net Federal Costs	**$ 442,208**	**$ 429,302**
Net Cost of Treasury Operations, GSE Cost, Federal Debt Interest, Other Federal Costs, and GSE Revenue	**$ 469,351**	**$ 441,321**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2008

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 35,385	$ 13,397	$ 0	$ 48,782
Budgetary Financing Sources:				
Appropriations Used	458	481,277	0	481,735
Non-exchange Revenue	134	144	(24)	254
Donations and Forfeitures of Cash/Equivalent	159	0	0	159
Transfers In/Out Without Reimbursement	0	(10)	0	(10)
Other	38	(26)	0	12
Other Financing Sources (non-exchange)				
Donation/Forfeiture of Property	112	0	0	112
Accrued Interest and Discount on Debt	0	(3,870)	0	(3,870)
Transfers In/Out Without Reimbursement	(52)	31	0	(21)
Imputed Financing Sources	60	1,147	(478)	729
Transfers to the General Fund and Other (Note 18)	(23)	(20,765)	0	(20,788)
Total Financing Sources	**886**	**457,928**	**(502)**	**458,312**
Net Cost of Operations	1,315	(471,168)	502	(469,351)
Net Change	2,201	(13,240)	0	(11,039)
Cumulative Results of Operations	**$ 37,586**	**$ 157**	**$ 0**	**$ 37,743**
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 200	$ 72,117	$ 0	$ 72,317
Budgetary Financing Sources:				
Appropriations Received *(Note 18)*	458	681,015	0	681,473
Appropriations Transferred In/Out	0	24	0	24
Other Adjustments	0	(111)	0	(111)
Appropriations Used	(458)	(481,277)	0	(481,735)
Total Budgetary Financing Sources	**0**	**199,651**	**0**	**199,651**
Total Unexpended Appropriations	**$ 200**	**$ 271,768**	**$ 0**	**$ 271,968**
Net Position	**$ 37,786**	**$ 271,925**	**$ 0**	**$ 309,711**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2007

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 31,614	$ 15,030	$ 0	$ 46,644
Budgetary Financing Sources:				
Appropriations Used	390	446,667	0	447,057
Non-exchange Revenue	109	7	(43)	73
Donations and Forfeitures of Cash/Equivalent	210	0	0	210
Transfers In/Out without Reimbursement	0	(8)	0	(8)
Other	(1)	0	0	(1)
Other Financing Sources (non exchange)				
Donation/Forfeiture of Property	73	0	0	73
Accrued Interest and Discount on Debt	0	7,632	0	7,632
Transfers In/Out Without Reimbursement	(39)	15	0	(24)
Imputed Financing Sources	60	1,172	(492)	740
Transfers to the General Fund and Other *(Note 18)*	205	(12,498)	0	(12,293)
Total Financing Sources	**1,007**	**442,987**	**(535)**	**443,459**
Net Cost of Operations	2,764	(444,620)	535	(441,321)
Net Change	3,771	(1,633)	0	2,138
Cumulative Results of Operations	**35,385**	**13,397**	**0**	**48,782**
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 202	$ 68,068	$ 0	$ 68,270
Budgetary Financing Sources:				
Appropriation Received *(Note 18)*	390	450,832	0	451,222
Appropriations Transferred In/Out	0	27	0	27
Other Adjustments	(2)	(143)	0	(145)
Appropriations Used	(390)	(446,667)	0	(447,057)
Total Budgetary Financing Sources	**(2)**	**4,049**	**0**	**4,047**
Total Unexpended Appropriations	**$ 200**	**$ 72,117**	**$ 0**	**$ 72,317**
Net Position	**$ 35,585**	**$ 85,514**	**$ 0**	**$ 121,099**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2008

(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward	$ 57,450	$ 0	$ 57,450
Recoveries of prior year unpaid obligations	413	0	413
Budget authority:			
Appropriations *(Note 18)*	679,563	0	679,563
Borrowing authority	4	34,304	34,308
Spending Authority from Offsetting Collections			
Earned: Collected	8,705	335	9,040
Change in receivables from Federal sources	(32)	0	(32)
Change unfilled customer orders:			
Advance received	19	0	19
Without advance from Federal sources	(39)	0	(39)
Subtotal	688,220	34,639	722,859
Non-expenditure transfers, net	844	0	844
Temporarily not available pursuant to Public Law	(9)	0	(9)
Permanently not available	(4,626)	(4,767)	(9,393)
Total Budgetary Resources	**$ 742,292**	**$ 29,872**	**$ 772,164**
Status of Budgetary Resources			
Obligations incurred *(Note 20)*: Direct	$ 477,384	$ 5,415	$ 482,799
Reimbursable	4,735	0	4,735
Subtotal	482,119	5,415	487,534
Unobligated Balance: Apportioned	214,114	24,122	238,236
Exempt from apportionment	34,999	0	34,999
Subtotal	249,113	24,122	273,235
Unobligated balance not available	11,060	335	11,395
Total Status of Budgetary Resources	**$ 742,292**	**$ 29,872**	**$ 772,164**
Change in Obligated Balance			
Obligated balance, net:			
Unpaid obligations brought forward, Oct. 1	$ 57,811	$ 0	$ 57,811
Uncollected customer payments from Federal sources brought forward	(418)	0	(418)
Total unpaid obligated balance, net	**57,393**	**0**	**57,393**
Obligations incurred, net	482,119	5,415	487,534
Gross outlays	(482,199)	(5,409)	(487,608)
Recoveries of prior year unpaid obligations, actual	(413)	0	(413)
Change uncollected customer payments Federal source	71	0	71
Obligated balance, net, end of period:			
Unpaid obligations	57,318	6	57,324
Uncollected customer payments Federal sources	(347)	0	(347)
Total unpaid obligated balance, net, end of period	**56,971**	**6**	**56,977**
Net Outlays			
Gross outlays	482,199	5,409	487,608
Offsetting collections	(8,194)	(335)	(8,529)
Distributed offsetting receipts	(16,211)	0	(16,211)
Net Outlays	**$ 457,794**	**$ 5,074**	**$ 462,868**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2007

(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward	$ 57,540	$ 0	$ 57,540
Recoveries of prior year unpaid obligations	474	0	474
Budget authority:			
Appropriations *(Note 18)*	465,200	0	465,200
Borrowing authority	11	0	11
Spending Authority from Offsetting Collections			
Earned: Collected	9,937	0	9,937
Change in receivables from Federal sources	(66)	0	(66)
Change unfilled customer orders: Advance received	17	0	17
Without advance from Federal sources	(125)	0	(125)
Subtotal	474,974	0	474,974
Non-expenditure transfers, net	25	0	25
Temporarily not available pursuant to Public Law	90	0	90
Permanently not available	(10,123)	0	(10,123)
Total Budgetary Resources	**$ 522,980**	**$ 0**	**$ 522,980**
Status of Budgetary Resources			
Obligations incurred *(Note 20)*: Direct	$ 460,999	$ 0	$ 460,999
Reimbursable	4,531	0	4,531
Subtotal	465,530	0	465,530
Unobligated Balance: Apportioned	13,525	0	13,525
Exempt from apportionment	32,930	0	32,930
Subtotal	46,455	0	46,455
Unobligated balance not available	10,995	0	10,995
Total Status of Budgetary Resources	**$ 522,980**	**$ 0**	**$ 522,980**
Change in Obligated Balance			
Obligated balance, net:			
Unpaid obligations brought forward, Oct. 1	$ 53,057	$ 0	$ 53,057
Uncollected customer payments from Federal sources brought forward	(609)	0	(609)
Total unpaid obligated balance, net	**52,448**	**0**	**52,448**
Obligations incurred, net	465,530	0	465,530
Gross outlays	(460,302)	0	(460,302)
Recoveries of prior year unpaid obligations, actual	(474)	0	(474)
Change uncollected customer payments Federal source	191	0	191
Obligated balance, net, end of period:			
Unpaid obligations	57,811	0	57,811
Uncollected customer payments Federal sources	(418)	0	(418)
Total unpaid obligated balance, net, end of period	**57,393**	**0**	**57,393**
Net Outlays			
Gross outlays	460,302	0	460,302
Offsetting collections	(8,192)	0	(8,192)
Distributed offsetting receipts	(16,040)	0	(16,040)
Net Outlays	**$ 436,070**	**$ 0**	**$ 436,070**

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

STATEMENTS OF CUSTODIAL ACTIVITY

For the Years Ended September 30, 2008 and 2007

(In Millions)

	2008	2007
Sources of Custodial Revenue *(Note 21)*:		
Revenue Received		
Individual Income and FICA Taxes	$ 2,294,326	$ 2,201,464
Corporate Income Taxes	354,063	395,320
Estate and Gift Taxes	29,824	26,978
Excise Taxes	66,293	67,766
Railroad Retirement Taxes	4,939	4,718
Unemployment Taxes	7,331	7,416
Deposit of Earnings, Federal Reserve System	33,598	32,043
Fines, Penalties, Interest and Other Revenue	2,233	3,084
Total Revenue Received	**$ 2,792,607**	**$ 2,738,789**
Less Refunds	(426,074)	(292,684)
Net Revenue Received	**$ 2,366,533**	**$ 2,446,105**
Accrual Adjustment	3,132	5,588
Total Custodial Revenue	**$ 2,369,665**	**$ 2,451,693**
Disposition of Custodial Revenue:		
Amounts Provided to Fund Non-Federal Entities	407	486
Amounts Provided to Fund the Federal Government *(Note 21)*	2,366,126	2,445,619
Accrual Adjustment	3,132	5,588
Total Disposition of Custodial Revenue	**$ 2,369,665**	**$ 2,451,693**
Net Custodial Revenue	**$ 0**	**$ 0**

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

NOTES TO THE FINANCIAL STATEMENTS

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Note #

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 Department), one of 24 CFO Act 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 Department was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts affected the development of the Treasury Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Treasury Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the 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; collecting income and excise taxes; representing the United States on international monetary, trade, and investment issues; overseeing Departmental overseas operations; and directing the manufacturing of coins, currency, and other products for customer agencies and the public.

In September 2008, the Treasury Department began a number of emergency economic measures relating to the economy which involved various financing programs. Key initiatives effective for fiscal year 2008 involved programs concerning two Government Sponsored Enterprises (GSE), provision of a credit facility for GSEs and Federal Home Loan Banks, purchase of Mortgage Backed Securities, and setup of a Money Market Insurance Program (Notes 24 and 25).

The Treasury Department includes the 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 (TFF), Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), Federal Financing Bank (FFB), and the DO policy offices. In addition, the Air Transportation Stabilization Board (ATSB) was also part of the DO reporting entity for the year ended September 30, 2007. The ATSB was set up to administer the temporary emergency program to assist air carriers that were in need of funds as a result of the terrorist attacks on the United States that occurred on September 11, 2001. The ATSB program was terminated at September 30, 2007. To close out its remaining budgetary resources during fiscal year 2008, ATSB returned $3.5 million of unexpended appropriations to the General Fund of the United States. In fiscal year 2008 the management of the Treasury Franchise Fund was transferred from the Departmental Offices (DO) to the Bureau of the Public Debt (BPD).

The 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).

The Treasury Department's financial statements reflect the reporting of its own entity activities, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. Government and others. Non-entity activities include collecting 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. The Treasury Department'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 the Treasury Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the Treasury Department in conformity with accounting principles generally accepted in the United States for federal entities, and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* as amended. 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 Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal year 2008 and fiscal year 2007 information.

While these financial statements have been prepared from the books and records of the Treasury Department 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 of expenditure 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 the Treasury Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of the Treasury Department. 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. The Treasury Department values inventories at either standard cost or lower of cost or latest acquisition cost except for finished goods inventories, which are valued at weighted average unit cost. All operating materials and supplies are recorded as an expense when consumed in operations.

Forfeited property is recorded at estimated fair market value at the time of seizure 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 assessed 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 recognized if the forfeited property is ultimately destroyed or cannot be legally sold.

E. Loans and Interest Receivable – Entity and Non-Entity

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

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

These advances were retired on October 7, 2008, under the refinancing agreement authorized by the enactment of the Energy Improvement and Extension Act of 2008 on October 3, 2008. The Act gave authority to the Black Lung Disability Trust Fund to issue obligations to the Secretary of the Treasury and gave authority to the Secretary of the Treasury to purchase the obligations. The repayable advances were retired with the proceeds from these obligations as a one time appropriation to the Trust Fund (Note 26).

G. Property, Plant, and Equipment

Property, plant, and equipment (PP&E) is composed of capital assets used in providing goods or services. It also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception. PP&E is stated at full cost, including costs related to acquisition, delivery, and installation, less accumulated depreciation. Major alterations and renovations including leasehold and land improvements are capitalized, while maintenance and repair costs are charged to expenses as incurred.

Internal use software encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. Costs for developing internal use software are accumulated in work in development until a project is placed into service, and testing and final acceptance are successfully completed. Once completed, the costs are transferred to depreciable property.

Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) cost, plus applied overhead and other indirect costs.

The Treasury Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties. Therefore, GSA-owned properties are not included in the Department's PP&E.

The Treasury Department's bureaus are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy provides minimum capitalization thresholds which range from $25,000 to $50,000. The Treasury Department 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 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.

Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements, which are depreciated over the useful life of the lease or the useful life of the improvement, whichever is shorter. Service life ranges are high due to the Treasury Department's diversity of PP&E. Construction in progress and internal use software in development are not depreciated.

The Treasury Department 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 Department building are capitalized as general PP&E and depreciated over their service life.

H. Federal Debt

Debt and associated interest are reported on the accrual basis of accounting. Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long term securities and the straight line method for short term securities. The Department of the Treasury also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

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

The Treasury Department 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 the Treasury Department.

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

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Treasury Department automatically contributes one percent of base pay and matches any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, the Treasury Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Treasury Department contributes 11.2 percent for regular FERS employees.

Similar to federal retirement plans, OPM, rather than the Treasury Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. The Treasury Department reports the full cost of providing other retirement benefits (ORB). The Treasury Department 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, the Treasury bureaus, OCC and 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 Exchange Stabilization Fund (ESF) was established for use by the Secretary of the Treasury to account for the purchase or sale of foreign currencies, to hold U.S. foreign exchange and Special Drawing Rights (SDR) assets, and to provide financing to foreign governments. SDR transactions of the ESF require the explicit authorization of the Secretary of the Treasury. The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Banks in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDR from other countries or to provide resources for financing other ESF operations. Certificates issued are to be redeemed by the Treasury Department 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 Department 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 Department 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. The Treasury Department also incurs certain costs that are paid in total or in part by other federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations and transfers of assets without reimbursements also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Treasury Department 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 the Treasury Department's Statement of Custodial Activity includes cash collected by the Treasury Department, 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 Statements of Custodial Activity is presented on the "modified accrual basis." Revenues are recognized as cash is collected. The "accrual adjustment" is the net increase or decrease, during the reporting period, in net revenue related-assets and liabilities, mainly taxes receivable. The Balance Sheets include an estimated amount for taxes receivable and payable to the General Fund of the U.S. Government at September 30, 2008 and September 30, 2007.

N. Tax Assessments and Abatements

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

O. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custodial activity of the Treasury Department, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

The Treasury Department 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 the Treasury Department's liability and would be reported on the Treasury Department's Balance Sheet. Permanent indefinite authority for debt activity is available for an indefinite period of time.

Additionally, the Treasury Department 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 parties as the result of certain claims and judgments rendered against the United States.

P. Income Taxes

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

Q. Use of Estimates

The Treasury Department 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. Major items subject to estimates include loan receivables (including Mortgage Backed Securities); investments in non-federal securities (including Freddie Mac and Fannie Mae); taxes receivables; depreciation; money market insurance liability; liability for liquidity commitment (Freddie Mac and Fannie Mae); imputed costs; actuarial liabilities; cost and earned revenue allocations; contingent legal liabilities; and credit reform subsidy costs (Notes 3 and 24).

The Treasury recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses continual review of model factors, statistical modeling, and annual re-estimates to reflect the most accurate cost of the credit programs to the U.S. Government. Two of the emergency economic programs that Treasury implemented in the latter part of September 2008, the purchase program for Mortgage Backed Securities (MBS) and the Government

Sponsored Enterprise credit line facility , both operate under the provisions of credit reform and the use of estimates as dictated by the Federal Credit Reform Act (Notes 3 and 24). Further, the assumptions underlying the estimated future liquidity payments to the GSE's are subject to a high level of market volatility, such that actual future payments may differ significantly from current estimates due to changing circumstances. The Troubled Asset Relief Program described further in subsequent event Note 26 will also require the use of sophisticated estimates.

The Treasury used the following methodologies for valuation of the investment in GSE:

Common Stock Warrants: The Black-Scholes Option Model (1973) was used to affirm that the value of the warrants is insensitive to the usual option input variables, including time to expiration and stock volatility, and that the value per warrant share is nominally less than the trading price at September 30, 2008.

Senior Preferred Stock: These shares were valued based on an interpolation of market prices during the five trading days prior to the announcement of the Keepwell Agreement for (i) Fannie Mae and Freddie Mac subordinated debt, as adjusted for the tax advantages of stock dividends compared with taxable interest, and (ii) Fannie Mae and Freddie Mac preferred stock.

R. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counter party to perform in accordance with underlying contractual obligations. The Treasury Department 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 Department 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, the Treasury Department expectations of credit losses is nominal.

The Treasury Department also takes on credit risk related to committed but undisbursed direct loans, its liquidity commitment to Government Sponsored Enterprises, its mortgage-backed securities portfolio, its insurance of non-FDIC insured money market funds, and its Terrorism Risk Insurance Program. Except for the Terrorism Risk Insurance Program, these activities focus on the underlying problems in the credit markets, and the ongoing turbulence in those markets exposes the Department to potential costs and losses. The extent of the risk assumed by the Treasury Department is described in more detail in the notes to the financial statements, and where applicable factored into credit reform models.

S. Earmarked Funds

Treasury has accounted for revenues and other financing sources for earmarked funds separately from other funds. This method was adopted in accordance with the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, which became effective October 1, 2007. This standard amended SFFAS No. 7, *Revenue and Other Financing Sources*, by:

- Elaborating the special accountability needs associated with dedicated collections;
- Separating dedicated collections into two categories – earmarked funds and fiduciary activity; and
- Defining, and providing accounting and reporting guidance for earmarked funds.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes. SSFAS No. 27 defines the following three criteria for determining an earmarked fund: (1) A statute committing the Federal Government to use specifically identified revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; (2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguished the earmarked fund from the Federal Government's general revenues.

T. Allocation Transfers

The Treasury Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Beginning in fiscal year 2007, parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. The Treasury Department had no significant allocation transfers to report in fiscal years 2008 and 2007.

The Treasury Department allocates funds, as the parent, to the Department of Energy. OMB allows certain exceptions to allocation reporting for certain funds. Accordingly, the Treasury Department has reported certain funds for which the Treasury Department is the child in the allocation transfer, but in compliance with OMB Circular No. A-136 (see II.4.2 question 5 for three exceptions), will report all activities relative to these allocation transfers in the Treasury Department's financial statements. The Treasury Department receives allocation transfers, as the child, from the Agency for International Development.

U. Credit Reform Accounting

The authoritative guidance for the credit reform portion of these statements are contained primarily in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* as amended by SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees,* SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees.* This guidance was promulgated as a result of the Federal Credit Reform Act (FCRA) of 1990.

The FCRA requires that the ultimate costs of a credit program be calculated, and the budgetary resources obtained, before the direct loan obligations are incurred. The cost of loan guarantee programs is the net present value of the estimated future cash flows from payments (for claims, interest rate subsidies). The primary purpose of the FCRA, which became effective on October 1, 1991, is to more accurately measure the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending.

SFFAS No. 2, which generally mirrors the requirements of the FCRA, established guidance for estimating the cost of direct and guaranteed loan programs, as well as for recording direct loans and liability for loan guarantees for financial reporting purposes. SFFAS No. 2 states that the actual and expected costs of federal credit programs should be fully recognized in both budgetary and financial reporting. To accomplish this, agencies first predict or estimate the future performance of direct and guaranteed loans when preparing their annual budgets. The data used for these budgetary estimates are re-estimated after the fiscal year-end to reflect changes in actual loan performance and actual interest rates in effect when the loans were issued. The re-estimate data are then used to report the cost of the loans disbursed under the direct or guaranteed loan program as a "Program Cost" in the agencies' Statement of Net Cost.

The FCRA establishes budgetary and financing control for each credit program through the use of the program, financing and negative subsidy receipt accounts for direct loans obligated after September 30, 1991. The FCRA establishes the use of the program, financing, and general fund receipt for direct loans obligated after September 30, 1991 (Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program accounts and receipt accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury Bureau of the Public Debt, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Government General Fund.

V. Investments

Treasury records investments in non-federal financial securities at acquisition cost at the date of purchases in accordance with OMB A-136. Disclosure of market values are made as of year end and any permanent impairment is recorded.

2. FUND BALANCE

Fund Balance with Treasury is the aggregate amount of the Treasury Department's accounts with the U.S. Government's central accounts from which the Treasury Department is authorized to make expenditures and pay liabilities. It is an asset because it represents the Treasury Department'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, 2008 and September 30, 2007, fund balances consisted of the following (in millions):

	2008	2007
Appropriated Funds (see Note 24)	$ 272,561	$ 72,897
Revolving Funds	1,837	912
Trust Funds	2	8
Clearing Funds	26	10
Deposit Funds	587	542
Special Funds	299	395
Other Funds (Receipts and Suspense Funds)	56	3
Total Fund Balances	**$ 275,368**	**$ 74,767**

As of September 30, 2008 and September 30, 2007, the status of fund balances consisted of the following (in millions):

Status of Fund Balance with Treasury	2008	2007
Unobligated Balance – Available (see Note 24)	$ 242,939	$ 17,843
Unobligated Balance – Unavailable	11,395	10,995
Obligated Balance not yet Disbursed	56,868	57,310
Subtotal	**$ 311,202**	**$ 86,148**
Adjustment for Non-Budgetary Funds	669	556
Adjustment for Borrowing Authority	(29,810)	(5,716)
Adjustment for Intra-Treasury Investments	(5,530)	(5,280)
Adjustment for Imprest Funds	(4)	(4)
Adjustment for Other Budgetary Resources Not in Fund Balance – Cash and Other Assets	(4,838)	(4,616)
Authority Unavailable for Obligation	3,679	3,679
Total Status of Fund Balance	**$ 275,368**	**$ 74,767**

For ESF, the above balances only include unobligated balances related to the ESF insurance program that began in fiscal year 2008. Otherwise, ESF does not have Fund Balance with Treasury. Accordingly, while other ESF balances are included on the Statement of Budgetary Resources (SBR), they are not a component of Fund Balance with Treasury. The ESF balances displayed on the SBR include components of cash, foreign currency, and other monetary assets (Note 5).

As of September 30, 2008 and September 30, 2007, the Treasury Department did not have any budgetary authority in Fund Balance with Treasury 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 the Treasury Department 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 line of credit held on the U.S. Quota in the International Monetary Fund.

3. LOANS, INTEREST RECEIVABLE AND CREDIT PROGRAM RECEIVABLES - MORTGAGE BACKED SECURITIES

Loans and Interest Receivable:

As of September 30, 2008 and September 30, 2007, intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

Entity Intra-governmental:

	Loans Receivable	Interest Receivable	2008 Total	Loans Receivable	Interest Receivable	2007 Total
Executive Office of the President	$ 680	$ 8	$ 688	$ 836	$ 9	$ 845
Department of Agriculture	26,326	50	26,376	25,604	300	25,904
United States Postal Service	7,200	1	7,201	4,200	3	4,203
General Services Administration	2,098	37	2,135	2,151	38	2,189
Department of Housing and Urban Development	691	84	775	791	96	887
Department of Education	338	3	341	315	4	319
Department of Defense	17	0	17	70	1	71
National Credit Union Administration	1,109	0	1,109	0	0	0
Other Agencies	18	0	18	25	1	26
Subtotal-Entity	**$ 38,477**	**$ 183**	**$ 38,660**	**$ 33,992**	**$ 452**	**$ 34,444**

The FFB 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 FFB. 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 FFB has not incurred and does not expect to incur any credit-related losses on its loans and accordingly, has not recorded an allowance for uncollectable intra-governmental loans.

Non-Entity Intra-governmental:

	Loans Receivable	Interest Receivable	2008 Total	Loans Receivable	Interest Receivable	2007 Total
Department of Agriculture	$ 51,192	$ 9	$ 51,201	$ 49,133	$ 64	$ 49,197
Department of the Interior	323	393	716	345	513	858
Federal Communications Commission	113	0	113	106	0	106
Department of Veterans Affairs	1,575	0	1,575	1,047	27	1,074
Railroad Retirement Board	3,096	69	3,165	2,945	73	3,018
Small Business Administration	9,463	0	9,463	11,366	0	11,366
Department of Housing and Urban Development	4,832	0	4,832	4,573	0	4,573
Department of Energy	2,186	20	2,206	2,241	(8)	2,233
Department of Education	128,331	0	128,331	103,973	0	103,973
Export Import Bank of the U. S.	2,929	0	2,929	4,364	0	4,364
Department of Homeland Security	17,360	359	17,719	17,787	367	18,154
Other Agencies	3,944	0	3,944	3,545	27	3,572
Subtotal Non-Entity	**$ 225,344**	**$ 850**	**$ 226,194**	**$ 201,425**	**$ 1,063**	**$ 202,488**
Total Intra-governmental Loans and Interest Receivable Entity and Non-Entity			**$ 264,854**			**$ 236,932**

BPD accounts for and reports on the principal borrowings from and repayments to the General Fund of the United States for approximately 80 funds managed by other federal agencies, as well as the related interest due to the General Fund. These agencies are statutorily authorized to borrow from the General Fund, through BPD, to make loans for a broad range of purposes, such as education, housing, farming, and small business support.

Entity and Non-Entity Non-Federal:

As of September 30, 2008 and September 30, 2007, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	Non-entity	2008 Total	Entity	Non-entity	2007 Total
Direct Loans	$ 62	$ 128	$ 190	$ 63	$ 131	$ 194
Interest Receivable	0	2	2	1	2	3
Less: Allowance and Subsidy Cost	(20)	0	(20)	(22)	0	(22)
Total Non-Federal Loans and Related Interest Receivable	**$ 42**	**$ 130**	**$ 172**	**$ 42**	**$ 133**	**$ 175**

Other 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.

Credit Program Receivables

In fiscal year 2008, the Treasury Department began a program to support the availability of mortgage financing for millions of Americans and to mitigate pressures on mortgage rates. Under this program, Treasury purchases GSE MBS in the open market (note 24). This program is accounted for under credit reform accounting.

MBS Purchase Program:

Congress granted Treasury authority to purchase mortgage-backed securities (MBS) issued by Government Sponsored Enterprises (GSEs) in the Housing and Economic Recovery Act of 2008. The authority expires on December 31, 2009. To promote stability in the mortgage market, Treasury's makes MBS purchases in the open market. GSE MBS are credit-guaranteed by the GSEs and Treasury plans to hold its portfolio of MBS to maturity unless, based on mortgage market conditions, sales are necessary. This program was implemented to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. By purchasing these securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability. The scale of the program will be based on developments in the capital markets and housing markets.

The MBS program is accounted for under the provisions of the Federal Credit Reform Act, section 13201 of the Omnibus Budget Reconciliation Act of 1990, P.L. No. 101-508, dated November 5, 1990. Treasury develops subsidy estimates, re-estimates, and rates based on anticipated cash flows from the purchases of MBS. Factors that impact these cash flows and the subsidy rate include the interest coupons on the securities, the discount or premium paid at the time of purchase, the speed of mortgage prepayments, and the probability of GSE failure. A positive subsidy reflects the cost to the Government of the program and a negative subsidy reflects earnings on the program. The fiscal year 2008 GSE MBS subsidy rate was negative, indicating Treasury expects to earn a return on its investments in these securities.

As of September 30, 2008, the Treasury agent responsible for MBS purchases was in receipt of $1,689 million that was recorded as an advance which accounts for the increase, in other assets, in fiscal year 2008 to $1,714 million. This amount was to purchase MBS, however, the purchases were not made until after September 30, 2008.

GSE Credit Facility program:

Congress granted Treasury authority to make credit available to GSE in the Housing and Economic Recovery Act of 2008. The GSE credit facility program (GSECF) will offer liquidity if needed until December 31, 2009. This will ensure credit availability to the GSEs and provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program if needed. Funding will be provided directly by Treasury in exchange for eligible collateral from the GSEs which will be limited to guaranteed mortgage-backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the Federal Home Loan Banks. All such assets pledged against loans will be accepted with appropriate collateral margins as determined by Treasury. Loan requests will require approval from Treasury and verification that adequate collateral has been pledged.

The GSECF program is accounted for under the provisions of the Federal Credit Reform Act, section 13201 of the Omnibus Budget Reconciliation Act of 1990, P.L. No. 101-508, dated November 5, 1990. Treasury develops subsidy estimates, re-estimates, and rates based on anticipated cash flows from the credit facility. Factors that impact these cash flows and the subsidy rate include the interest rate on loans and the probability of GSE failure. A positive subsidy reflects the cost to the Government of the program and a negative subsidy reflects earnings on the program. The GSECF was not utilized in fiscal year 2008 and no loans were made.

Direct MBS Purchase Program and GSE Credit Facility Obligated *(in millions)*:

Programs	Loan Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loan
MBS	$ 3,311	$ 0	$ 0	$ 74	$ 3,385
Credit Facility	0	0	0	0	0
Total Obligated	**$ 3,311**	**$ 0**	**$ 0**	**$ 74**	**$ 3,385**

Total amount of MBS purchases and GSE Credit Facility Disbursed *(in millions)*:

Programs	Current Year
MBS	$ 3,311
Credit Facility	0
Total Obligated	$ **3,311**

Subsidy Expense Fiscal Year 2008 *(in millions)*:

Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
MBS	$ (62)	$ 8	$ 0	$ 0	$ (54)
Credit Facility	0	0	0	0	0
Total Subsidy Expense	**$ (62)**	**$ 8**	**$ 0**	**$ 0**	**$ (54)**

Total MBS Purchases and GSE Credit Facility Subsidy Expense *(in millions)*:

Programs	Fiscal Year 2008
MBS	$ (54)
Credit Facility	0
Total	$ **(54)**

Subsidy Rates for MBS Purchases and GSE Credit Facility, Budget subsidy rates for programs in the current year cohorts *(in dollars)*:

Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
MBS, Cohort 2008	$ (1.86)	$ 0.24	$ 0	$ 0	$ (1.62)
Credit Facility	0	0	0	0	0
Total Subsidy rates	**$ (1.86)**	**$ 0.24**	**$ 0**	**$ 0**	**$ (1.62)**

Schedule for Reconciling Subsidy Cost Allowance Balances *(in millions)*:

	2008
Beginning Balances, Changes, and Ending Balance	
Beginning Balance of the subsidy cost allowance	$ 0
Add: subsidy expense for disbursements:	
(a) Interest rate differential cost	(62)
(b) Default Costs (net of recoveries)	8
(c) Fees and other collections	0
(d) Other subsidy costs	0
Total of the above subsidy expense components	(54)
Adjustments:	
(a) Loan Modifications	0
(b) Fees received	0
(c) Foreclosed property acquired	0
(d) Loans written off	0
(e) Subsidy allowance amortized	(20)
Ending Balance subsidy cost allowance before re-estimates	(74)
Add or subtract subsidy re-estimates by component:	
(a) Interest rate re-estimate	0
(b) Technical default re-estimate	0
Total of the above re-estimate components	0
Ending balance of the subsidy cost allowance	**$ (74)**

4. DUE FROM THE GENERAL FUND AND DUE TO THE GENERAL FUND

The Treasury Department 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 the Treasury Department 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, 2008 and September 30, 2007, Due from and Due to the General Fund, included the following non-entity assets and liabilities (in millions):

Liabilities Requiring Funding from the General Fund:	**2008**	**2007**
Federal Debt and Interest Payable	$ 5,812,694	$ 5,054,250
Federal Debt and Interest Payable - Intra-governmental	4,262,414	3,974,788
Refunds Payable	3,076	1,684
Adjustment for Eliminated Liabilities	22,579	21,902
Total Due from the General Fund	**$ 10,100,763**	**$ 9,052,624**
Assets to be Distributed to the General Fund:		
Fund Balance	$ 215	$ 222
Advances to the Black Lung Trust Fund	10,484	10,058
Cash Held by the Treasury (Note 5)	364,594	70,347
Foreign Currency	31	91
Custodial Gold and Silver held by the U.S. Mint without certificates	25	25
Loans and Interest Receivable - Intra-governmental	226,194	202,488
Loans and Interest Receivable	130	133
Investments in GSEs (Note 24)	7,032	0
Accounts Receivable - Intra-governmental	372	368
Tax and Other Non-Entity Receivables	30,489	27,395
Miscellaneous Assets	12	9
Adjustment for Eliminated Assets	27,534	17,837
Total Due to the General Fund	**$ 667,112**	**$ 328,973**

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 and Interest Payable. 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 $30,878 million in Tax, Other, and Related Interest Receivables as of September 30, 2008 ($27,559 million as of September 30, 2007). However, only $30,489 million is reported as Due to the General Fund of the U.S. Government ($27,395 million as of September 30, 2007). The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. Government, and miscellaneous entity receivables (Note 10).

5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, foreign currency, and other monetary assets held as of September 30, 2008 and September 30, 2007 were as follows (in millions):

Entity:	2008	2007
Cash	$ 19	$ 32
Foreign Currency	12,758	12,081
Other Monetary Assets:		
Special Drawing Rights	9,464	9,363
Other	88	153
Subtotal - Entity	**$ 22,329**	**$ 21,629**
Non-Entity:		
Operating Cash of the U.S. Government (see Note 24)	$ 364,273	$ 69,701
Foreign Currency	31	91
Miscellaneous Cash held by all Treasury sub-components	637	909
Subtotal - Non-Entity	**$ 364,941**	**$ 70,701**
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 387,270**	**$ 92,330**

Non-entity Operating Cash and Other Cash of the U.S. Government held by Treasury disclosed above consisted of the following (in millions):

	2008	2007
Operating Cash of the U.S. Government	$ 39,209	$ 69,797
Operating Cash - Federal Reserve Account (see Note 24)	332,480	5,539
Subtotal	**$ 371,689**	**$ 75,336**
Outstanding Checks	(7,416)	(5,635)
Total Operating Cash of the U.S. Government	**364,273**	**69,701**
Other Cash	386	700
Subtotal	**364,659**	**70,401**
Amounts Due to the Public	(65)	(54)
Total Cash Due to the General Fund (See Note 4)	**$ 364,594**	**$ 70,347**

Entity

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), Special Drawing Rights (SDR), and forfeited cash. SDR and FCDA are valued as of September 30, 2008 and September 30, 2007, using current exchange rates plus accrued interest, at September 30, 2008 and 2007. "Other" includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York.

The foreign currency holdings are normally invested in interest bearing securities issued by or held through foreign governments or monetary authorities. FCDA with original maturities of three months or less, were valued at $9.3 billion as of September 30, 2008 ($7.6 billion as of September 30, 2007). Other FCDA with maturities greater than three months are also held. As of September 30, 2008, FCDA with maturities greater than three months were valued at $3.5 billion ($4.5 billion as of September 30, 2007).

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

The Special Drawing Rights Act of 1968 authorizes the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued for the purpose of financing the acquisition of SDR from other countries or to provide resources for the financing of the Treasury Department's ESF activities. Certificates issued are to be redeemed by the Treasury Department at such times and in such amounts as the Secretary of the Treasury may determine. As of September 30, 2008, the value of the certificates issued to Federal Reserve Banks amounted to $2.2 billion ($2.2 billion as of September 30, 2007).

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 SDR) are revalued monthly based on the SDR valuation rate calculated by the IMF.

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

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

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Treasury Department's commitment related to SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDR were made on January 1, 1970, 1971, 1972, 1979, 1980, and 1981. Since 1981, the IMF has made no further allocations of SDR. As of September 30, 2008, the amount of SDR holdings of the United States was the equivalent of $ 9.4 billion and the amount of SDR allocations to the United States was the equivalent of $ 7.6 billion. As of September 30, 2007, the amount of SDR holdings of the United States was the equivalent of $ 9.3 billion and the amount of SDR allocations to the United States was the equivalent of $7.6 billion.

During fiscal year 2008, the Treasury Department received remuneration on the U.S. reserve position in the IMF, at the prevailing rates, in the amount of $59 million equivalent of SDR ($107 million equivalent of SDR during fiscal year 2007), and paid the General Fund of the Federal Government $0.01 million ($0.5 million in fiscal year 2007) 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 the Treasury Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromises which are maintained as the result of the Treasury Department's tax collecting responsibilities.

The Operating Cash of the U.S. Government represents balances from tax collections, other revenues, federal debt receipts, 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.

On September 18, 2008, the BPD began issuing specific cash management bills to fund the Supplementary Financing Program (SFP). The SFP is a temporary program that was announced by the Treasury Department and the Federal Reserve on September 17, 2008. The purpose of the program is to provide emergency cash for the Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. As of September 30, 2008, there were a total of eight cash management bills outstanding that totaled $300 billion (Notes 14, 24, and 25).

Operating Cash of the U.S. Government is either insured (for balances up to $100,000), as of September 30, 2008, by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institutions and held by the Federal Reserve Banks, or through securities held under reverse repurchase agreements.

6. GOLD AND SILVER RESERVES, AND GOLD CERTIFICATES ISSUED TO FEDERAL RESERVE BANKS

The Treasury Department is responsible for safeguarding most of the U.S. Government's gold and silver reserves in accordance with 31 USC 5117. The consolidated Balance Sheets also reflect the value of the gold being held in the Federal Reserve Bank of New York (FRBNY).

Gold reserves being held by the Treasury Department 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. The Treasury Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Treasury Department at the legal standard value established by law. Upon issuance of Gold Certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Treasury Department's certificates issued are payable to the Federal Reserve.

The deep storage gold and silver reserves are reported at the values stated in 31 U. S. C. § 5116 and § 5117 (statutory rates) which are $42.2222 per fine troy ounce (FTO) of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. The gold and silver reserves are in the custody of the U.S. Mint and FRBNY. The U.S. Mint holds gold and silver reserves without certificates (Note 4). As of September 30, 2008 and September 30, 2007, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/08 Statutory Value	Market Rate	9/30/08 Market Value
Gold	248,046,116	$ 42.2222	$ 10,473	$ 884.50	$ 219,397
Gold Held by Federal Reserve	13,452,784	42.2222	568	884.50	11,899
Subtotal - Gold	**261,498,900**		**$ 11,041**		**$ 231,296**
Silver	16,000,000	$ 1.292929292	$ 21	$ 12.96	$ 207
Total Gold and Silver Reserves			**$ 11,062**		**$ 231,503**

	FTOs	Statutory Rate	9/30/07 Statutory Value	Market Rate	9/30/07 Market Value
Gold	248,046,116	$ 42.2222	$ 10,473	$ 743.00	$ 184,298
Gold Held by Federal Reserve	13,452,784	42.2222	568	743.00	9,996
Subtotal - Gold	**261,498,900**		**$ 11,041**		**$ 194,294**
Silver	16,000,000	$ 1.292929292	$ 21	$ 13.65	$ 218
Total Gold and Silver Reserves			**$ 11,062**		**$ 194,512**

7. INVESTMENTS AND RELATED INTEREST

Investments in U.S. Government securities held by Treasury Department entities have been eliminated against the federal debt liability for financial reporting purposes (Note 4). The ESF holds most of the Treasury Department's other investments. Securities that the Treasury Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. Foreign investment holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities (Note 5).

As of September 30, 2008 and September 30, 2007, entity investments in foreign investment holdings consisted of the following (in millions):

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/08 Investment Balance	9/30/08 Market Value
Euro Bonds & Notes	$ 4,477	$ 29	$ 4,506	$ 115	$ 4,621	$ 4,641
Japanese Government Bonds	5,908	3	5,911	11	5,922	5,935
Other Investments	39	(6)	33	0	33	33
Total Non-Federal	**$ 10,424**	**$ 26**	**$ 10,450**	**$ 126**	**$ 10,576**	**$ 10,609**

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/07 Investment Balance	9/30/07 Market Value
Euro Bonds & Notes	$ 4,338	$ 52	$ 4,390	$ 113	$ 4,503	$ 4,462
Japanese Government Bonds	5,520	9	5,529	8	5,537	5,538
Other Investments	40	(6)	34	0	34	34
Total Non-Federal	**$ 9,898**	**$ 55**	**$ 9,953**	**$ 121**	**$ 10,074**	**$ 10,034**

On September 7, 2008 the Treasury Department entered into senior preferred stock purchase agreements with each GSE. In exchange for entering into these agreements, Treasury Department initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share and (2) warrants for the purchase at a nominal cost of 79.9percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028 (Note 24). The GSE preferred stock and warrants for common stock were valued (Notes 1Q and 24) as of the initial date at cost of $7,032 million and also valued at September 30, 2008 at $12,374 million. As of September 30, 2008, GSE investments consisted of the following (in millions):

GSE Investment	Cost/ Appraisal Value	Unamortized (Premium) Discount	Net Investment	Interest Receivable	9/30/08 Investment Balance	9/30/08 Appraisal Value
Fannie Mae Sr. Preferred Stock	$ 840	$ 0	$ 840	$ 0	$ 840	$ 741
Freddie Mac Sr. Preferred Stock	824	0	824	0	824	727
Fannie Mae Warrants Common Stock	3,104	0	3,104	0	3,104	6,507
Freddie Mac Warrants Common Stock	2,264	0	2,264	0	2,264	4,399
Total GSE Investment	**$ 7,032**	**$ 0**	**$ 7,032**	**$ 0**	**$ 7,032**	**$ 12,374**

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 SDR, 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 the Treasury Department and maintained by the FRBNY, represents the bulk of the IMF's holdings of dollars. Approximately one quarter of one percent of the U.S. quota is maintained in cash balances in an IMF account at FRBNY.

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

As of September 30, 2008 and 2007, the U.S. quota in the IMF was 37.1 billion SDR, valued at approximately $57.8 billion. The quota consisted of the following (in millions):

	2008	2007
Letter of Credit [1]	$ 53,012	$ 53,212
U.S. Dollars Held in Cash by the IMF [1]	88	152
Reserve Position [2]	4,750	4,464
U.S. Quota in the IMF	**$ 57,850**	**$ 57,828**

[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 SDR, 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. The Treasury Department 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, 2008, the annual settlement with the IMF resulting from the depreciation of the dollar against the SDR since April 30, 2007, called for an upward adjustment of the U.S. quota by $3.4 billion and a corresponding decrease to Unexpended Appropriations on the Statement of Changes in Net Position (At April 30, 2007, the depreciation of the dollar against the SDR since April 30, 2006, called for an upward adjustment of the U.S. quota by $1.793 billion and a corresponding decrease to Unexpended Appropriations.) The dollar balances shown above for the U.S. quota include accrued valuation adjustments. At September 30, 2008, the

Treasury Department recorded a net deferred valuation loss in the amount of $15.5 million for deferred maintenance of value adjustments needed at year end ($258.2 million valuation gain at September 30, 2007).

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 to pay the remuneration. There was no deduction in the remuneration paid by the IMF as a result of burden-sharing during fiscal years 2008 or 2007. For fiscal years 2008 and 2007, the Treasury Department received $59 million and $107 million as remuneration (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 fiscal year 2008 and fiscal year 2007. 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, 2008 and September 30, 2007, this amounted to $10.5 billion and $10.4 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

The Treasury Department participates in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, and transition to market economies and sustainable economic growth and development, thereby advancing the United States' economic, political, and commercial interests abroad. The MDB consist of the World Bank Group (International Bank for Reconciliation and 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, 2008 and September 30, 2007, investments in international financial institutions consisted of the following (in millions):

	2008	2007
African Development Bank	$ 172	$ 172
Asian Development Bank	458	458
European Bank for Reconstruction and Development	633	624
Inter-American Development Bank	1,482	1,480
International Bank for Reconstruction and Development	1,985	1,985
International Finance Corporation	569	569
Multilateral Investment Guarantee Agency	45	45
North American Development Bank	202	188
Total	**$ 5,546**	**$ 5,521**

Refer to Note 16 for a description of the contingent liability related 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. In addition to amounts attributed to taxes, interest income due on monies deposited in Federal Reserve Banks is also included in this line item.

As of September 30, 2008 and September 30, 2007, Tax, Other, and Related Interest Receivables, and Net, consisted of the following (in millions):

Non-Entity:	**2008**	**2007**
IRS Federal Tax Receivable, Gross	$ 112,067	$ 98,016
Less: Allowance on Taxes Receivable	(83,046)	(72,007)
Receivable, Deposit of Earnings, Federal Reserve	1,465	1,291
Other Receivables and Interest	28	105
Less: Allowance on Other and Related Interest Receivable	(19)	(6)
Total Tax, and Other Non-Entity Receivables, Net	**$ 30,495**	**$ 27,399**
Entity:		
Miscellaneous Entity Receivables and Related Interest	383	160
Total Tax, Other and Related Interest Receivables, Net	**$ 30,878**	**$ 27,559**

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. The Treasury Department 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 the Treasury Department under the Contract Disputes Act ($368 million of the $396 million and $364 million of the $466 million displayed on the balance sheet for 2008 and 2007, respectively). Other federal agencies are required to reimburse the Treasury Department for payments made on their behalf, related to the Contract Disputes Act and the No Fear Act. These amounts are a receivable on the Treasury Department'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. The Treasury Department's operating materials and supplies are maintained for the production of bureau products. The Treasury Department 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, 2008 and September 30, 2007, inventory and related property consisted of the following (in millions):

	2008	2007
Operating materials and supplies held for use	$ 16	$ 15
Operating materials and supplies held in reserve for future use	24	23
Forfeited property	100	85
Inventory – raw materials	355	288
Inventory – work in process	86	117
Inventory – finished goods	135	121
Allowance for inventories and related property	(18)	(11)
Total Inventories and Related Property, Net	**$ 698**	**$ 638**

12. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2008 and September 30, 2007, property, plant, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2008 Net Book Value
Buildings, structures, and facilities	S/L	3 - 50 years	$ 669	$ (297)	$372
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,376	(2,608)	768
Construction in progress	N/A	N/A	35	0	35
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2 -10 years	1,151	(664)	487
Internal use software in development	N/A	N/A	205	0	205
Assets under capital lease	S/L	2 - 25 years	30	(20)	10
Leasehold improvements	S/L	2 - 25 years	580	(392)	188
Total			**$ 6,058**	**$ (3,981)**	**$ 2,077**

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2007 Net Book Value
Buildings, structures, and facilities	S/L	3 - 50 years	$ 658	$ (276)	$ 382
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,271	(2,503)	768
Construction in progress	N/A	N/A	27	0	27
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2-10 years	1,116	(564)	552
Internal use software in development	N/A	N/A	148	0	148
Assets under capital lease	S/L	2 - 25 years	25	(12)	13
Leasehold improvements	S/L	2 - 25 years	526	(342)	184
Total			**$ 5,783**	**$ (3,697)**	**$ 2,086**

The service life ranges vary significantly due to the diverse nature of PP&E held by the Treasury Department.

Heritage Assets

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

13. NON-ENTITY ASSETS

As of September 30, 2008 and September 30, 2007, non-entity assets consisted of the following (in millions):

Intra-governmental Assets:	**2008**	**2007**
Fund Balance (Note 2)	$ 889	$ 874
Loans and Interest Receivable (Note 3)	226,194	202,488
Accounts Receivable and Related Interest (Note 10)	372	367
Advances to the Black Lung Trust Fund (Note 4)	10,484	10,058
Due from the General Fund (Note 4)	10,100,763	9,052,624
Total Non-Entity Intra-governmental Assets	**$ 10,338,702**	**$ 9,266,411**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	364,941	70,701
Gold and Silver Reserves (Note 6)	11,062	11,062
Loans and Interest Receivable (Note 3)	130	133
Investments in Government Sponsored Enterprises (Note 7)	7,032	0
Tax, Other, and Related Interest Receivable, Net (Note 10)	30,495	27,399
Miscellaneous Assets	12	9
Total Non-Entity Assets	**$ 10,752,374**	**$ 9,375,715**

Non-entity assets are those that are held by the Treasury Department but are not available for use by the Treasury Department. For example, Non-entity fund balance with Treasury represents unused balances of appropriations received by various Treasury Department 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 the Treasury Department on behalf of the U.S. Government. These loans are provided to federal agencies, and the Treasury Department 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 the Treasury Department. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments.

On September 18, 2008, the Bureau of Public Debt began issuing specific cash management bills to fund the Supplementary Financing Program (SFP). The SFP is a temporary program that was announced by the Treasury Department and the Federal Reserve on September 17, 2008. The purpose of the program is to provide emergency cash for the Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. The balance listed above of $364,941 million for 2008 is an increase over $70,701 million in 2007 as a result of the program. As of September 30, 2008, there were a total of eight cash management bills outstanding that totaled $300 billion (Notes 5, 14, 24, and 25).

14. FEDERAL DEBT AND INTEREST PAYABLE

The Treasury Department 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 the Treasury Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

The federal debt as of September 30, 2008 and September 30, 2007 was as follows (in millions):

	2008	2007
Intra-governmental		
Beginning Balance	$ 3,922,548	$ 3,628,701
New Borrowings/Repayments	257,022	293,847
Subtotal at Par Value	**4,179,570**	**3,922,548**
Premium/(Discount)	32,489	3,672
Interest Payable Covered by Budgetary Resources	50,355	48,568
Total	**$ 4,262,414**	**$ 3,974,788**

	2008	2007
Owed to the Public		
Beginning Balance	$ 5,049,305	$ 4,843,121
New Borrowings/Repayments	759,386	206,184
Subtotal at Par Value	**5,808,691**	**5,049,305**
Premium/(Discount)	(36,124)	(39,441)
Interest Payable Covered by Budgetary Resources	40,127	44,386
Total	**$ 5,812,694**	**$ 5,054,250**

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 the Treasury Department 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 fiscal year 2008 was 4.83percent (5.1percent in fiscal year 2007).

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, 2008 and September 30, 2007 was as follows (in millions):

	2008	2007
Social Security Administration	$ 2,367,138	$ 2,182,091
Office of Personnel Management	797,107	762,013
Department of Defense Agencies	335,672	288,456
Department of Health and Human Services	380,540	361,294
All Other Federal Entities - Consolidated	299,113	328,694
Total Federal Debt Held by Federal Entities	**$ 4,179,570**	**$ 3,922,548**

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

Federal Debt Held by the Public

As of September 30, 2008 and September 30, 2007, Federal Debt held by the Public consisted of the following:

(at par value, in millions)	Term	Average Interest Rates	2008
Marketable:			
Treasury Bills	1 Year or Less	1.6%	$ 1,484,332
Treasury Notes	2 - 10 Years	4.1%	2,623,364
Treasury Bonds	Over 10 Years	7.1%	578,504
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.0%	523,951
Total Marketable			**$ 5,210,151**
Non-Marketable	On Demand to Over 10 Years	4.1%	598,540
Total Federal Debt (Public)			**$ 5,808,691**

(at par value, in millions)	Term	Average Interest Rates	2007
Marketable:			
Treasury Bills	1 Year or Less	4.6%	$ 954,607
Treasury Notes	2 - 10 Yearss	4.4%	2,456,100
Treasury Bonds	Over 10 Years	7.4%	560,922
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.3%	456,776
Total Marketable			**4,428,405**
Non-Marketable	On Demand to Over 10 Years	4.9%	620,900
Total Federal Debt (Public)			**$ 5,049,305**

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

The Treasury Department 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, 2008 and 2007, respectively. Treasury bills are issued with a term of one year or less.

The Treasury Department 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, 2008 and 2007. Treasury notes are issued with a term of 2 to 10 years and Treasury bonds are issued with a term of more than 10 years. The Treasury Department also issues inflation–indexed securities (TIPS) that have interest and redemption payments, which are tied to the Consumer Price Index, a widely used measurement of inflation. TIPS are issued with a term of five years or more. 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.

Over the course of fiscal year 2008, changes in economic conditions, financial markets, and fiscal policy as well as a reduction in nonmarketable debt issuance have caused an increase in Treasury's marketable borrowing needs. Financial market strains have impacted the real economy, and the nation has experienced lower economic growth, lower receipts, and increased outlays. Treasury has responded to the increase in marketable borrowing requirements by increasing issuance sizes of regular bills, the frequency, terms, and issuance sizes of cash management bills, and the issuance sizes of nominal coupon security offerings.

Federal Debt Held by the Public includes federal debt held outside of the U. S. Government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, and foreign governments and central banks. As of September 30, 2008, the FRB owned $221 billion, net of $256 billion in securities lent to dealers, for total holdings of $477 billion. As of September 30, 2007, the FRB owned $775 billion, net of $5 billion in securities lent to dealers, for total holdings of $780 billion. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

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 percent to 5.62 percent, and the maturity dates range from June 30, 2009 to June 30, 2019. Borrowings began in 2005.

15. D.C. PENSIONS AND JUDICIARY RETIREMENT ACTUARIAL 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. To fulfill its responsibility, Treasury manages two funds — the D.C. Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund), and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). The Treasury Department is required to make annual amortized payments from the General Fund of the U.S. Government to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long-term assumptions selected by the Treasury Department. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

D.C. Federal Pension Fund

The purpose of the D.C. Federal Pension Fund is 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 amount paid into the D.C. Federal Pension Fund from the General Fund of the U.S. Government was $340.2 million for fiscal year 2008 ($345.4 million during fiscal year 2007). As of September 30, 2008, the unobligated budgetary resources of the D.C. Federal Pension Fund were approximately $3,564 million, and the pension actuarial liability was $8,641 million, resulting in an unfunded liability of $5,077 million. (As of September 30, 2007, the unobligated budgetary resources of the D.C. Federal Pension Fund were approximately $3,565 million, and the pension actuarial liability was $8,842 million, resulting in an unfunded liability of $5,277 million.) In fiscal year 2008, the assumption for the annual rate of investment return in fiscal year 2009 is 4.7percent for the D.C. Federal Pension Fund with a gradual increase to 6.0percent by fiscal year 2014; and the assumption for the future annual rate of inflation and future cost-of-living adjustments is 3.5percent. In fiscal year 2007, the assumption for the annual rate of investment return for the D.C. Federal Pension Fund in fiscal year 2008 was 4.7percent with a gradual increase to 6percent by fiscal year 2013; and the assumption for the future annual rate of inflation and future cost-of-living adjustments was 3.5percent. In fiscal year 2008, the assumption for the future annual rate of salary increases is 6.5percent for police officers and firefighters (also 6.5percent during fiscal year 2007), and 5.5percent for teachers (also 5.5percent during fiscal year 2007).

Judicial Retirement Fund

The purpose of the Judicial Retirement Fund is to make federal benefit payments and pay necessary administrative expenses for the Judges' Retirement Plans for all benefits earned. The amount paid into the Judicial Retirement Fund from the General Fund of the U.S. Government will be $6.98 million for fiscal year 2008 ($7.4 million during fiscal year 2007). As of September 30, 2008, the unobligated budgetary resources of the Judicial Retirement Fund were approximately $118.5 million, and the pension actuarial liability was $161.6 million, resulting in an unfunded liability of $43.1 million. (as of September 30, 2007, the unobligated budgetary resources of the Judicial Retirement Fund were approximately $114.3 million, and the pension actuarial liability was $150.1 million, resulting in an unfunded liability of $35.8 million.) In fiscal year 2008, the assumption for the annual rate of investment return for the Judicial Retirement Fund in fiscal year 2009 is 5.2percent for the Judicial Retirement Fund with a gradual increase to 6.0percent by fiscal year 2015; and the assumption for the future annual rate of inflation and future cost-of-living adjustments is 3.5percent. In fiscal year 2007, the assumption for the future annual rate of investment return for the Judicial Retirement Fund was 6percent; and the assumption for the future annual rate of inflation and future cost-of-living adjustments was 3.5percent. In fiscal year 2008, the assumption for the future annual rate of salary increases is 3.5percent for judges. This assumption is unchanged from fiscal year 2007.

16. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and claims including equal opportunity matters which may ultimately result in settlements or decisions adverse to the Federal Government. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. Treasury has one contingent liability in fiscal year 2008 related to the legal action taken on the case, American Council of the Blind and Others, where losses are determined to be probable and amounts can be estimated. The Department has disclosed contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by the Treasury's Judgment Fund which is separate from the operating resources of the Department. For those cases related to awards under federal anti-discrimination and whistleblower protection acts, Treasury must reimburse the Judgment Fund from future appropriations.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of legal actions, individually or in the aggregate, will not have a materially adverse effect on the Department's financial statements, except for the legal actions described below.

Pending Legal Actions

- ***The American Council of the Blind and Others:*** Plaintiffs have filed suit against the Department under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2006, a judge ruled that the current U.S. currency design violates this Act and this ruling was appealed. In 2008, the United States Court of Appeals for the District of Columbia Circuit affirmed this ruling. No monetary damages were awarded by the Court. However, the Department is required to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note.) The Court ordered such changes shall be completed, in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of these changes will be incorporated into future currency redesign costs, no redesign costs have been accrued in the accompanying financial statements as of September 30, 2008 and 2007.

  The judge in the above mentioned case also has ordered that the parties confer and attempt to negotiate attorney fees and costs to be awarded the plaintiffs. A preliminary attorney fee and cost estimate of $800,000 is included in other accrued liabilities. However, updated information has changed this figure to a range of $900,000 to $1,200,000.

- ***Amidax Trading Group v. S.W.I.F.T.:*** Allegations have been made that S.W.I.F.T. unlawfully disclosed information to the U.S. Government. We have no opinion as to the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- ***Cobell et al. v. Kempthorne et al. (formerly Cobell v. Norton):*** Native Americans allege that the Department of Interior and the Treasury Department have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. On August 7, 2008, a Federal District Court issued an opinion awarding $455 million to the plaintiffs. The opinion is not a final order, and both parties have petitioned for the right to appeal. The Department of the Interior is also a defendant in this case and will be reporting this case in their financial statements.

- ***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 the Treasury Department as a defendant. It is not possible at this time to determine the likelihood of an unfavorable outcome or an estimate of the amount or range of any potential loss. The Department of the Interior is also a defendant in these cases.

- ***Other Legal Actions:*** The Department is also involved in employment related legal actions (*e.g.*, Discrimination, Equal Employment Opportunity Commission, Merit System Protection Board, etc.) which were reported to have a "reasonably possible" chance of being decided in the plaintiff's favor. However, an estimate of potential loss cannot be determined at this time. It is not expected that these cases will have a material effect on Treasury's financial position or results.

There are also other legal actions pending where the ultimate resolution of the legal actions, for which the possibility of loss could not be determined, may materially affect Treasury's financial position or results. As of September 30, 2008, three legal claims amounting to approximately $156.5 million existed for which the possibility of loss could not be determined.

Other Contingencies

Multilateral Development Banks (MDB): The Treasury Department has subscribed to capital for certain MDB, portions of which are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the Treasury Department subscriptions. As of September 30, 2008 and September 30, 2007, U.S. callable capital in MDB was as follows (in millions):

	2008	2007
African Development Bank	$ 1,634	$ 1,602
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,805	1,805
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	22,641	22,641
Multilateral Investment Guarantee Agency	301	301
North American Development Bank	1,275	1,275
Total	**$ 62,254**	**$ 62,222**

Terrorism Risk Insurance Program: The Terrorism Risk Insurance Act (TRIA or the Act) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. The Act helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. 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. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the Federal Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the Federal Government. The Act also gives Treasury authority to recoup federal payments made under the Program through policyholder surcharges under certain circumstances and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism.

The original TRIA program was to expire on December 31, 2005, but the Program was extended through December 31, 2007, by the Terrorism Risk Insurance Extension Act of 2005 (Extension Act). This law included the following significant changes: it reduced the Federal role in terrorism risk insurance markets by increasing insurer deductibles and excluding certain types of previously covered insurance. The Extension Act also reduced the Federal Government's share of insured losses and added a "Program Trigger" provision which precludes federal payments unless insured losses from a certified act of terrorism exceeds $100 million.

On December 26, 2007, the President signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2007 (Reauthorization Act) extending the Program through December 31, 2014. The Reauthorization Act, among other Program changes, revised the definition of "Act of Terrorism" to remove the certification requirement that the act be committed by an individual acting on behalf of a foreign person or foreign interest; revised the provisions of the Act with regard to the cap on annual liability for insured losses of $100 billion; and established deadlines by which recoupment of federal payments made under the Program would have to be accomplished.

17. LIABILITIES

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2008 and September 30, 2007, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2008	2007
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:		
Federal Debt Principal, Premium/Discount (Note 14)	$ 4,212,059	$ 3,926,220
Other Intra-governmental Liabilities	105	105
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources	**$ 4,212,164**	**$ 3,926,325**
Federal Debt Principal, Premium/Discount (Note 14)	5,772,567	5,009,864
D.C. Pensions Liability (Note 15)	5,120	5,313
Other Liabilities	1,085	1,037
Total Liabilities Not Covered by Budgetary and Other Resources	**$ 9,990,936**	**$ 8,942,539**

Other Liabilities

Total "Other Liabilities" displayed on the Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources.

The amounts displayed of $17,852 million and $3,664 million, respectively, at September 30, 2008 and September 30, 2007, consisted of the following (in millions):

	2008		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 45	$ 57	$ 102
Accounts Payable	76	0	76
Other Accrued Liabilities	165	2	167
Total Intra-governmental	**$ 286**	**$ 59**	**$ 345**
With the Public			
GSE Quarter Ended 9/30/08 Keepwell Payable (Note 24)	$ 13,800	$ 0	$ 13,800
Actuarial Federal Workers Compensation Program Liability (FECA)	0	594	594
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	526	0	526
Accrued Funded Payroll and Benefits	424	0	424
Capital Lease Liabilities	4	1	5
Accounts Payable and Other Accrued Liabilities	2,460	43	2,503
Total with the Public	**$ 17,214**	**$ 638**	**$ 17,852**

	2007		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 44	$ 58	$ 102
Accounts Payable	46	21	67
Other Accrued Liabilities	158	2	160
Total Intra-governmental	**$ 248**	**$ 81**	**$ 329**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	$ 0	$ 573	$ 573
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	573	0	573
Accrued Funded Payroll and Benefits	402	0	402
Capital Lease Liabilities	2	5	7
Accounts Payable and Other Accrued Liabilities	2,045	64	2,109
Total with the Public	**$ 3,022**	**$ 642**	**$ 3,664**

18. 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 recorded 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 Statement of Federal Financial Accounting Standards (SFFAS No. 7).

Transfers to the General Fund and Other

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statements 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 $13.5 billion and $12.4 billion, for the year ended September 30, 2008 and year ended September 30, 2007, respectively and $7.032 billion for the value of the GSE stock transactions for the year ended September 30, 2008. The interest revenue is accrued on inter-agency loans held by the Treasury Department 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 Department bureaus.

The Treasury Department 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 for the amount distributed to the General Fund by an insignificant amount due to timing differences.

Seigniorage in the amounts of $728.6 million and $1,032 million was recognized, respectively, for the year ended September 30, 2008 and year ended September 30, 2007. Distributions to the General Fund, including seigniorage, and numismatic profit amounted to $750 million and $825 million, respectively, for the years ended September 30, 2008 and September 30, 2007.

19. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS

The Treasury Department's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of the Treasury Department'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 SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* 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.

In fiscal year 2008, the management of the Treasury Franchise Fund (BPF) was transferred from the Departmental Offices (DO) to the Bureau of the Public Debt (BPD). Accordingly, BPF is included with BPD for fiscal year 2008 reporting. For comparative purposes, this resulted in an increase in amounts reported under the Management Program for BPD in fiscal year 2008 and a decrease in the amounts reported for DO.

In fiscal year 2008, BPD began consolidating BPF. It should be noted that the 2008 Consolidated Statement of Net Cost by Treasury Sub-organization DO includes BPF, in fiscal year 2007 statement it is included in BPD. This change has an immaterial effect on the statement.

In fiscal year 2008, the Treasury Department began incurring costs in association with the intervention programs with GSEs. The amount reflected in the Statement of Net Cost for 2008 is $13,800 million. This is the expense portion of the quarter ended September 30, 2008 Keepwell payment to ensure liquidity of Freddie Mac. There was no payment anticipated or accrued for Fannie Mae.

The Treasury Department'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 the Treasury Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury Department sub-organizations.

OMB Circular No. A-136, *Financial Reporting Requirements,* requires that the presentation of the Statements of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, the Treasury Department has presented the gross costs and earned revenues by the applicable mission goals in the Treasury Department's fiscal years 2007–2012 Strategic Plan.

Other federal costs for the years ended September 30, 2008 and September 30, 2007 consisted of the following (in millions):

	2008	2007
Credit Reform Interest on Uninvested Funds (Intra-governmental)	$ 5,043	$ 4,632
Resolution Funding Corporation	1,393	1,987
Judgment Claims and Contract Disputes	786	1,222
Corporation for Public Broadcasting	448	464
Legal Services Corporation	347	350
All Other Payments	315	208
Total	**$ 8,332**	**$ 8,863**

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

Fiscal Year Ended September 30, 2008 Program Costs:	Bureau of Engraving and Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	$ 0	$ 71	$ 1,392	$ 0	$ 202	$ 4,107	$ 0
Less: Earned Revenue	0	(15)	(2,009)	0	(159)	(72)	0
Intra-governmental Net Costs	0	56	(617)	0	43	4,035	0
Gross Costs with the public	0	256	373	0	1,120	8,441	0
Less: Earned Revenue	0	(10)	(1)	0	0	(287)	0
Net Costs with the public	0	246	372	0	1,120	8,154	0
Net Cost: Financial Program	**0**	**302**	**(245)**	**0**	**1,163**	**12,189**	**0**
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	81	0	462	0	0	0	78
Less: Earned Revenue	(8)	0	(811)	0	0	0	(10)
Intra-governmental Net Costs	73	0	(349)	0	0	0	68
Gross Costs with the public	449	0	1,740	0	0	0	1,958
Less: Earned Revenue	(509)	0	(1,529)	0	0	0	(2,063)
Net Costs with the public	(60)	0	211	0	0	0	(105)
Net Cost: Economic Program	**13**	**0**	**(138)**	**0**	**0**	**0**	**(37)**
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	139	58	0	0	0
Less: Earned Revenue	0	0	(18)	(2)	0	0	0
Intra-governmental Net Costs	0	0	121	56	0	0	0
Gross Costs with the public	0	0	171	52	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	171	52	0	0	0
Net Cost: Security Program	**0**	**0**	**292**	**108**	**0**	**0**	**0**
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	51	143	0	0	0	0
Less: Earned Revenue	0	(237)	(224)	0	0	0	0
Intra-governmental Net Costs	0	(186)	(81)	0	0	0	0
Gross Costs with the public	0	207	300	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	207	300	0	0	0	0
Net Cost: Management Program	**0**	**21**	**219**	**0**	**0**	**0**	**0**
Net Cost of Treasury Operations	**$ 13**	**$ 323**	**$ 128**	**$ 108**	**$ 1,163**	**$ 12,189**	**$ (37)**

Fiscal Year Ended September 30, 2008 Program Costs:	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2008 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 13	$ 5,785	$ (1,442)	$ 4,343
Less: Earned Revenue	0	0	0	(2,255)	272	(1,983)
Intra-governmental Net Costs	0	0	13	3,530	(1,170)	2,360
Gross Costs with the public	0	0	36	10,226	0	10,226
Less: Earned Revenue	0	0	(1)	(299)	0	(299)
Net Costs with the public	0	0	35	9,927	0	9,927
Net Cost: Financial Program	**0**	**0**	**48**	**13,457**	**(1,170)**	**12,287**
ECONOMIC PROGRAM:						
Intra-governmental Gross Costs	96	34	13	764	(409)	355
Less: Earned Revenue	(27)	(14)	0	(870)	845	(25)
Intra-governmental Net Costs	69	20	13	(106)	436	330
Gross Costs with the public	584	217	36	4,984	0	4,984
Less: Earned Revenue	(710)	(254)	(1)	(5,066)	0	(5,066)
Net Costs with the public	(126)	(37)	35	(82)	0	(82)
Net Cost: Economic Program	**(57)**	**(17)**	**48**	**(188)**	**436**	**248**
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	197	(74)	123
Less: Earned Revenue	0	0	0	(20)	16	(4)
Intra-governmental Net Costs	0	0	0	177	(58)	119
Gross Costs with the public	0	0	0	223	0	223
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	223	0	223
Net Cost: Security Program	**0**	**0**	**0**	**400**	**(58)**	**342**
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	194	(70)	124
Less: Earned Revenue	0	0	0	(461)	296	(165)
Intra-governmental Net Costs	0	0	0	(267)	226	(41)
Gross Costs with the public	0	0	0	507	0	507
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	507	0	507
Net Cost: Management Program	**0**	**0**	**0**	**240**	**226**	**466**
Net Cost of Treasury Operations	**$ (57)**	**$ (17)**	**$ 96**	**$ 13,909**	**$ (566)**	**$ 13,343**

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

Fiscal Year Ended September 30, 2007 Program Costs:	Bureau of Engraving and Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	$ 0	$ 76	$ 1,395	$ 0	$ 171	$ 3,967	$ 0
Less: Earned Revenue	0	(14)	(2,097)	0	(144)	(45)	0
Intra-governmental Net Costs	0	62	(702)	0	27	3,922	0
Gross Costs with the public	0	259	474	0	981	8,049	0
Less: Earned Revenue	0	(3)	0	0	0	(231)	0
Net Costs with the public	0	256	474	0	981	7,818	0
Net Cost: Financial Program	**0**	**318**	**(228)**	**0**	**1,008**	**11,740**	**0**
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	81	0	69	0	0	0	69
Less: Earned Revenue	(5)	0	(850)	0	0	0	(9)
Intra-governmental Net Costs	76	0	(781)	0	0	0	60
Gross Costs with the public	466	0	2,593	0	0	0	1,520
Less: Earned Revenue	(573)	0	(3,033)	0	0	0	(1,595)
Net Costs with the public	(107)	0	(440)	0	0	0	(75)
Net Cost: Economic Program	**(31)**	**0**	**(1,221)**	**0**	**0**	**0**	**(15)**
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	135	51	0	0	0
Less: Earned Revenue	0	0	(13)	(1)	0	0	0
Intra-governmental Net Costs	0	0	122	50	0	0	0
Gross Costs with the public	0	0	126	57	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	126	57	0	0	0
Net Cost: Security Program	**0**	**0**	**248**	**107**	**0**	**0**	**0**
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	0	167	0	0	0	0
Less: Earned Revenue	0	0	(720)	0	0	0	0
Intra-governmental Net Costs	0	0	(553)	0	0	0	0
Gross Costs with the public	0	0	770	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	770	0	0	0	0
Net Cost: Management Program	**0**	**0**	**217**	**0**	**0**	**0**	**0**
Net Cost of Treasury Operations	**$ (31)**	**$ 318**	**$ (984)**	**$ 107**	**$ 1,008**	**$ 11,740**	**$ (15)**

Fiscal Year Ended September 30, 2007 — Program Costs:	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2007 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 14	$ 5,623	$ (1,441)	$ 4,182
Less: Earned Revenue	0	0	0	(2,300)	291	(2,009)
Intra-governmental Net Costs	0	0	14	3,323	(1,150)	2,173
Gross Costs with the public	0	0	35	9,798	0	9,798
Less: Earned Revenue	0	0	(2)	(236)	0	(236)
Net Costs with the public	0	0	33	9,562	0	9,562
Net Cost: Financial Program	**0**	**0**	**47**	**12,885**	**(1,150)**	**11,735**
ECONOMIC PROGRAM:						
Intra-governmental Gross Costs	89	30	13	351	(48)	303
Less: Earned Revenue	(27)	(16)	0	(907)	889	(18)
Intra-governmental Net Costs	62	14	13	(556)	841	285
Gross Costs with the public	548	195	35	5,357	0	5,357
Less: Earned Revenue	(669)	(227)	(1)	(6,098)	0	(6,098)
Net Costs with the public	(121)	(32)	34	(741)	0	(741)
Net Cost: Economic Program	**(59)**	**(18)**	**47**	**(1,297)**	**841**	**(456)**
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	186	(67)	119
Less: Earned Revenue	0	0	0	(14)	12	(2)
Intra-governmental Net Costs	0	0	0	172	(55)	117
Gross Costs with the public	0	0	0	183	0	183
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	183	0	183
Net Cost: Security Program	**0**	**0**	**0**	**355**	**(55)**	**300**
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	167	(54)	113
Less: Earned Revenue	0	0	0	(720)	277	(443)
Intra-governmental Net Costs	0	0	0	(553)	223	(330)
Gross Costs with the public	0	0	0	770	0	770
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	770	0	770
Net Cost: Management Program	**0**	**0**	**0**	**217**	**223**	**440**
Net Cost of Treasury Operations	**$ (59)**	**$ (18)**	**$ 94**	**$ 12,160**	**$ (141)**	**$ 12,019**

20. ADDITIONAL INFORMATION RELATED TO THE COMBINED STATEMENTS OF BUDGETARY RESOURCES

Federal agencies are required to disclose additional information related to the Combined Statements of Budgetary Resources (per OMB Circular A-136, *Financial Reporting Requirements as amended*). In accordance with SFFAS No. 7, the Department must report the value of goods and services ordered and obligated which have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. The information for the fiscal years ended September 30, 2008 and September 30, 2007 was as follows (in millions):

	2008	2007
Undelivered orders at the end of the period	$ 57,513	$ 56,304
Available borrowing and contract authority at the end of the period	$ 5,716	$ 5,716

Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

	2008	2007
Obligations Incurred		
Direct - Category A	$ 7,050	$ 6,525
Direct - Category B	20,623	14,197
Direct - Exempt from Apportionment	455,126	440,277
Total Direct	**$ 482,799**	**$ 460,999**
Reimbursable - Category A	2	0
Reimbursable - Category B	3,287	3,344
Reimbursable - Exempt from Apportionment	1,446	1,187
Total Reimbursable	$ 4,735	$ 4,531
Total Direct and Reimbursable	**$ 487,534**	**$ 465,530**

Reconciliation of the President's Budget

The *Budget of the United States* (also known as the President's Budget), with actual numbers for fiscal year 2008, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in 2009. It will be available from the United States Government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the fiscal year 2007 Performance and Accountability Report and the actual fiscal year 2007 balances included in the fiscal year 2009 President's Budget (PB).

Reconciliation of Fiscal Year 2007 Combined Statement of Budgetary Resources to the Fiscal Year 2009 President's Budget (in Millions)

	Budgetary Resources	Outlays (net of offsetting collections)	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources Amounts	**$ 522,980**	**$ 452,110**	**$ (16,040)**	**$ 436,070**	**$ 465,530**
Included in the Treasury Chapter of the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):					
IRS non-entity tax credit payments (1)	57,830	57,830	(13)	57,817	57,830
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	462	462	0	462	0
Non-Treasury offsetting receipts included in Treasury chapter of PB	0	0	(53)	(53)	0
Treasury offsetting receipts considered to be "General Fund" transactions for reporting purposes (2)	0	0	(53)	(53)	0
Continued dumping subsidy – CBP	388	381	0	381	381
Other	2	1	(1)	0	1
Subtotal	**$ 58,682**	**$ 58,674**	**$ (120)**	**$ 58,554**	**$ 58,212**
Included in the SBR but not in the Treasury chapter of the PB:					
Treasury resources shown in non-Treasury chapters of the PB, included in SBR (3)	(34,543)	(3,489)	0	(3,489)	(8,315)
Offsetting collections net of collections shown in PB	(7,224)	0	(741)	(741)	0
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR	0	0	198	198	0
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(1,339)	0	0	0	(35)
Exchange Stabilization Fund resources not shown in PB (4)	(28,919)	0	0	0	(307)
Treasury Financing Accounts (CDFI and ATSB)	(110)	(18)	24	6	(106)
IRS user fees and 50% Transfer Accounts and Capital Transfers to General Fund not included in PB	(108)	0	0	0	0
Other	(2)	(3)	6	3	(3)
Subtotal	**$ (72,245)**	**$ (3,510)**	**$ (513)**	**$ (4,023)**	**$ (8,766)**
Trust Fund – Comptroller of the Currency (OCC) (5)	**0**	**103**	**0**	**103**	**0**
President's Budget Amounts*	**$ 509,417**	**$ 507,377**	**$ (16,673)**	**$ 490,704**	**$ 514,976**

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 receipt accounts that Treasury manages on behalf of other agencies and considers to be "General Fund" receipts rather than receipts of the Treasury reporting entity.
3. The largest of these resources relate to Treasury's International Assistance Programs.
4. Exchange Stabilization Fund (ESF) is a self-sustaining component that finances its operations with the buying and selling of foreign currencies to regulate the fluctuations of the dollar. Because of the nature of the activities of the component, it does not receive appropriations, and therefore is excluded from the PB.
5. Negative outlay for OCC included in both Analytical Perspectives and the Appendix.

* Per President's Budget for fiscal year 2009 – Budgetary Resources and Outlays are from the Analytical Perspective. Offsetting Receipts and Obligations Incurred are from the Appendix.

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.

21. COLLECTION AND DISPOSITION OF CUSTODIAL REVENUE

The Treasury 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, 2008 and September 30, 2007 (in millions):

	Tax Year				
	2008	2007	2006	Pre-2006	2008 Collections
Individual Income and FICA Taxes	$ 1,455,017	$ 799,244	$ 23,498	$ 16,567	$ 2,294,326
Corporate Income Taxes	222,000	113,949	2,010	16,104	354,063
Estate and Gift Taxes	23	19,248	1,266	9,287	29,824
Excise Taxes	48,106	17,909	119	159	66,293
Railroad Retirement Taxes	3,769	1,164	1	5	4,939
Unemployment Taxes	5,146	2,026	42	117	7,331
Federal Reserve Earnings	25,879	7,719	0	0	33,598
Fines, Penalties, Interest, and Other Revenue	1,936	297	0	0	2,233
Subtotal	**$ 1,761,876**	**$ 961,556**	**$ 26,936**	**$ 42,239**	**$ 2,792,607**
Less Amounts Collected for Non-federal Entities					(407)
Total					**$ 2,792,200**

	Tax Year				
	2007	2006	2005	Pre-2005	2007 Collections
Individual Income and FICA Taxes	$ 1,408,591	$ 750,587	$ 23,861	$ 18,425	$ 2,201,464
Corporate Income Taxes	253,376	116,342	2,938	22,664	395,320
Estate and Gift Taxes	45	16,162	1,571	9,200	26,978
Excise Taxes	49,660	17,807	90	209	67,766
Railroad Retirement Taxes	3,576	1,127	1	14	4,718
Unemployment Taxes	5,198	2,041	51	126	7,416
Federal Reserve Earnings	26,255	5,788	0	0	32,043
Fines, Penalties, Interest, and Other Revenue	2,661	423	0	0	3,084
Subtotal	**$ 1,749,362**	**$ 910,277**	**$ 28,512**	**$ 50,638**	**$ 2,738,789**
Less Amounts Collected for Non-federal Entities					(486)
Total					**$ 2,738,303**

Amounts reported for Corporate Income Taxes collected in fiscal year 2008 include corporate taxes of $10 billion for tax year 2009 (similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2007 include corporate taxes of $10 billion for tax year 2008). Individual Income and FICA Taxes includes $79 billion in payroll taxes collected from other federal agencies ($72 billion in fiscal year 2007).

Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2008 and September 30, 2007, collections of custodial revenue transferred to other entities were as follows (in millions):

	2008	2007
Department of the Interior	$ 312	$ 288
General Fund	2,365,814	2,445,331
Total	**$ 2,366,126**	**$ 2,445,619**

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, 2008 and September 30, 2007 (in millions):

	Tax Year				
	2008	2007	2006	Pre-2006	2008 Refunds
Individual Income and FICA Taxes	$ 935	$ 342,216	$ 19,217	$ 6,980	$ 369,348
Corporate Income Taxes	2,206	19,610	10,446	22,078	54,340
Estate and Gift Taxes	0	343	428	251	1,022
Excise Taxes	439	497	107	208	1,251
Railroad Retirement Taxes	0	1	1	(9)	(7)
Unemployment Taxes	1	65	14	39	119
Fines, Penalties, Interest, and Other Revenue	1	0	0	0	1
Total	**$ 3,582**	**$ 362,732**	**$ 30,213**	**$ 29,547**	**$ 426,074**

	Tax Year				
	2007	2006	2005	Pre-2005	2007 Refunds
Individual Income and FICA Taxes	$ 1,823	$ 235,151	$ 17,839	$ 6,242	$ 261,055
Corporate Income Taxes	1,241	8,122	4,278	14,509	28,150
Estate and Gift Taxes	0	256	490	223	969
Excise Taxes	416	570	253	1,131	2,370
Railroad Retirement Taxes	0	5	1	7	13
Unemployment Taxes	0	75	16	36	127
Total	**$ 3,480**	**$ 244,179**	**$ 22,877**	**$ 22,148**	**$ 292,684**

Federal Tax Refunds Payable

As of September 30, 2008 and September 30, 2007, refunds payable to taxpayers consisted of the following (in millions):

	2008	2007
Alcohol, Tobacco Tax and Trade Bureau	$ 12	$ 9
Internal Revenue Service	$ 3,064	$ 1,675
Total	**$ 3,076**	**$ 1,684**

22. EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes. SFFAS No. 27, *Identifying and Reporting Earmarked Funds,* issued by the FASAB defines the following three criteria for determining an earmarked fund: 1) A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; 2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the government's general revenues.

The majority of Treasury's earmarked fund activities are attributed to the ESF and the pension and retirement funds managed by the Office of DCP. In addition, several Treasury bureaus operate with "public enterprise revolving funds" and receive no appropriations from the Congress. These bureaus are BEP, U.S. Mint, OCC, and OTS. Other miscellaneous earmarked funds are managed by BPD, DO, FMS, and TFF.

The following is a list of earmarked funds and a brief description of the purpose, accounting, and uses of these funds.

Exchange Stabilization Fund (ESF)

ESF	20X4444	Exchange Stabilization Fund

D.C. Pensions

DCP	20X1713	Federal payment – D.C. Judicial Retirement
DCP	20X1714	Federal payment – D.C. Federal Pension Fund
DCP	20X5511	D.C. Federal Pension Fund
DCP	20X8212	D.C. Judicial Retirement and Survivor's Annuity Fund

Public Enterprise Revolving Funds

BEP	20X4502	Bureau of Engraving and Printing Public Enterprise Fund
MNT	20X4159	Public Enterprise Revolving Fund
OCC	20X8413	Assessment Funds
OTS	20X4108	Public Enterprise Revolving Fund
IRS	20X4413	Federal Tax Lien Revolving Fund

Other Earmarked Funds

BPD	2061738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	2071738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	2081738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	20X5080	Gifts to Reduce Public Debt
BPD	20X5080.001	Receipt of Gifts to Reduce Public Debt
BPD	20X8207	Lower Brule Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Fund
BPD	20X8209	Cheyenne River Sioux Terrestrial Wildlife Habitat Restoration Trust Fund
DO	20X5407	Sallie Mae Assessments
DO	20X5816	Confiscated and Vested Iraqi Property and Assets

DO	20X8790	Gifts and Bequests Trust Fund
FMS	205445	Debt Collection
FMS	20X5081	Presidential Election Campaign
FMS	20X8902	Esther Cattell Schmitt Gift Fund
FMS	202/35445	Debt Collection Special Fund
FMS	203/45445	Debt Collection Special Fund
FMS	204/55445	Debt Collection Special Fund
FMS	205/65445	Debt Collection Special Fund
FMS	206/75445	Debt Collection Special Fund
FMS	207/85445	Debt Collection Special Fund
FMS	208/95445	Debt Collection Special Fund
IRS	20X5510	Private Collection Agent Program
TFF	20X5697	Treasury Forfeiture Fund

The ESF uses funds to purchase foreign currencies, to hold U.S. foreign exchange and SDR assets, and to provide financing to foreign governments. ESF accounts and reports its holdings to FMS on the SF224, "Statement of Transactions," as well as to the Congress and Treasury's policy office. The Gold Reserve Act of 1934, Bretton Woods Agreement Act of 1945, P.L. 95-147 and P.L. 94-564 established and authorized the use of the Fund. SDR in the IMF, Investments in U.S. Securities (BPD), and Investments in Foreign Currency Denominated assets are the sources of revenues or other financing sources. ESF's earnings and realized gains on foreign currency denominated assets represent inflows of resources to the government, and the revenues earned are the result of intra-governmental inflows.

D.C. Pension Funds provide annuity payments for retired D.C. teachers, police officers, judges, and firefighters. The sources of revenues are through annual appropriations, employees' contributions, and interest earnings from investments. All proceeds are earmarked. Note 15 provides detailed information on various funds managed by the Office of DCP.

Treasury's four non-appropriated bureaus, BEP, Mint, OCC, and OTS, operate "public enterprise funds" that account for the revenue and expenses related to the production and sale of numismatic products and circulating bureaus coinage (Mint), the currency printing activities (BEP), and support of oversight functions of banking (OCC) and thrift operations (OTS). 31 USC 142 established the revolving fund for BEP to account for revenue and expenses related to the currency printing activities. Public Law 104-52 (31 USC §5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion coins, and the sale of circulating coins to the Federal Reserve Banks system. 12 USC 481 established the Assessment Funds for OCC, and 103 Stat. 278 established the Public Enterprise Revolving Fund for OTS. Revenue and financing sources are from the bank examination and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These earmarked funds do not directly contribute to the inflows of resources to the government; however, revenues in excess of costs are returned to the General Fund of the U.S. Government. There are minimal transactions with other government agencies.

There are other earmarked funds at several Treasury Department bureaus, such as donations to the Presidential Election Campaign Fund, funds related to the debt collection program, gifts to reduce the public debt, and other enforcement related activities. Public laws, statutory laws, U.S. Code, and the Debt Collection Improvement Act established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property forfeited in enforcement activities, public donations, and debt collection.

Intra-governmental Investments in Treasury Securities

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. Treasury bureaus and other federal agencies invest some of the earmarked funds that they collect from the public. The funds are invested in securities issued by Treasury's Bureau of the Public Debt (BPD). The cash collected by BPD is deposited in the General Fund of the U.S. Government, which uses the cash for general government purposes.

The investments provide the Treasury Department bureaus and other federal agencies with authority to draw upon the General Fund of the U.S. Government to make future benefit payments or other expenditures. When Treasury Department bureaus or other federal agencies require redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

The securities are an asset to the Treasury Department bureaus and other federal agencies and a liability of the BPD. The General Fund of the U.S. Government is liable to BPD. Because Treasury Department bureaus and other federal agencies are parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The balances related to the investments made by Treasury Department bureaus are not displayed on Treasury's consolidated financial statements because the bureaus are subcomponents of the Treasury Department. However, the General Fund of the U.S. Government remains liable to BPD for the invested balances and BPD remains liable to the investing Treasury Department bureaus (Note 4).

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2008 (In Millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	09/30/2008 Totals
Balance Sheet							
ASSETS:							
Fund Balance	$ 33	$ 0	$ 459	$ 228	$ 720	$ 0	$ 720
Investments/Related Interest – Intra-governmental	16,847	3,859	1,251	592	22,549	22,549	0
Cash, Foreign Currency/Other Monetary Assets	22,221	0	0	16	22,237	0	22,237
Investments and Related Interest	10,543	0	0	0	10,543	0	10,543
Other Assets	298	16	1,292	133	1,739	9	1,730
Total Assets	**$ 49,942**	**$ 3,875**	**$ 3,002**	**$ 969**	**$ 57,788**	**$ 22,558**	**$ 35,230**
LIABILITIES:							
Intra-governmental Liabilities	$ 0	$ 0	$ 37	$ 150	$ 187	$ 29	$ 158
Certificates Issued to Federal Reserve	2,200	0	0	0	2,200	0	2,200
Allocation of Special Drawing Rights	7,630	0	0	0	7,630	0	7,630
Other Liabilities	330	8,856	617	182	9,985	0	9,985
Total Liabilities	**$ 10,160**	**$ 8,856**	**$ 654**	**$ 332**	**$ 20,002**	**$ 29**	**$ 19,973**
NET POSITION:							
Unexpended Appropriations	$ 200	$ 0	$ 0	$ 0	$ 200	$ 0	$ 200
Cumulative Results of Operations	39,582	(4,981)	2,348	637	37,586	0	37,586
Total Liabilities and Net Position	**$ 49,942**	**$ 3,875**	**$ 3,002**	**$ 969**	**$ 57,788**	**$ 29**	**$ 57,759**
Statement of Net Cost							
Gross Cost	$ 250	$ 339	$ 3,496	$ 337	$ 4,422	$ 62	$ 4,360
Less Earned Revenue	(1,986)	(152)	(3,593)	(6)	(5,737)	(650)	(5,087)
Total Net Cost of Operations	**$ (1,736)**	**$ 187**	**$ (97)**	**$ 331**	**$ (1,315)**	**$ (588)**	**$ (727)**
Cumulative Results of Operations							
Beginning Balance	$ 37,846	$ (5,141)	$ 2,206	$ 474	$ 35,385	$ 0	$ 35,385
Budgetary Financing Sources	0	347	0	442	789	23	766
Other Financing Sources	0	0	45	52	97	(31)	128
Total Financing Sources	0	347	45	494	886	(8)	894
Net Cost of Operations	1,736	(187)	97	(331)	1,315	588	727
Net Change	1,736	160	142	163	2,201	580	1621
Total Cumulative Results of Operations	**$ 39,582**	**$ (4,981)**	**$ 2,348**	**$ 637**	**$ 37,586**	**$ 580**	**$ 37,006**

* The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2007 (In Millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	09/30/2007 Totals
Balance Sheet							
ASSETS:							
Fund Balance	$ 0	$ 0	$ 439	$ 265	$ 704	$	$ 704
Investments/Related Interest – Intra-governmental	16,439	3,856	1,124	482	21,901	21,901	0
Cash, Foreign Currency/Other Monetary Assets	21,445	0	0	28	21,473		21,473
Investments and Related Interest	10,040	0	0	0	10,040		10,040
Other Assets	0	45	1,259	90	1,394	10	1,384
Total Assets	**$ 47,924**	**$ 3,901**	**$ 2,822**	**$ 865**	**$ 55,512**	**$ 21,911**	**$ 33,601**
LIABILITIES:							
Intra-governmental Liabilities	$ 0	$ 0	$ 24	$ 198	$ 222	$ 13	$ 209
Certificates Issued to Federal Reserve	2,200	0	0	0	2,200		2,200
Allocation of Special Drawing Rights	7,627	0	0	0	7,627		7,627
Other Liabilities	51	9,042	592	193	9,878		9,878
Total Liabilities	**$ 9,878**	**$ 9,042**	**$ 616**	**$ 391**	**$ 19,927**	**$ 13**	**$ 19,914**
NET POSITION:							
Unexpended Appropriations	$ 200	$ 0	$ 0	$ 0	$ 200		$ 200
Cumulative Results of Operations	37,846	(5,141)	2,206	474	35,385		35,385
Total Liabilities and Net Position	**$ 47,924**	**$ 3,901**	**$ 2,822**	**$ 865**	**$ 55,512**	**$ 13**	**$ 55,499**
Statement of Net Cost							
Gross Cost	$ 703	$ 446	$ 2,997	$ 234	$ 4,380	$ 56	$ 4,324
Less Earned Revenue	(3,864)	(160)	(3,120)	0	(7,144)	(1,036)	(6,108)
Total Net Cost of Operations	**$ (3,161)**	**$ 286**	**$ (123)**	**$ $234**	**$ (2,764)**	**$ (980)**	**$ (1,784)**
Cumulative Results of Operations							
Beginning Balance	$ 34,685	$ (5,209)	$ 1,816	$ 322	$ 31,614	$ 0	$ 31,614
Budgetary Financing Sources	$ 0	$ 354	$ 0	$ 354	$ 708	$ 40	$ 668
Other Financing Sources	0	0	267	32	299	(16)	315
Total Financing Sources	0	354	267	386	1,007	24	983
Net Cost of Operations	3,161	(286)	123	(234)	2,764	980	1,784
Net Change	3,161	68	390	152	3,771	1,004	2,767
Total Cumulative Results of Operations	**$ 37,846**	**$ (5,141)**	**$ 2,206**	**$ 474**	**$ 35,385**	**$ 1,004**	**$ 34,381**

* The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

23. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. For fiscal years 2008 and 2007, OMB did not prescribe a format for this reconciliation in OMB Circular A-136, *Financial Reporting Requirements,* as amended, so that preparers might develop a more robust presentation tailored to their agency. As of September 30, 2008 and September 30, 2007, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2008	2007
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 487,534	$ 465,530
Less: Spending Authority from Offsetting Collections and Recoveries	(9,401)	(10,237)
Obligations Net of Offsetting Collections and Recoveries	478,133	455,293
Less: Offsetting Receipts	(16,211)	(16,040)
Net Obligations	**$ 461,922**	**$ 439,253**
Other Resources:		
Donations and Forfeiture of Property	112	73
Financing Sources for Accrued and Discount on the Debt	(3,870)	7,632
Transfers In/Out Without Reimbursement	(21)	(24)
Imputed Financing from Cost Absorbed by Others	729	740
Transfers to the General Fund and Other (Note 18)	(20,788)	(12,293)
Net Other Resources Used to Finance Activities	(23,838)	(3,872)
GSE Transactions	13,800	0
Total Resources Used to Finance Activities	**$ 451,884**	**$ 435,381**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	$ 1,229	$ 4,788
Credit Program Collections that Increase Liabilities for Loans Guarantees or Allowances for Subsidy	(5)	(94)
Adjustment to Accrued Interest and Discount on the Debt	(6,731)	4,385
Other (primarily non-exchange portion of offsetting receipts)	(10,745)	(14,089)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(16,252)	(5,010)
Total Resources Used to Finance the Net Cost of Operations	**$ 468,136**	**$ 440,391**
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	14	(18)
Total Components of Net Cost of Operations that will not Require or Generate Resources	1,201	948
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**1,215**	**930**
Net Cost of Operations	**$ 469,351**	**$ 441,321**

24. SPECIAL PROGRAMS WITH GOVERNMENT SPONSORED ENTERPRISES (GSE)

Steps Taken to Maintain Financial Stability of GSE

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are stockholder-owned GSE. Congress established these GSE to increase the supply of mortgage loans and to reduce the accompanying costs. A key Fannie Mae and Freddie Mac responsibility is to package purchased mortgages into securities. These securities are subsequently sold to investors. Proceeds from Fannie Mae and Freddie Mac sales are used to buy additional mortgages and keep money flowing through the mortgage markets. Fannie Mae and Freddie Mac direct, guaranteed debt, and mortgage backed securities (MBS) outstanding totaled approximately $5 trillion dollars at September 30, 2008.

Increasingly difficult conditions in the housing market challenged the soundness and profitability of MBS, thereby undermining the entire housing market. This led Congress to pass the Housing and Economic Recovery Act of 2008 in July 2008 (HERA). This Act created the new Federal Housing Finance Agency (FHFA), with enhanced regulatory authority over the GSE, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSE, if necessary.

Due to deteriorating conditions in the housing mortgage markets and the resulting negative financial impact on the GSE, they were placed under FHFA conservatorship on September 7, 2008. This action was taken to preserve GSE assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability. The FHFA director will terminate the conservatorship once sound and solvent conditions are established.

Pursuant to the authorities provided to the Secretary under the HERA, the Treasury Department, also on September 7, 2008, took three additional steps discussed below to help ensure the liquidity of the GSE while they are working to resolve their financial difficulties.

Senior Preferred Stock Purchase Agreements

The first step was entering into senior preferred stock purchase agreements with each GSE on September 7, 2008. In exchange for entering into these agreements, Treasury Department initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share and (2) a non-transferrable warrant for the purchase at a nominal cost of 79.9percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. The senior preferred stock accrues dividends at 10percent per year, payable quarterly. This rate shall increase to 12percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. In addition, beginning on March 31, 2010, the GSE will pay the Treasury Department a periodic commitment fee on a quarterly basis. This commitment fee will compensate the Treasury Department for the explicit support provided by the preferred stock agreements. This fee will be initially set by December 31, 2009, based on mutual agreement between the Treasury Department and each GSE, in consultation with the Chairman of the Federal Reserve Board. The fee shall be established for five-year periods, and may be waived by the Treasury Department for one year at a time if warranted by adverse mortgage market conditions. It may be paid in cash or may be added to the liquidation preference.

The senior preferred stock and warrants received in fiscal year 2008 are accounted for as non-entity investments in the Treasury Department's Fiscal Year 2008 Performance and Accountability Report. Their combined estimated value at September 08, 2008, is $7,032 million and at September 30, 2008, is $12,374 million. As these investments are accounted for at their fair value at the date of receipt, no increase in fair value is recorded. Other Federal Revenue of $7,032 was recognized from the acquisition of preferred stock and warrants. Treasury recorded the investment using the appraisal value $7,032 million at the date of purchase September 8, 2008, and then subsequently used the valuation $12,371 million at the reporting date to determine that no permanent impairment had occurred. Therefore, the recorded amount remained at the historical appraised value.

These agreements, which have no expiration date, provide that the Treasury Department will increase its investment in the senior preferred stock if at the end of any quarter the FHFA determines that the liabilities of either GSE exceed its assets. The maximum amount available to each GSE under this agreement is $100 billion. The Department determined that the net present value of this potential liability cannot be measured with sufficient reliability for fiscal year 2008. Accordingly, the estimated future liability, which would take into account increases in preferred stock liquidity value, associated dividends, and future commitment fees, is not recorded in the financial statements. The Department will attempt to make this determination on at least an annual basis going forward.

The actual recorded liability arising from the reported excess of GSE liabilities over assets as of September 30, 2008, is $ 13.8 billion. This amount is also recorded as an expense for fiscal year 2008. As funds for these payments are appropriated directly to the Department, these payments are treated as entity expenses and reflected as such on the Statement of Net Cost and Cumulative Results of Operations. The payment of this liability in fiscal year 2009 will result in an increase to the nonentity investment in GSE preferred stock, with a corresponding increase in Due to the General Fund, as the Department holds the investment on behalf of the General Fund. The carrying value of the investment will be evaluated on at least an annual basis.

The full amount of the $100 billion for each GSE, totaling $200 billion, was appropriated in fiscal year 2008, and accounts for the increase in appropriated funds and the increase in Unobligated Balance Available as seen in Note 2.

GSE Credit Facility

The second step was the establishment of the Government Sponsored Enterprise Credit Facility (GSECF) to ensure credit availability to the GSE and the Federal Home Loan Banks. This lending facility will provide secured funding on an as needed basis under terms and conditions established by the Secretary to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program. The GSECF provides liquidity, if needed, until December 31, 2009.

Funding will be provided directly by Treasury from its account held at the Federal Reserve Bank of New York (FRBNY) in exchange for eligible collateral from the GSE which will be limited to guaranteed mortgage backed securities issued by the GSE as well as advances made by the Federal Home Loan Banks. Loan requests will require approval from Treasury and verification by the FRBNY that adequate collateral has been pledged. Loans made through the GSECF are subject to the federal debt limit. Loans will be for short-term durations and are in general expected to be for less than one month but no shorter than one week. Loans will not be made with a maturity date beyond December 31, 2009. The rate on a loan request ordinarily will be based on the daily London Interbank Borrowing Rate (LIBOR) for a similar term loan plus 50 basis points. The rate is set at the discretion of the Secretary with the objective of protecting the taxpayer, and is subject to change.

There is no stated limitation on loans provided through the GSECF. However, loans are limited to the amounts of available collateral.

There were no loans made through the GSECF in fiscal year 2008.

GSE Mortgage-Backed Securities Purchase Program

The third step was the initiation of a temporary program to further support the availability of mortgage financing for millions of Americans and to mitigate pressures on mortgage rates. Under this program, Treasury purchases GSE MBS in the open market. By purchasing these credit-guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners and to promote stability in the mortgage market.

The size and timing of the MBS purchases is subject to the discretion of the Secretary. The scale of the program will be based on developments in the capital and housing markets. Initial purchases of $3.3 billion were made during September 2008. Additional purchases will be made as deemed appropriate through the expiration of this authority on December 31, 2009.

As these securities are backed by individual mortgages, they are accounted for under the Credit Reform Act of 1990.

25. TEMPORARY GUARANTEE PROGRAM FOR MONEY MARKET FUNDS

The Treasury Department has established a Temporary Guarantee Program (Program) for Money Market Funds. Under this Program the Treasury Department will guarantee to investors that they will receive the stable share price (SSP) for shares held in participating money market funds as of the close of business on September 19, 2008. President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available, as necessary, the assets of the Exchange Stabilization Fund (ESF) to support the Program. If a participating fund's market-based net asset value (NAV) falls below 99.5 percent of the SSP and is not cured, a Guarantee Event will be deemed to occur. If outlays become necessary, they would be paid out initially from the ESF, and then under the provisions of Section 131 of the Emergency Economic Stabilization Act of 2008, such outlays would be reimbursed from funds available under the Troubled Assets Relief Program (Note 26). Treasury is not currently aware of any Guarantee Events which have occurred at funds that have been accepted into the Program.

Eligible funds must be regulated under Rule 2a-7 of the Investment Company Act of 1940, must maintain a SSP, must have had a market-based NAV of at least 99.5 percent of the SSP as of September 19, 2008, and must be publicly offered and registered with the Securities and Exchange Commission. The Program will be in effect until December 18, 2008, with an option to extend until September 18, 2009, at the discretion of the Secretary of the Treasury.

To participate in the Program, eligible money market funds must submit an application and pay a premium of one basis point if the fund's NAV is greater than or equal to 99.75 percent of the SSP, or 1.5 basis points of the SSP if the fund's NAV is less than 99.75 percent of the SSP but greater than or equal to 99.50 percent of the SSP. If the Program is extended beyond December 18, new premium charges will apply and funds will have the option to renew their coverage.

As of September 30, 2008, the Department collected $39.7 million in program participation premiums. As of October 10, 2008, the Department collected an additional $298.1 million in premiums. These premiums represent the payments for the first three months of coverage which began September 19, 2008. All premium payments were invested into U.S. Government securities. Treasury received applications representing at least $3 trillion of assets under management before the application deadline. As Treasury is currently reviewing the applications and determining eligibility for inclusion in the Program, the final assets under management that will be covered by the Program has not been determined. In addition, program participation payments from funds that are not accepted into the Program will be returned. Of the total $337.8 million collected, $45.0 million was recognized as earned revenue, while $292.8 million remained as unearned revenue at September 30, 2008. The revenue is included in Economic Program earned revenue on the Statement of Net Cost. The unearned revenue is included in other liabilities on the Balance Sheet.

The Department of the Treasury's exposure under the Program, when a guarantee event occurs, is the difference between the SSP and the NAV at liquidation of the money market fund. The Department believes the risk of loss under the program is negligible, and no future liability is recorded at September 30, 2008.

26. SUBSEQUENT EVENTS

A. Emergency Economic Stabilization Act of 2008

The Emergency Economic Stabilization Act of 2008 (EESA) was signed into law on October 3, 2008. This law establishes a Troubled Asset Relief Program (TARP) to be administered by the Department of the Treasury. The TARP is intended to promote market stability and protect the U.S. economy by authorizing Treasury to purchase and guarantee troubled mortgage-related assets and other financial assets. EESA also provides for the purchase of any other financial instruments that the Secretary determines, after consultation with the Federal Reserve Board Chairman, is necessary in order to promote financial market stability.

The Secretary's authority to purchase financial assets was limited initially to $250 billion in outstanding assets, and increased to $350 billion upon certification by the President to the Congress on October 14, 2008. The authority can be increased to the maximum of $700 billion upon submission of a written report from the President to the Congress detailing the Secretary's plan to exercise additional authority, providing Congress does not enact a law to remove the President's authority.

The $700 billion limit shall be reduced by the difference between outstanding guaranteed obligations under the insurance program authorized by EESA, if any, and the balance in the Troubled Assets Insurance Financing Fund (TAIFF) established by EESA to guarantee timely payments on mortgage-related assets. The Secretary can guarantee timely payment of up to 100percent of the principal and interest on these insured assets. Institutions seeking this guarantee are required to pay risk-based premiums into the fund. The premiums will be in amounts determined by the Secretary, as necessary, to meet anticipated claims and eliminate any budgetary cost.

The EESA legislation terminates on December 31, 2009. However, the Secretary can extend this authority to October 3, 2010 upon submission of a written certification to Congress. EESA increases the statutory public debt limit by $700 billion, from $10.615 trillion to $11.315 trillion.

Upon passage of EESA, Treasury established the Office of Financial Stability to administer the TARP. No EESA transactions occurred during fiscal year 2008. Through November 14, 2008, $148 billion in financial assets were purchased through TARP.

B. Energy Improvement and Extension Act of 2008

P.L. 110-343, *Division B - Energy Improvement and Extension Act of 2008*, was enacted on October 3, 2008.

Section 113 of the Act allowed for the restructuring of the Advance to the Black Lung Trust Fund (the Fund) by the repayment of the market value of outstanding repayable advances with the proceeds of obligations issued by the Fund to the General Fund of the U.S. Government and a one time appropriation.

Effective October 7, 2008, the Black Lung Disability Trust Fund repaid the General Fund of the U.S. Government the market value of the outstanding repayable plus accrued interest by transferring (1) obligations whose denominations, rate, and maturity were prescribed by the Secretary of the Treasury and (2) the one time appropriation amount, which was the difference between the proceeds received from issuance of the obligations described above and the market value of the outstanding advances payable.

C. American International Group (AIG)

To help AIG work out its financial difficulties, the Federal Reserve Bank of New York agreed to lend up to $85 billion to AIG pursuant to the authority in Section 13(3) of the Federal Reserve Act. The Department is not a party to the AIG credit facility with the Fed, and has no liabilities, commitments or guarantees pursuant to the Fed's arrangements with AIG or any other financial relationship with AIG.

Under the terms of the agreement with AIG and the Federal Reserve, an approximately 79.9 percent equity interest in AIG (in the form of Convertible Participating Serial Preferred Stock convertible into approximately 79.9 percent of the issued and outstanding shares of common stock) was to be issued to a trust to be established by AIG. The U.S. Treasury will be named as the beneficiary of that trust, so that when the stock is ultimately liquidated the proceeds will be deposited into the General Fund of the U.S. Government. The Treasury Department will be the recipient of any dividends and any proceeds from the liquidation of the stock on behalf of the General Fund. The accounting and reporting for any activities related to the government's interest in the stock held by the trust will be done by the Treasury Department.

Subsequent to September 30, 2008, the credit facility to assist AIG was restructured significantly. The credit facility was modified to be incorporated into the TARP described above. To provide additional financial assistance to AIG, the Department agreed in November 2008 to directly purchase $40 billion in senior AIG preferred stock through the TARP. The Treasury Department will also receive common stock warrants for 2 percent of the outstanding AIG common stock, with the above-described convertible preferred stock interest to be owned by the trust reduced to 77.9 percent.

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*.

Other Claims for Refunds

The Treasury Department has estimated that $22 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 $5.0 billion and by appeals is $17 billion.

Federal Taxes Receivable, Net

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in 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, 2008, were as follows (in billions):

Total Unpaid Assessments	$	278
Less: Compliance Assessments		(67)
Write Offs		(99)
Gross Federal Taxes Receivable	**$**	**112**
Less: Allowance for Doubtful Accounts		(83)
Federal Taxes Receivables, Net	**$**	**29**

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $4 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 Treasury 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)

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. 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.

Assessments with little or no future collection potential are called write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt, or defunct taxpayers, including many failed financial institutions liquidated by the 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.

Deferred Maintenance

In fiscal year 2008, the Treasury Department had no material amounts of deferred maintenance costs to report on vehicles, buildings, and structures owned by the Department of the Treasury.

Deferred maintenance applies to owned PP&E. Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be, and is put off or delayed for a future period. Maintenance is defined as the act of keeping capitalized assets in an "acceptable condition" to serve their required mission. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected useful life. Maintenance excludes activities aimed at expanding the capacity or significantly upgrading the assets to a different form than it was originally intended (*i.e.*, activities related to capitalized improvements, modernization, and/or restoration).

Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports can be used under these methodologies.

Money Market Insurance Program– Risk Assumed Disclosure

The Treasury Department is not recording a contingent liability for any risk assumed, because the Department of the Treasury's exposure under the Program is the difference between a stable share price and the net asset value at liquidation of the money market fund. For all of the reasons outlined in Note 25, and based on current information and the Federal programs in place, and as this is a temporary program dealing with issues of first impression, we believe the risk of loss to the Treasury Department is negligible.

Liquidity Commitment to Government Sponsored Enterprises (GSEs)

The liquidity commitment to the GSEs described in the senior preferred stock purchase agreements section of Note 24 is essentially an insurance program in that the Treasury Department received a commitment fee in return for a guarantee of GSE liquidity should their liabilities exceed their assets at the end of any future quarter.

The total program liability as of September 30, 2008 should include the amount of quarterly liquidity draws requested but not yet paid, accruals for amounts of liquidity draws not known until after the end of the quarter, and an estimated contingent liability for the discounted present value of future liquidity draws up to the $200 billion combined liability limit. The discounted present value would take into account estimated offsetting increases in the liquidity preference of the preferred stock, increases in dividends on the increased liquidity preference, and annual commitment fees. However, due to the current uncertainties and turbulence in the financial markets, for fiscal year 2008 the estimated contingent liability amount does not have "sufficient reliability" to be recorded as a liability. The only liability that is recorded for fiscal year 2008 is the $13.8 billion draw request received from the Federal Housing Finance Agency on behalf of Freddie Mac in November 2008 for the quarter ended September 30, 2008. As noted above, the total gross risk under this commitment was $200 billion; after the November draw request, the remaining commitment is $186.2 billion.

Fiscal Year 2008 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (in Millions):

	Engraving and Printing	Bureau Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service
Budgetary Resources						
Unobligated balance brought forward	$ 112	$ 131	$ 55,288	$ 11	$ 259	$ 662
Recoveries prior year unpaid obligations	0	125	133	2	15	105
Budget Authority:						
Appropriations	0	452,780	203,289	86	12,018	11,296
Borrowing authority	0	0	4	0	0	0
Spending authority offsetting collections:						
Earned: Collected	509	334	4,405	2	239	144
Change in receivable federal	8	(73)	2	1	2	28
Change in unfilled customer order:						
Advance received	5	0	(4)	0	0	0
Without advance from federal sources	0	(37)	6	2	(8)	(3)
Subtotal	522	453,004	207,702	91	12,251	11,465
Non-expenditure transfers, net	0	(2)	846	0	(18)	18
Temporarily not available	0	(5)	(4)	0	0	0
Permanently not available	0	(1,303)	(1,027)	(1)	(2,210)	(68)
Total Budgetary Resources	**$ 634**	**$ 451,950**	**$ 262,938**	**$ 103**	**$ 10,297**	**$ 12,182**
Status of Budgetary Resources						
Obligations incurred						
Direct	$ 0	$ 451,458	$ 4,544	$ 80	$ 9,847	$ 11,360
Reimbursable	538	317	511	4	211	140
Subtotal	538	451,775	5,055	84	10,058	11,500
Unobligated Balance						
Apportioned	96	144	213,380	15	212	217
Exempt from apportionment	0	23	33,932	0	18	0
Subtotal	96	167	247,312	15	230	217
Unobligated balance not available	0	8	10,571	4	9	465
Total Status of Budgetary Resources	**$ 634**	**$ 451,950**	**$ 262,938**	**$ 103**	**$ 10,297**	**$ 12,182**
Relationship Obligations to Outlays						
Obligated balance, net						
Unpaid obligations brought forward	$ 102	$ 297	$ 55,202	$ 16	$ 332	$ 1,440
Uncollected customer payments Federal sources brought forward	(39)	(299)	(9)	0	(39)	(22)
Total unpaid obligated balance, net	63	(2)	55,193	16	293	1,418
Obligations incurred, net	538	451,775	5,055	84	10,058	11,500
Gross Outlays	(536)	(451,788)	(5,335)	(85)	(10,046)	(11,399)
Recoveries prior year unpaid obligations	0	(125)	(133)	(2)	(15)	(105)
Change uncollected customer payments	(8)	110	(8)	(3)	6	(25)
Obligated balance net, end of period						
Unpaid obligations	103	159	54,789	13	329	1,436
Uncollected customer payments federal	(46)	(189)	(17)	(3)	(33)	(47)
Total unpaid obligated balance, net	57	(30)	54,772	10	296	1,389
Net Outlays						
Gross outlays	536	451,788	5,335	85	10,046	11,399
Offsetting collections	(514)	(334)	(3,871)	(2)	(239)	(144)
Distributed offsetting receipts	0	(14,789)	(236)	0	(986)	(200)
Net Outlays	**$ 22**	**$ 436,665**	**$ 1,228**	**$ 83**	**$ 8,821**	**$ 11,055**

	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol Tobacco Tax & Trade Bureau	Budgetary Total	9/30/2008 Non-Budgetary Financing
Budgetary Resources						
Unobligated balance brought forward	$ 53	$ 668	$ 263	$ 3	$ 57,450	$ 0
Recoveries prior year unpaid obligations	27	0	3	3	413	0
Budget Authority:						
Appropriations	0	0	0	94	679,563	0
Borrowing authority	0	0	0	0	4	34,304
Spending authority offsetting collections:						
Earned: Collected	2,066	740	263	3	8,705	335
Change in receivable federal	0	0	0	0	(32)	0
Change in unfilled customer order:						
Advance received	9	0	9	0	19	0
Without advance from federal sources	1	0	0	0	(39)	0
Subtotal	2,076	740	272	97	688,220	34,639
Non-expenditure transfers, net	0	0	0	0	844	0
Temporarily not available	0	0	0	0	(9)	0
Permanently not available	(15)	0	0	(2)	(4,626)	(4,767)
Total Budgetary Resources	**$ 2,141**	**$ 1,408**	**$ 538**	**$ 101**	**$ 742,292**	**$ 29,872**
Status of Budgetary Resources						
Obligations incurred						
Direct	$ 0	$ 0	$ 0	$ 95	$ 477,384	$ 5,415
Reimbursable	2,091	674	246	3	4,735	0
Subtotal	2,091	674	246	98	482,119	5,415
Unobligated Balance						
Apportioned	50	0	0	0	214,114	24,122
Exempt from apportionment	0	734	292	0	34,999	0
Subtotal	50	734	292	0	249,113	24,122
Unobligated balance not available	0	0	0	3	11,060	335
Total Status of Budgetary Resources	**$ 2,141**	**$ 1,408**	**$ 538**	**$ 101**	**$ 742,292**	**$ 29,872**
Relationship Obligations to Outlays						
Obligated balance, net						
Unpaid obligations brought forward	$ 209	$ 152	$ 42	$ 19	$ 57,811	$ 0
Uncollected customer payments Federal sources brought forward	(6)	(4)	0	0	(418)	0
Total unpaid obligated balance, net	203	148	42	19	57,393	0
Obligations incurred, net	2,091	674	246	98	482,119	5,415
Gross Outlays	(2,013)	(660)	(241)	(96)	(482,199)	(5,409)
Recoveries prior year unpaid obligations	(27)	0	(3)	(3)	(413)	0
Change uncollected customer payments	(1)	0	0	0	71	0
Obligated balance net, end of period						
Unpaid obligations	260	166	44	19	57,318	6
Uncollected customer payments federal	(7)	(4)	0	(1)	(347)	0
Total unpaid obligated balance, net	253	162	44	18	56,971	6
Net Outlays						
Gross outlays	2,013	660	241	96	482,199	5,409
Offsetting collections	(2,075)	(740)	(272)	(3)	(8,194)	(335)
Distributed offsetting receipts	0	0	0	0	(16,211)	0
Net Outlays	**$ (62)**	**$ (80)**	**$ (31)**	**$ 93**	**$ 457,794**	**$ 5,074**

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The Department of the Treasury

OTHER ACCOMPANYING INFORMATION

PART IV

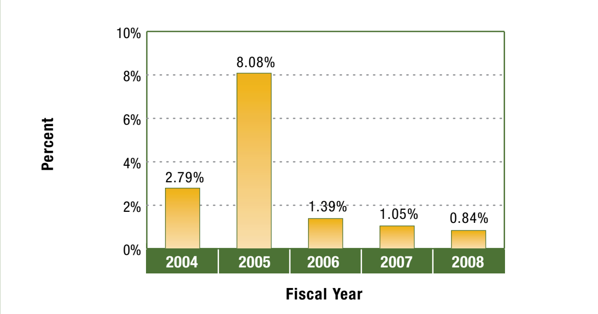
APPENDIX A: OTHER ACCOMPANYING INFORMATION (UNAUDITED)

This section provides Other Accompanying Information as prescribed by OMB Circular A-136, *Financial Reporting Requirements.*

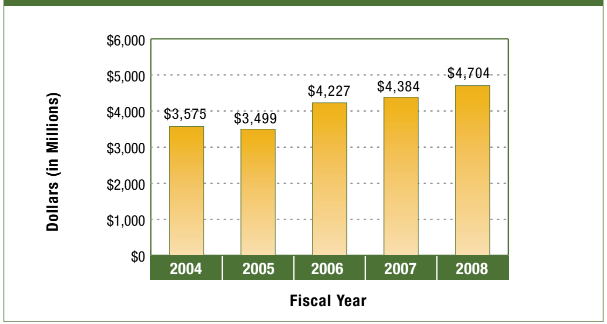
PROMPT PAYMENT

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.

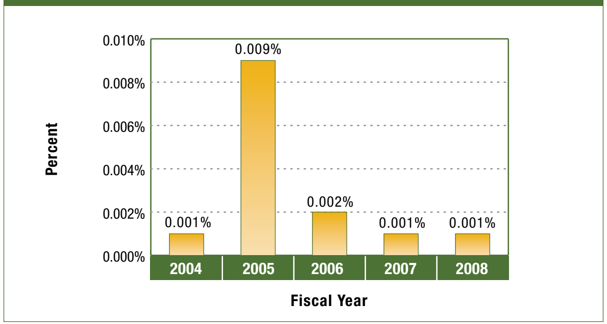
Percentage of Number of Invoices Paid Late



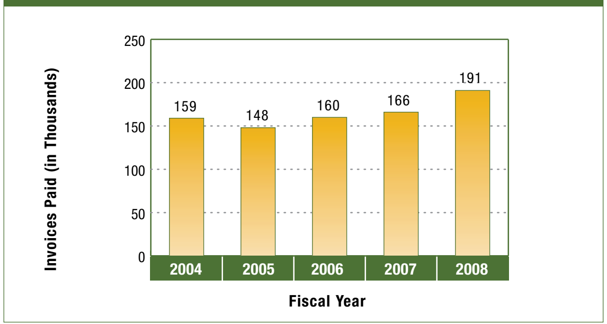
Total Dollar Amount of Invoices Paid (in Millions)



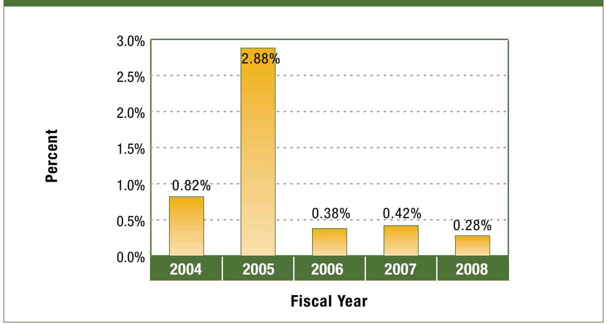
Percentage of Dollar Amount of Interest Penalties Paid



Total Number of Invoices Paid (in Thousands)



Percentage of Number of Interest Penalties Paid



TAX GAP

Reducing the tax gap is at the heart of IRS' enforcement programs. The tax gap is the difference between what taxpayers should pay and what they actually pay due to not filing tax returns, not paying their reported tax liability on time, or failing to report their correct tax liability. The tax gap, about $345 billion based on updated estimates for tax year 2001, is the amount of tax that is not paid voluntarily and on time. Underreporting tax liability accounts for 82% of the gap, with the remainder almost evenly divided between nonfiling (8%) and underpaying (10%). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.

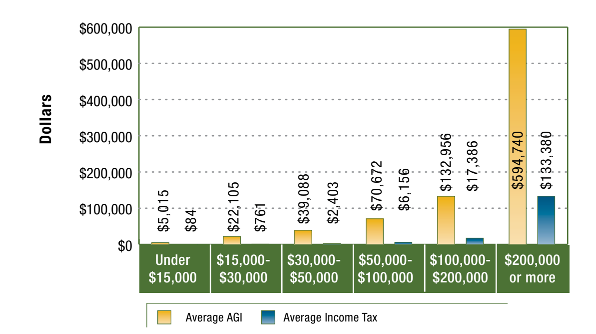
The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The tax gap arises from the three types of noncompliance: not filing required tax returns on time or at all (the nonfiling 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). Of these three components, only the underpayment gap is observed; the nonfiling gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. Obviously, some of the tax gap arises from intentional (willful) noncompliance, and some of it arises from unintentional mistakes.

The collection gap is the cumulative amount of tax, penalties, and interest that has been assessed over many years, but has not been paid by a certain point in time, and which the IRS 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 IRS' 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).

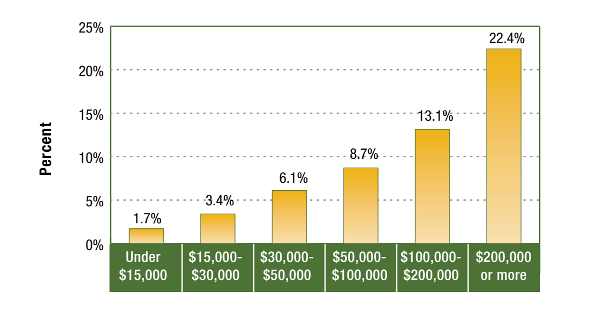
TAX BURDEN

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 IRS Statistics of Income (SOI) office.

Average Individual Income Tax Liability and Average Adjusted Gross Income (AGI) Tax Year 2006



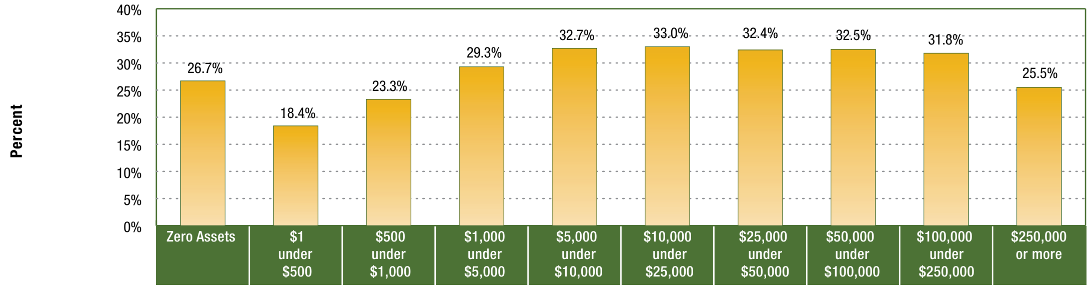
Individual Income Tax Liability as a Percentage of AGI



Individual Income Tax Liability Tax Year 2006

Adjusted Gross Income (AGI)	Number of taxable returns (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	37,614	188,624	3,141	5,015	84	1.7%
$15,000 under $30,000	29,649	655,386	22,562	22,105	761	3.4%
$30,000 under $50,000	24,907	973,569	59,846	39,088	2,403	6.1%
$50,000 under $100,000	30,053	2,123,894	185,019	70,672	6,156	8.7%
$100,000 under $200,000	12,110	1,610,028	210,538	132,956	17,386	13.1%
$200,000 or more	4,088	2,431,160	545,226	594,740	133,380	22.4%
Total	**138,421**	**$7,982,661**	**1,026,332**			

Corporation Tax Liability as a Percentage of Taxable Income



Corporation Tax Liability Tax Year 2005

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	19,086	5,094	26.7%
$1 under $500	9,223	1,698	18.4%
$500 under $1,000	4,473	1,043	23.3%
$1,000 under $5,000	14,935	4,372	29.3%
$5,000 under $10,000	9,367	3,060	32.7%
$10,000 under $25,000	13,506	4,456	33.0%
$25,000 under $50,000	13,459	4,366	32.4%
$50,000 under $100,000	14,239	4,624	32.5%
$100,000 under $250,000	31,250	9,935	31.8%
$250,000 or more	1,071,781	273,431	25.5%
Total	**1,201,319**	**312,079**	**26.0%**

APPENDIX B: IMPROPER PAYMENTS INFORMATION ACT

The Improper Payments Information Act of 2002 (IPIA) requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. According to OMB Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments (A-123, Appendix C), "significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5 percent and $10 million of total program funding. A-123, Appendix C also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets.

The government-wide Chief Financial Officers Council developed an alternative for meeting IPIA requirements for federal programs that are so complex that developing an annual error rate is not feasible. 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 the Department'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 the Department'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 percent 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 Department 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:

Risk Level	Required Action(s)
High Risk > 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 the Department in fiscal year 2008 resulted in all programs and activities as low and medium risk susceptibility for improper payments except for the Internal Revenue Service's (IRS) Earned Income Tax Credit (EITC) program. The EITC's 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 IPIA.

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.

The next section explains how the IRS currently develops its erroneous payment projections. The most recent projection is based on a tax year 2001 reporting compliance study that estimated the level of improper overclaims for fiscal year 2008 to range between $11.1 - $13.1 billion and 23 percent (lower bound) to 28 percent (upper bound) of approximately $47.6 billion in total program payments.

National Research Program (NRP) Analysis

The complexity of the EITC program, the nature of tax processing, and the expense of compliance studies preclude statistical sampling on an annual basis to develop error rates for comparison to reduction targets. The estimates are based primarily on information from the National Research Program (NRP) reporting compliance study of individual income tax returns for tax year 2001—the most recent year for which compliance information from a statistically valid, random sample of individual tax returns is available. The approach is nearly identical to that used for earlier years. The difference is that the estimates make use of more recent EITC payment data from the President's fiscal year 2009 Budget.

Under the tax year 2001 NRP reporting compliance study, individual income tax returns filed during calendar year 2002 for tax year 2001 were randomly selected for examination.[1] This selection method allows the measures for the individual income tax return filing population to be estimated from the results of the NRP 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 more thorough 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.

The tax year 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.[2] 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 erroneous EITC claims, and Treasury Department fiscal year 2009 EITC budget estimates.

1 The NRP used a stratified, random sample design. Returns are grouped into predefined categories or "strata" and selected randomly within each stratum.

2 About 1,600 other returns (the "calibration sample") were included in the tax year 2001 NRP Individual Income Tax Study. These returns went through a somewhat different examination process and they were not used for these calculations.

The general approach for developing the fiscal year 2008 set of EITC improper payments estimates involves the following steps: (1) estimating an improper payment rate for tax year 2001 using the NRP data, (2) adjusting the tax year 2001 rate to reflect the estimated impact of the EITC-related EGTRRA provisions, (3) estimating EITC claims for fiscal year 2008 through fiscal year 2011 by projecting tax year 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. The Department estimates that as a component of the upcoming NRP analysis, the next EITC compliance study will be completed in fiscal year 2009. This new, multi-year study will provide an annual update of the EITC error rate.

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
2. Test potential business process enhancements to reduce error and then request implementation funding if the tests prove successful.

Base Program

In 2008, the IRS prevented more than $3.2 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* ongoing IRS audit program where exams are conducted *before* a refund is released. The examination closures and enforcement revenue protected in the charts below do not include test initiatives.

- **Math Error –** this refers to an automated process in which the 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 fiscal year 2003 through fiscal year 2009. In fiscal year 2008 alone, the IRS conducted 502,700 examinations, issued 425,000 math error notices, and closed 375,000 document matching reviews.

	Compliance Activities (thousands)							
	FY03*	FY04*	FY05*	FY06*	FY07*	FY08**	FY09***	FY02-FY08 Total
Examinations	422,033	472,022	527,969	517,617	503,267	502,700	500,000	3,819,116
Math Error Notices**	699,590	624,590	515,890	460,316	393,263	425,000	425,000	4,536,723
Document Matching		300,000	324,419	364,020	394,217	377,327	375,000	2,134,983
Amended Returns						32,473	30,000	62,473

*Restated actual
**Preliminary estimates
***Estimate based on fiscal year 2008 preliminary data

These activities had a significant effect. We project that continued enforcement efforts will protect a total of $19 billion in revenue through fiscal year 2009.

	Enforcement Revenue Protected ($ billions)							
	FY03	FY04*	FY05*	FY06*	FY07*	FY08**	FY09***	FY02-FY08 Total
Examinations	1.00	1.12	1.35	1.50	1.49	2.00	2.00	11.41
Math Error Notices**	0.65	0.62	0.52	0.46	0.41	0.42	0.42	3.92
Document Matching		0.25	0.53	0.60	0.73	0.74	0.74	3.59
Amended Returns						0.07	0.07	0.14
TOTAL	1.65	1.99	2.40	2.56	2.63	3.23	3.23	19.06

*Restated actual
**Preliminary estimates
***Estimate based on fiscal year 2008 preliminary data

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, referred to as the "Investment Portfolio," 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 the 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, designed, and implemented in three separate releases over a three year period. The chart below shows the actual benefits of the EITC Investment Portfolio through fiscal year 2007. In fiscal year 2007 the Investment Portfolio was incorporated into the compliance activities above.

	Enforcement Revenue Protected ($ billions)			
	FY05	FY06	FY07	FY05-FY07 Total
Investment Portfolio	0.06	0.06	0.07	0.19

Note: In fiscal year 2008 this initiative was incorporated into Compliance Activities

Testing New Business Processes

The IRS continues to build new solutions for existing business processes. For example, in June 2008, new proposed Treasury regulations were issued to provide EITC return preparers with additional guidance on professional standards and EITC due diligence documentation. In addition, the IRS partnered with the tax software industry to develop a working group to address EITC error.

Finally, the IRS continues to use other activities to combat program error including:

- Generate extensive national and local media coverage to expand education of the public on the EITC and participation of eligible taxpayers
- Implement a strategy to partner with advisory groups and other stakeholders to gather feedback for enhancements to notices, forms, publications, and IRS.gov to improve participation among eligible taxpayers
- Complete activities associated with the fourth year of the EITC Return Preparer Study and analyze short-term outcomes, including penalties and accuracy of returns

IV. EITC Improper Payment Reduction Outlook

The reduction outlook for EITC improper payments is as follows:

Improper Payment (IP) Reduction Outlook ($ in billions)

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	$44.5	28%	$12.3	$47.6	28%	$13.1	$49.5	28%	$13.7	$52.5	28%	$14.5	$53.2	28%	$14.7
EITC Lower Bound Estimate	$44.5	23%	$10.4	$47.6	23%	$11.1	$49.5	23%	$11.5	$52.5	23%	$12.2	$53.2	23%	$12.4

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.
Note: The Improper Payment percentage and Estimated Outlay columns reflect a constant error rate pending the development of an annual error rate measurement.
CY: Current year; PY: Prior year

Recovery Act

V. The Department's Recovery Auditing Program

Section 831 of the Defense Authorization Act for fiscal year 2002 added a new subchapter to the U.S. Code (31 U.S.C 3561-3567), also known as the Recovery Auditing Act, that requires agencies that enter into contracts with a total value in excess of $500 million in a fiscal year carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities. In accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix C, reporting on recovery auditing is required annually.

In fiscal year 2008, the Department issued contracts totaling $5.0 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.

The Department 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 the Department'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. However, the Department has extensive contract payment controls that are applied at the time each payment is processed, making recovery activity minimal. The low level of improper payments in 2008 did not require any Treasury bureau to develop a management improvement program under Recovery Act guidance.

Recovery Auditing Information Fiscal Year 2004 - Fiscal Year 2008

Agency	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY*	Amounts Identified for Recovery PYs	Amounts Recovered PY	Cumulative Amts. Identified for Recovery (CY+PYs)	Cumulative Amts. Recovered (CY+PYs)
Treasury	$5,008,145,428	$4,531,863,330	$825,279	$839,818	$843,230	$821,667	$5,258,573	$4,142,907

Note: CY: Current year; PY: Prior year
* Includes amounts identified for recovery in prior years.

For fiscal year 2008, the total number of contracts subject to review was 36,917; the total number reviewed was 30,135, for a total program cost of approximately $1.1 million dollars.

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). Improper payments fall under the Department's management control program. A component of the management control program is risk assessments, which are an extension of each bureau's annual improper payment review process. Through Treasury Directive 40-04, Treasury Internal (Management) Control Program, 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's 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 have 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 overclaims 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 Fiscal Year 2009 Budget Submission to Congress

The IRS fiscal year 2009 President's Budget submission included no new initiatives related directly to the EITC Program.

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 Tax Credit
- Confusion among eligible claimants
- High program turnover
- Unscrupulous return 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.

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APPENDIX C: MANAGEMENT CHALLENGES AND RESPONSES

Each year, the Inspectors General issue Semiannual Reports to Congress that include specific management challenges facing the Department. These challenges are sent to the Secretary at the end of each fiscal year and cite the challenges for the upcoming fiscal year.

The letters sent to the Secretary and the Secretary's responses are reflected on the following pages for each respective Inspector General.

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DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

October 30, 2008

INFORMATION MEMORANDUM FOR SECRETARY PAULSON

FROM: Eric M. Thorson
Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-09-001)

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.

This year, we are reporting two new challenges:

- Management of Treasury's New Authorities Related to Distressed Financial Markets
- Regulation of National Banks and Thrifts

Both of these challenges relate to the crises that began in the subprime mortgage market and spread more broadly into the U.S. and global financial markets.

We also continue to report four challenges from last year:

- Corporate Management
- Management of Capital Investments
- Information Security
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

We removed one previously reported challenge, Linking Resources to Results, based on the progress the Department has made in implementing managerial cost accounting in its operations.

Furthermore, as we have pointed out in the past, management and performance challenges do not always represent a deficiency in management or performance. Instead, they can represent inherent risks associated with Treasury's mission, organizational structure, or the environment in which it operates. In this regard, the Department can and should take steps to mitigate these challenges but may not be able to entirely eliminate them. As such, they require ongoing management attention.

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Challenge 1 – Management of Treasury's New Authorities Related to Distressed Financial Markets

Last year we reported as a matter of increasing concern the deterioration of the real estate market and its impact on the credit markets. With worsening conditions over the past year and the impact the subprime mortgage situation has had on the broader financial markets, we have elevated this concern to the most serious management and performance challenge facing the Department.

Treasury, along with the Federal Reserve and the Federal Housing Finance Agency (FHFA), has been dealing with multiple financial crises requiring unprecedented actions through the latter half of Fiscal Year 2008. In July 2008, Congress passed the Housing and Economic Recovery Act which gave Treasury broad new authorities to address the distressed financial condition of Fannie Mae and Freddie Mac. While the hope at the time was that Treasury would not need to exercise those authorities, less that 6 weeks later, FHFA put the two mortgage giants into conservatorship and Treasury agreed to purchase senior preferred stock in the companies, established a new secured line of credit available to the companies, and initiated a temporary program to purchase new mortgage-backed securities issued by the companies.

As the turmoil in the financial markets increased, Treasury and the Federal Reserve took a number of additional unprecedented actions including the rescue of Bear Stearns and American International Group (AIG). It became evident that a more systemic, comprehensive plan was needed to stabilize the financial markets. Treasury sought and obtained additional authorities through passage of the Emergency Economic Stabilization Act (EESA), which gave the Treasury Secretary $700 billion in authority to, among other things: (1) purchase capital in qualifying U.S. controlled financial institutions; and (2) buy, maintain, and sell toxic mortgage-related assets from financial institutions. These authorities are intended to bolster credit availability and address other serious problems in the U.S. and world financial markets.

As of this writing, the Department has aggressively moved forward to make capital infusions through the purchase of senior preferred stock in nine large banks in an effort to loosen up the credit market. A number of other have subsequently sought to participate in the Capital Purchase Program. The Department is also implementing the mechanisms to carry out its other authorities and responsibilities for the Troubled Assets Relief Program (TARP). It plans to rely extensively on the private sector, initially with a small cadre of Treasury staff to exercise managerial control over TARP. With the hundreds of billions of dollars involved, the need to move quickly, and with so much of the program to be managed by financial agents and contractors, the risk is high that Treasury objectives will not be achieved or taxpayer dollars will be wasted. Accordingly, Treasury needs to ensure strong controls are in place and that its managerial oversight is effective.

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Additionally, the Act provides for the appointment of a Special Inspector General to provide oversight of this program. It also directs the U.S. Government Accountability Office (GAO) to conduct ongoing monitoring and report on the program every 60 days. Having said that, it is important to keep in mind that the presence of a Special Inspector General and the work by GAO are not a substitute for sound internal controls and appropriate management stewardship of this critical program.

Also, while the structure and execution of the EESA is still unfolding, it appears that Treasury will be relying to some extent on the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) to both evaluate their supervised institutions for participation in TARP and to monitor their compliance with the requirements for participation and the use of the capital that Treasury provides, including requirements related to limits on executive compensation. If this is to be effective, there will need to be close coordination between the Treasury team managing implementation of EESA, OCC, and OTS (as well as the other Federal Banking Agencies).

Going forward sound administration of the significant taxpayer dollars committed to this rescue effort will clearly be Treasury's most significant management challenge. Furthermore, given the rapidly changing conditions in the financial markets and the coming change in administrations, the importance of establishing a sustainable leadership team as quickly as possible to manage this program cannot be overstated.

Challenge 2 – Regulation of National Banks and Thrifts

Since September 2007, nine Treasury-regulated financial institutions failed with estimated losses to the deposit insurance fund exceeding $10 billion. Predictions are that many more will fail before the economy improves. This is in sharp contrast to the relatively few and much smaller Treasury-regulated financial institutions that failed during the previous 5 years.

While there are many factors that have contributed to the current turmoil in the financial markets, Treasury's regulators, OCC and OTS, did not identify early or force timely correction of the unsafe and unsound practices by institutions under their supervision. The irresponsible lending practices by many institutions that contributed to the current crisis are now well recognized—including, degradation of underwriting standards, loan decisions based on factors other than the borrowers' ability to repay, and with the ready availability of investor financing, a mentality of "originate to sell" instead of the more prudent "originate to hold" permeated the industry. At the same time, financial institutions engaged in other high risk activities including high asset concentrations in areas such as commercial real estate, and over-reliance on unpredictable brokered deposits to fund rapid growth.

The banking industry will continue to be under pressure over the next several years. For example, OCC, OTS, and the other federal banking regulators recently reported that 2007 data for Shared National Credits (loan commitments of $20 million or more that are shared by three or more federally supervised institutions) showed a large increase in volume during the year, with shared credits now totaling $2.8 trillion (a 22.6 percent increase over 2006). The regulators also reported a significant deterioration in quality of these credits. It has also been reported that the next substantial stress to financial markets will come from troubled credit card debt and auto loans, and this may significantly impact those financial institutions that previously had limited exposure to the subprime mortgage crises

Our office is mandated to look into Treasury-regulated bank failures that result in material losses to the deposit insurance fund. In this regard, during the last 6 months, we completed one review of the NetBank failure and are currently engaged in five. These reviews are useful in identifying the causes for failures and assessing the supervision exercised over a particular failed institution. It should be noted that OCC and OTS have been responsive to our recommendations for improving supervision. However, these reviews do not address supervisory effectiveness overall. It is therefore essential that OCC and OTS take a critical look at their respective (and collective) supervisory processes to identify why those processes did not prevent or better mitigate the unsafe and unsound practices that led to the current crisis and what can be done to better protect the financial health of the banking industry going forward.

Recognizing that the focus of EESA is on the current crisis, another consideration is the need for Treasury to identify, monitor, and manage *emerging* domestic and global systemic economic risks. It should be noted that these emerging risks may go beyond the current U.S. regulatory structure. Treasury, in concert with its regulatory partners, needs to diligently monitor regulated as well as unregulated products and markets for new systemic risks that may require action.

Challenge 3 – Corporate Management

Starting in 2004, we identified corporate management as an overarching management challenge. In short, Treasury needs to provide effective corporate leadership in order to improve performance as a whole. Inherent in this is the need for clear lines of accountability between corporate, bureau, and program office management; enterprise solutions for core business activities; and effective oversight of capital investments and information security. With nine bureaus and a number of program offices, Treasury is a highly decentralized organization. As we reported last year, the Department has made progress in building up a sustainable corporate control structure. The challenge continues to be maintaining emphasis on corporate governance, particularly as the Department develops the infrastructure to carry out its vastly expanded role in addressing the current economic crisis and as key management officials turnover with the change of administration.

Challenge 4 – Management of Capital Investments

Managing large capital investments, particularly information technology (IT) investments, is a difficult challenge facing any organization whether in the public or private sector. In prior years we have reported on a number of capital investment projects that either failed or had serious problems. In light of this, with hundreds of millions of procurement dollars at risk, Treasury needs to exercise continuous vigilance in this area as it proceeds with its: (1) transition to a new telecommunications contract (TNet) under the General Services Administration's Networx program, a transition that has already experienced delays; (2) implementation of enhanced information security requirements; (3) the anticipated renovation of the Treasury Annex; and (4) other large capital investments.

During the last year, the Department reinstituted a governance board consisting of senior management officials to provide executive decision-making on, and oversight of, IT investment planning and management and to ensure compliance with the related statutory and regulatory requirements.

Challenge 5 – Information Security

While improvements have been made, by its very nature information security will continue to be a management challenge to the Department. Our Fiscal Year 2008 audit addressing the objectives of the Federal Information Security Management Act of 2002 (FISMA) and Office of Management and Budget (OMB) requirements found that Treasury's non-IRS bureaus made progress in improving information security controls and practices.

Notably, during the past year Treasury strengthened its inventory reporting and Plan of Action and Milestones (POA&M) processes for tracking and correcting security weaknesses. However, our audit found that (1) minimum security control baselines were not sufficiently documented, tested, and/or implemented as required; (2) computer security incidents were not consistently reported timely or correctly categorized; (3) common security configuration baselines were not fully compliant; and (4) federal desktop core configurations were not fully implemented. Treasury management has indicated its commitment to address these issues. It should be noted, however, that the annual FISMA review is not designed to detect all information security vulnerabilities.

Challenge 6 – Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

As reported in previous years, Treasury faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and USA Patriot Act to prevent and detect money laundering and terrorist financing. While the Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA, a large number of federal and State entities participate in efforts to ensure compliance with BSA. These entities include the five federal banking regulators, the Internal Revenue Service (IRS), the Securities and Exchange Commission, the Department of Justice, and State regulators. Many of these entities also participate in efforts to ensure compliance with U.S. foreign sanction programs administered by Treasury's Office of Foreign Assets Control (OFAC).

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The dynamics and challenges for Treasury of coordinating the efforts of multiple entities, many external to Treasury, are difficult. In this regard, FinCEN and OFAC entered into memoranda of understanding (MOU) with many federal and State regulators in an attempt to build a consistent and effective process. However, these MOUs are non-binding (and without penalty) and their overall effectiveness have not been independently assessed.

Furthermore, the Patriot Act has increased the types of financial institutions required to file BSA reports. In Fiscal Year 2007, nearly 18 million BSA reports were filed. Although these reports are critical to law enforcement, past audits have shown that many contain incomplete or erroneous data. Additionally, past audits have also shown that examination coverage by regulators of financial institution compliance with BSA has been limited.

Given the criticality of this management challenge to the Department's mission, we continue to consider BSA and OFAC programs as inherently high-risk. Further adding to this risk in the current environment is the risk that financial regulators and examiners may lessen their attention on BSA compliance as they address safety and soundness concerns. It should also be understood that due to resource constraints and mandatory requirements, particularly with respect to failed banks, we do not anticipate providing significant audit coverage to this challenge area during Fiscal Year 2009.

As mentioned above, we removed the previously reported management and performance challenge "Linking Resources to Results" because of the progress the Department has made in this area. For example, among other things, it updated its Managerial Cost Accounting Policy to provide additional guidance to its bureaus and offices for accumulating, measuring, analyzing, interpreting and reporting cost information.

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

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

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 17, 2008

MEMORANDUM FOR ERIC M. THORSON
INSPECTOR GENERAL

FROM: Henry M. Paulson, Jr.

SUBJECT: Response to Management and Performance Challenges Facing the Department of the Treasury

I am responding to your memorandum describing the Office of Inspector General's (OIG) perspective on the most serious management and performance challenges facing the Department of the Treasury. The Department appreciates your independent assessment of progress in addressing these challenges.

Fiscal year (FY) 2008 brought two new management challenges, *Management of Treasury's New Authorities Related to Distressed Financial Markets* and *Regulation of National Banks and Thrifts*. The Department recognizes the importance of these challenges, and has been working tirelessly to stabilize the current financial market situation and lay the foundation to prevent future turmoil.

Treasury has taken, and will continue to take, the appropriate action to address these and other management challenges. One management challenge was closed in FY 2008, and significant progress has been made on several others.

The Department is committed to remain vigilant about the risks associated with all of its programs, and to adjust its strategies based on changing circumstances to achieve financial stability, economic security, and protection of the taxpayer.

Challenge 1 - Management of Treasury's New Authorities Related to Distressed Financial Markets

Treasury recognizes the need and importance of sound stewardship in managing the authorities related to distressed financial markets. The authorities we have been granted are focused on a primary goal – to restore liquidity and stability to the financial system of the United States.

Our programs are designed to help financial institutions of all sizes so they can grow stronger and provide crucial funding to our economy. Since the announcement of our capital purchase program, we have seen numerous signs of improvement in our markets and in the confidence in our financial institutions. Treasury continues to press on with actions to both stabilize the immediate situation and prevent future turmoil.

The Department has created the Office of Financial Stability (OFS) in accordance with the Emergency Economic Stabilization Act of 2008 (EESA) to address this challenge. Treasury is committed to transparency and oversight in all aspects of the program and has taken several important steps to meet the letter and spirit of our important compliance requirements, in the areas of staffing, internal control, and risk management. The Department will seek the very best in public and private sector expertise to help execute this program, compete our procurements to the maximum extent practicable considering urgent and compelling circumstances, and take the appropriate steps to mitigate and manage any conflicts of interest. Positions have been created for a Chief Risk Management Officer, Chief Financial Officer, Chief Investment Officer, Chief Compliance Officer, Chief Operating Officer, Chief Homeownership Officer, and Chief Legal Officer. The Chief Operating Officer will provide strong management control of the program. An interim Director of Internal Control for OFS is working to develop sound internal controls. An enterprise risk management governance model is also being developed.

There is inherent risk in any start-up operation. Treasury has moved aggressively on behalf of the American people to implement the authorities of the EESA, but has done so in a prudent, methodical fashion. We believe that the infrastructure has been initially deployed to mitigate risk for the taxpayer, and that sound controls and oversight are being properly designed, planned, and implemented for the longer-term.

Challenge 2 - Regulation of National Banks and Thrifts

The Department clearly understands both the urgent need to better protect the financial health of the U.S. banking and thrift industries, and the longer term need to strengthen and improve regulatory oversight. With regard to the former, early positive effects of our recently announced Capital Purchase Program under the Troubled Asset Relief Program (TARP) are already evident. With regard to the latter, our Blueprint for a Modernized Financial Regulatory Structure (released March 31, 2008) examines the many shortcomings inherent in the current structure, and sets out numerous recommendations for constructive change. One of the recommendations is, in fact, to merge the regulatory functions of the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS).

Regulation of National Banks

In general, the OCC is well-positioned to address the challenge of regulating national banks in the current economic environment. Its approach to bank supervision is risk-based and includes continuous monitoring in the largest national banks. In addition to onsite examinations of national banks, supervision includes many ongoing activities, such as quarterly reviews, and special initiatives, such as following up with bankers on significant events. Nevertheless, the OCC recognizes the need to review its supervisory processes and effectiveness in light of recent national bank failures.

In the last year, national banks experienced an unprecedented series of severe credit and market events, which led to a predictable deterioration in credit quality and increase in the number of problem banks. The OCC's approach to addressing problem banks is focused on recognizing problems early to try to address them before they become larger and threaten the bank's viability. The OCC has a well developed program to do this, involving problem bank specialists, which includes calibrated steps with respect to enforcement. As a result, 47% of the banks considered to be problems a year ago have been rehabilitated. However, five national banks, of which two were owned by the same bank holding company, failed in the first three quarters of 2008. Compared to total assets held by national banks of $7.9 trillion, these national banks held the relatively much smaller amount of $5.8 billion, and the estimated cost to the deposit insurance fund of their failures totals $1.08 billion. While each of these banks has had its own unique circumstances, several had common threads: business strategies that resulted in a combination of 1) residential commercial real estate concentrations, especially in residential construction and development; and 2) one or more of the following significant risk factors: rapid growth, high levels of non-core funding, or out-of-area lending. These factors, when coupled with the rapid deterioration in market conditions that placed significant stresses on the businesses and real estate markets where the banks loaned, put strains on the banks that they did not anticipate and ultimately could not manage, despite progressively stronger supervisory actions by the OCC.

As soon as the results of any material loss reviews are received, the OCC will address them. The OCC also plans to conduct an internal assessment of the failures to seek opportunities for improvement in supervisory processes. The current economic environment poses new challenges to the OCC in resolving problem bank situations. Interest in recapitalizing or acquiring these institutions has softened and depositor nervousness and restrictions threaten liquidity. Part of the OCC's efforts in finding a way to address these challenges is to support Treasury in the implementation of provisions of the EESA, including the TARP.

While much financial repair work remains to be done, it is encouraging that the national banking system remains relatively healthy overall. At fiscal year end, 99% of national banks were estimated to have capital levels above the well-capitalized standard and 92% of national banks had

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composite CAMELS ratings of 1 or 2. It should be further noted that national banks have been a source of strength for the U.S. financial system. In each of the cases cited by the OIG where distressed banks and investment banks were rescued, the rescuers have been national banks; that is, national banks have purchased the nation's largest mortgage lender, the largest failed bank in the nation's history, two of the largest investment banks, and two other large banks – all at no cost to the Federal Deposit Insurance Corporation, and all but one resulting in all assets staying in private hands rather than being passed to the government.

Regulation of National Thrifts

The Department recognizes that 4 out of 9 failed Treasury-regulated institutions identified by the OIG were thrifts. The Department also agrees there is potential for additional failures in the future before the economy improves, which is in sharp contrast to the relatively few financial institutions that failed during the previous five years.

It is noteworthy that despite operating in this extraordinarily challenging environment and facing severe liquidity issues because of external market conditions, only 4 of the 829 savings associations regulated by the OTS have failed since September 2007. Most thrifts continue to conduct themselves in a safe and sound manner. As of June 30, 2008, 98% of thrifts were well-capitalized based on interagency standards and 90% had composite CAMELS ratings of 1 or 2.

Nevertheless, given current conditions and the fact that OTS-regulated thrifts currently hold over $1 trillion in housing-related loans and securities, the OTS recognizes it is important to review its supervisory processes. To meet credit quality and asset management challenges, the OTS has been emphasizing to thrift managers that they must: 1) make appropriate provisions for loan losses, 2) build sufficient loan loss reserves, 3) pay greater attention to risk management, 4) assess the risks their particular institution faces in the current economic climate, and 5) pay particular attention to business planning, risk analysis and monitoring, account management, and problem asset management.

The OTS has made significant efforts to improve visibility on the mortgage situation and respond to market conditions. In September 2008, the OTS and the OCC jointly issued the second Mortgage Metrics Report covering the second quarter of 2008. The combined report covers more than 90% of first lien mortgages held or serviced by federally regulated banks and thrifts. The combined portfolio in the report represents 34.7 million loans worth $6.1 trillion.

The report stated that:

- Actions by thrifts and national banks to prevent home mortgage foreclosures increased faster than new foreclosures

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- New loan modifications increased by more than 80% from January to June and increased by 56% from the first quarter to the second quarter
- More than 9 out of 10 mortgages remain current
- New loss mitigation actions increased more quickly than new foreclosures during the second quarter

In further action to prevent or mitigate credit problems, the OTS requested public comment on a broad array of issues and practices seeking to strengthen unfair or deceptive acts and practices rules related to the marketing, originating, and servicing of credit cards. The OTS, the Federal Reserve Board, and the National Credit Union Administration collaborated to issue a proposed rule regarding fairness and transparency. For credit cards, the proposed rule addresses unfair practices in the areas of providing reasonable time periods for making payments, payment allocations, interest rate increases on outstanding balances, security deposits and fees charged to an account for the issuance of credit, and deceptive offers of credit. For overdraft protection services on deposit accounts, the proposed rule would address a consumer's ability to opt out of overdraft services and unfair fees for debit holds. The three agencies expect to finalize this rule by year end 2008.

While there has been significant federal effort to improve risk management, industry problems cannot be corrected if a large number of those who originate mortgages – mortgage brokers and mortgage companies – are not subject to bank-like regulations and supervision. The OTS and the other banking agencies have worked with the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to encourage individual states to adopt strict guidelines for mortgage brokers under their supervision. The OTS is also crafting, and will soon be ready to discuss, details of its "Financial Institution Reform Initiative," which will propose best practices for implementing regulations requiring mortgage brokers and mortgage companies to comply with basic credit principles. In December 2008, the OTS will hold its Third Annual National Housing Forum (NHF), bringing together the country's foremost experts in housing and mortgage finance to discuss issues related to the nation's housing situation. The NHF will bring together federal and state regulators, public policy advocates, and financial analysts to determine solutions and avoid similar turmoil in the future.

Challenge 3 - Corporate Management

The Treasury Department has made a profound effort in 2008 to promote excellent corporate governance. In addition to daily meetings of the senior leadership team, weekly bureau head meetings, and monthly Treasury-wide council meetings, the Department has taken several actions to improve corporate management. An Executive Review Board was re-established for major IT capital investments to better engage Department and bureau executive leadership in

IT decision making. The Human Capital Strategic plan was revised, identifying the factors that will shape the future workforce environment of the agency, and the corporate strategies that are needed to meet these challenges. The Office of the Procurement Executive continued to implement its corporate approach to procurement, saving thousands of dollars, and improving governance, communication, and training across the agency.

A prototype Treasury performance scorecard concept was developed for the financial outcomes described in the Department's strategic plan. The Privacy and Treasury Records Office was established in FY 2008 to strengthen the Department's privacy programs by combining key privacy functions and elevating the privacy program to directly report to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The realignment of information privacy, civil liberties, records management, library, and disclosure functions into one office promotes an integrated, corporate approach to information management and protection across the Department.

Corporate governance activities, including strategic planning and financial, asset, information technology, risk, human capital, procurement, performance, privacy and records, and emergency/continuity program management were consistently monitored and any gaps in the process were identified.

Challenge 4 - Management of Capital Investments

The Department improved the Information Technology (IT) capital management process in FY 2008. Treasury renewed its focus on effective management of IT spending by re-establishing the Executive Review Board to better engage Department and bureau executive leadership in IT decision making. Through this process, Treasury has prioritized its IT spending to enhance the Department's ability to perform critical mission functions.

New guidance was developed and implemented to further improve the governance of Treasury's IT investments. To address recommendations cited in recent audits, attention was focused on addressing Earned Value Management (EVM) and Baseline Changes. Improvements in EVM and Baseline Change Management will enable Treasury to better monitor the progress on its major IT investments by readily identifying potential cost, schedule, and performance variances so that prompt corrective action can be taken. Bureaus and corporate staff worked collaboratively to draft new Department-wide guidance that provides the framework, standards, and requirements in these two critical areas.

In FY 2008, Treasury made significant progress in implementing the Federal Acquisition Council Program and Project Managers (FAC-P/PM) requirements to ensure that Treasury project managers are well trained and certified. A core curriculum and competency model were developed to serve as the framework for improving the management of IT investments. Using the framework, the qualifications of Treasury's Program/Project Managers for major IT investments were reviewed by a cross-bureau committee. As a result of the review, individuals were determined to be qualified at various levels (i.e., senior/junior/entry), or requirements were waived (because they were newly assigned to the program/project). Competency gaps were identified, and milestones/due dates were established for rectifying deficiencies and ensuring new Program/Project Managers received necessary training to enable future certifications.

With respect to the specific capital investments noted, significant executive attention has been directed to delays associated with transitioning to the new telecommunications contract (TNet). Weekly meetings are held between the highest corporate and government IT management echelons to monitor progress made in resolving the contractor's poor planning of network implementation and security testing.

Regarding other large capital investments:

- 61 out of 65 major IT investments were placed on the Office of Management and Budget (OMB) Management Watch List (MWL) in December 2007. By June 30, 2008, all but 4 major investments were removed from the MWL.
- OMB placed 56 of the Department's major investments and 20 E-government initiatives on their High Risk List (HRL) in FY 2008. Because of the broad and subjective criteria used to place initiatives on the OMB HRL, it is more difficult to have items removed. Treasury already has requested that 6 of the 56 major IT investments on the list be removed, and will request additional projects be removed as projects show documented evidence of sound project management.

Challenge 5 - Information Security

In FY 2008, Treasury made significant progress in strengthening security configuration management, which was noted as a significant deficiency in FY 2007. Consistent with the OIG's 2008 conclusion that Treasury is generally compliant with the Federal Information Security Management Act (FISMA), and the identification of no significant deficiencies in information security in their FISMA 2008 audit, the Department formally closed the longstanding IT security Material Weakness in September 2008. Regarding the Department's most critical cyber assets, the OIG reported that Treasury had implemented all provisions of Homeland Security Presidential Directive #7 and related OMB guidance, and included the development of critical infrastructure plans in identifying, prioritizing, protecting, and planning for contingencies related to these critical cyber assets.

Targeted security configuration management efforts have focused on ensuring security settings for operating and database systems in addition to implementing NIST-compliant Configuration

Management Policy for all of Treasury. The Department has worked toward full implementation of OMB's requirements for the Federal Desktop Core Configuration (FDCC), which addresses Windows XP, Treasury's most common operating system platform. An independent assessment of the Department's accomplishments in implementing the OMB FDCC policy in June 2008 included a sampling that found the Department's approximately 130,000 XP systems had an overall rate of 94% of FDCC compliance. The Department developed metrics and monitors all bureau security content management progress on a monthly basis.

Other significant accomplishments included raising the rate of Annual Testing of IT Security Controls from 93% in FY 2007 to 100% in FY 2008, and the accolades Treasury has received from the Department of Homeland Security as a model agency for computer security incident reporting.

Challenge 6 - Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement

The Treasury Department faces unique challenges in carrying out its responsibilities under the Bank Secrecy Act (BSA) and the USA PATRIOT Act to prevent and detect money laundering and terrorist financing. The Financial Crimes Enforcement Network (FinCEN) has overall authority for enforcement and compliance of the BSA, including coordination and direction of procedures and activities of all other agencies exercising delegated authority, including the Internal Revenue Service (IRS), the OCC, and the OTS. Several actions were taken by all of these components, together with federal and state authorities, in FY 2008 to address this management challenge.

FinCEN has issued a proposed new chapter in the Code of Federal Regulations to restructure BSA requirements in a more industry-friendly format. In addition, FinCEN, the OTS, and the OCC worked with other federal banking agencies to study different approaches for risk-scoping of examinations to enhance the risk-based examination process. This collaborative exchange identified short-term improvements in the process with potential longer-term application in both the banking and non-banking sectors. In FY 2009, the OCC, the OTS, and FinCEN will continue to enhance the Federal Financial Institutions Examination Council's *Bank Secrecy Act/ Anti-Money Laundering Examination Manual* first issued in 2005. Following up on the success of this manual, FinCEN has also developed a Money Services Business (MSB) examination manual that was drafted in conjunction with the IRS and state regulators. The new manual, due to be issued in FY 2009, will foster national consistency in MSB examination practices. Additionally, FinCEN will follow up its FY 2008 proposed rulemaking relating to simplifying the appropriate exemption of customers from currency transaction reporting requirements with a final rule in early FY 2009. FinCEN's efforts closely track, but also go beyond, last year's GAO recommendations on the subject. In conjunction with the federal banking agencies, FinCEN is also drafting additional guidance with respect to the final application of the new rules for exemptions.

Outreach is an important tool in addressing FinCEN's challenges in administering the BSA. The Bank Secrecy Act Advisory Group (BSAAG), statutorily authorized and chaired by FinCEN, serves as the principal forum to discuss BSA administration issues among regulators, law enforcement, and the industry. At present, there are over fifty members, including the IRS, the OCC, and the OTS. Along with other members, these Treasury components serve on a number of on-going BSAAG subcommittees, including the Banking, Suspicious Activity Report, and Stored Value Product committees. In addition, FinCEN's Data Management Council is a new body that enables government users of the BSA database to have a more direct role in advising FinCEN of their information needs and helping FinCEN prioritize adjustments to the operation of the database. In FY 2009, FinCEN will continue the extensive outreach campaign to specific financial institutions begun in FY 2008, which has increased FinCEN's understanding of the capabilities of these institutions for anti-money laundering (AML) and counter financing of terrorism monitoring and reporting.

Active engagement and leveraging of other regulators is also key to meeting our challenges. FinCEN has established 53 memoranda of understanding (MOU) with federal and state regulators to enhance the sharing of information derived from compliance examinations. FinCEN has shared profiles of suspicious activity and currency transaction reporting with these federal and state regulators, and has surveyed its MOU partners to determine the impact of the information exchanged; 64% of respondents indicated that the information shared with them was valuable. As these MOUs mature, the information exchanged will help FinCEN improve BSA examination consistency and compliance. In FY 2009, FinCEN will pursue MOUs with additional federal and state regulators, focusing on completing agreements with state insurance commissioners.

To enhance regulated financial industries' understanding of and compliance with BSA programmatic, recordkeeping, and reporting requirements, FinCEN published a range of interpretive guidance in FY 2008, such as: addressing common errors noted in suspicious activity reporting, which highlighted the importance of filing complete and accurate reports; Customer Identification Program requirements; clarifying MSB definitions; application of anti-money laundering program and suspicious activity reporting requirements to insurance companies; the conduct of risk assessments by dealers in precious metals, precious stones, or jewels; and clarification of the application of appropriate, specific, and, where necessary, enhanced due diligence in connection with foreign correspondent accounts. Similar to FY 2008, FinCEN, in FY 2009, will conduct strategic analytical studies and publish reports promoting both greater awareness of emerging money laundering trends, vulnerabilities, and avoidance of compliance expenditures that are not commensurate with actual risks. FinCEN strives to be responsive to the needs of financial institutions and collaborates to increase their understanding of the BSA. FinCEN's efforts are demonstrated by achieving a 94% customer satisfaction rate among independently surveyed, regulatory, help-line callers.

A primary strategy for meeting the goal of a safer, more transparent financial system includes effective examination for any potential money laundering, terrorist financing, and BSA issues in OTS and OCC-supervised institutions. Under consistent policies developed with FinCEN and other federal banking agencies, the OTS and the OCC continue to examine compliance with BSA, USA PATRIOT Act, and other anti-money laundering provisions through a process which consists of on-site examinations conducted every 12-18 months, supplemented by off-site monitoring and follow-up to address identified supervisory issues. The OTS has also expanded supervisory resources in this area by hiring additional experienced compliance examiners and compliance specialists. Additionally, to enhance the training of examiners, in October 2008 the federal banking agencies hosted the second Advanced BSA/AML Specialists Conference, in which FinCEN participated. The Conference focused on emerging money laundering and terrorist financing risks. Additionally, in FY 2008 FinCEN and the IRS finalized a coordinated joint strategy for developing and implementing a more effective BSA examination regime for non-bank financial institutions that the IRS examines. Implementation of the joint FinCEN-IRS strategy and other coordination efforts will continue through FY 2009.

FinCEN does not pursue enforcement actions against financial institutions for isolated failures to comply with the BSA, such as BSA reports with incomplete or erroneous information. Rather, FinCEN invokes enforcement responsibilities when a financial institution exhibits a systemic breakdown in BSA compliance. In FY 2008, FinCEN took enforcement action where necessary against financial institutions for willful violations of BSA requirements, in close coordination with relevant federal and state supervisors, and the U.S. Department of Justice.

We look forward to working with you to further address these challenges.

cc: The Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer

INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 15, 2008

MEMORANDUM FOR SECRETARY PAULSON

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2009

The Reports Consolidation Act of 2000[1] requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2008,* its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS or Service). The top 10 challenges in order of priority are:

1. Modernization;
2. Security;
3. Tax Compliance Initiatives;
4. Providing Quality Taxpayer Service Operations;
5. Human Capital;
6. Erroneous and Improper Payments;
7. Complexity of the Tax Law;
8. Taxpayer Protection and Rights;
9. Processing Returns and Implementing Tax Law Changes; and
10. Improving Performance and Financial Data for Program and Budget Decisions.

TIGTA's assessment of the major IRS management challenge areas for Fiscal Year 2009 has not changed substantially from the prior year. While the IRS has continued to address each challenge area, TIGTA was unable to remove any challenge areas at this time. We have, however, changed the priority order of certain challenges. For example, Human Capital went from sixth to fifth place, while Complexity of the Tax Law went from fifth to seventh place. This reorganization is based on our assessment of many factors, including our opinion that the IRS needs to address its gaps in talent because of the changes in the knowledge, skills, and competencies in mission-critical occupations.

The following is a discussion of each of the challenges.

1 31 U.S.C. § 3516(d) (2000).

Modernization

The Business Systems Modernization (Modernization Program or Program) is a complex effort to modernize IRS technology and related business processes. It involves integrating thousands of hardware and software components while replacing outdated technology and maintaining the current tax system.

The IRS originally estimated that the Modernization Program would last up to 15 years and incur contractor costs of approximately $8 billion.[2] The Program is in its 10th year and has received approximately $2.5 billion for contractor services, plus an additional $310 million for internal IRS costs. The IRS planned to spend $267 million on the Program in Fiscal Year 2008, and the preliminary budget for Fiscal Year 2009 shows a reduction of 16.6 percent to $222.6 million. According to the IRS's original plan, the Modernization Program would be past the halfway point in Calendar Year 2008. However, due to generally decreased funding since Fiscal Year 2005 and difficulties in managing contractor work, the IRS has had to reduce the scope of many Modernization projects. The IRS and its contractors must still overcome significant barriers in successfully implementing Modernization Program goals, including:

- Continued reductions in funding that have forced the IRS to adjust the scope of the Modernization Program portfolio and project release schedules; and
- Inconsistent adherence to established project development guidelines that has limited the effectiveness and growth of the Modernization Program.

Due mostly to funding shortfalls, the IRS had to forgo development of significant capabilities for the Modernized e-File Integration project.[3] These capabilities would have allowed the IRS business divisions to better use the Modernized e-File system for enforcement activities. Because the Modernized e-File system is not being used to the extent originally planned, the intended benefits to the business divisions are not being achieved. As a result of the data access limitations, the Large and Mid-Size Business Division and the Tax Exempt and Government Entities Division are using their own systems to access Modernized e-File system tax return data. A second project, the Enterprise Return Retrieval system, was subsequently planned to deliver the capabilities that the Modernized e-File Integration project could not deliver. However, this project was not funded for Fiscal Year 2008.

The IRS achieved successes when the Modernization Program followed a systems development plan and management guidance. The Program has progressed more effectively with implementation of the Enterprise Services organization's management components and with the development of the Information Technology Modernization Vision and Strategy as a map for future development. However, the IRS and its contractors could improve Program effectiveness and efficiency through closer adherence to established guidelines such as the Enterprise Life Cycle[4] and its related key processes, as well as the Federal Acquisition Regulation. Our audits found that the Modernization Program did not consistently implement Enterprise Life Cycle guidelines, including project management and requirements management activities.

The Modernization Program and processes have not progressed enough to eliminate the material weakness designation, and further reductions in funding could jeopardize the Program's ability to deliver planned improvements. We believe that until the IRS is able to show consistent progress and improvement in the management of its Modernization Program and

2 Treasury Inspector General for Tax Administration, Ref. No. 2008-20-129, *Annual Assessment of the Business Systems Modernization Program* (2008).

3 The Modernized e-File system is a replacement of the current IRS tax return filing technology with a modernized, Internet-based electronic filing platform.

4 The Enterprise Life Cycle is a structured business systems development method that requires the preparation of specific work products during different phases of the development process.

adequately addresses past TIGTA and Government Accountability Office (GAO) recommendations, the Modernization Program will remain a high risk for the IRS and will continue to be considered a material weakness.

Security

Millions of taxpayers entrust the IRS with sensitive financial, personal, and other data that are processed by and stored on IRS computer systems. Reports of identity thefts from both the private and public sectors have heightened awareness of the need to protect these data. The risk that taxpayers' identities could be stolen by exploiting security weaknesses in the IRS's computer systems continues to increase, as does the risk that IRS computer operations could be disrupted. Internal factors (such as the increased connectivity of computer systems and increased use of portable laptop computers) and external factors (such as the volatile threat environment resulting from increased terrorist and hacker activity) require strong security controls.

The Incident Management Plan and Occupant Emergency Plan are designed to protect employees and visitors in IRS facilities; implement a clear command structure; and guide incident stabilization, assessment, and recovery efforts in the event of an emergency. However, these plans were not always complete or subject to regular exercises or tests to ensure readiness. As a result, we believe that in the event of an actual emergency such as a terrorist attack or natural disaster, these deficiencies could result in delays in ensuring employee and visitor safety and in beginning efforts to recover critical business processes, such as collecting tax revenue, processing tax refunds, and responding to taxpayer inquiries. Emergency preparedness at IRS facilities needs to be improved.[5]

Section 301 of the *Federal Information Security Management Act* (FISMA)[6] requires each Federal Government agency to report annually to the Office of Management and Budget and to Congress on the effectiveness of its security programs and to perform an annual independent evaluation of its information security program and practices. The IRS has made steady progress in complying with FISMA requirements since the law's enactment in 2002 and states that it continues to place a high priority on efforts to improve its security program. The IRS continues to develop an enterprise-wide approach to help employees understand their responsibilities for securing IRS systems and data and to implement the necessary controls. However, the IRS needs to do more to adequately secure its systems and data. Past audits have shown that the most significant areas of concern are compliance with mandated security configurations, implementation of access controls for its computer systems, and use of audit trails to detect computer intrusions and misuse. Additionally, the introductions of malware[7] into the IRS network *via* email and phishing schemes[8] are growing security concerns. TIGTA works closely with the IRS to identify and investigate these schemes. Between January and July 2008, more than 1,900 phishing sites pretending to represent the IRS were identified. The IRS continues to designate computer security as a material weakness under the *Federal Managers' Financial Integrity Act* of 1982.[9]

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5 Treasury Inspector General for Tax Administration, Ref. No. 2008-10-148, *Emergency Preparedness at Internal Revenue Service Facilities Needs to Be Improved* (2008).

6 Pub. L. No. 107-347, tit. III, 116 Stat. 2899, 2946 (2002) (codified as amended at 44 U.S.C. §§ 3541-49).

7 Malware refers to a program inserted into a computer with the intent of compromising the confidentiality, integrity, or availability of the system's data, applications, or operating system. Examples of malware include viruses, spyware, Trojan horses, and rootkits.

8 Phishing is the act of sending an email to a user falsely claiming to be an established, legitimate enterprise in an attempt to scam the user into surrendering private information that could be used for identity theft.

9 31 U.S.C. §§ 1105, 1106, 1108, 1113, 3512 (2000). The *Federal Managers' Financial Integrity Act* (FMFIA) requires that agency management establish and maintain effective internal controls to achieve the objectives of 1) effective and efficient operations, 2) reliable financial reporting, and 3) compliance with applicable laws and regulations. The FMFIA also requires the head of each Executive agency to report annually to the President and Congress on the effectiveness of the internal controls and any identified material weaknesses in those controls. Reporting material weaknesses under the FMFIA is not limited to weaknesses over financial reporting.

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Tax Compliance Initiatives

Another compelling challenge confronting the IRS is tax compliance. Tax compliance initiatives include the administration of tax regulations, collection of the correct amount of tax from businesses and individuals, and oversight of tax-exempt and government entities. Increasing voluntary compliance and reducing the Tax Gap are currently the focus of many IRS initiatives. Nevertheless, the IRS is facing significant challenges in 1) obtaining more complete and timely data, and 2) developing the methods necessary to interpret the data.

Businesses and Individuals

With the Tax Gap remaining center stage, TIGTA continues to focus considerable attention on the progress that the IRS is making to reduce the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. In August 2007, the Department of the Treasury and the IRS issued a report entitled *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, which details the strategy being taken to address the Tax Gap by increasing voluntary compliance. TIGTA provided an evaluation of this strategy in 2008 and reported that the long-term success of the strategy will, in large part, be dependent on addressing several risk factors.

The IRS estimated the gross Tax Gap for Tax Year (TY) 2001 to be approximately $345 billion. Of this amount, about $54 billion (16 percent) is attributable to underreported employment taxes. In addition, the GAO recently reported that business taxpayers failed to pay to the IRS about $58 billion in Federal payroll taxes that they withheld from employees' wages over the past 10 years.

TIGTA has previously reported on both of these issues and has planned several audits to provide more insight into this growing problem, including audits of the misclassification of employees by employers,[10] the effectiveness of the IRS's SS-8 determination program,[11] the effectiveness of IRS actions on collection accounts, and the Trust Fund Recovery Penalty.[12]

The IRS must continue to seek accurate measures for the various components of the Tax Gap and the effectiveness of the actions taken to reduce it. Broader strategies and better research are needed to determine what actions are most effective in addressing noncompliance.

Tax-Exempt Entities

The IRS continues to face challenges in administering programs focused on ensuring that tax-exempt organizations comply with applicable laws and regulations to qualify for tax-exempt status. The IRS has noted that the non-profit

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10 A recent report issued by the GAO states that, "In its last comprehensive misclassification estimate, the IRS estimated that 15 percent of employers misclassified 3.4 million workers as independent contractors in 1984, resulting in an estimated tax loss of $1.6 billion (or $2.72 billion in inflation-adjusted 2006 dollars) in Social Security tax, unemployment tax, and income tax."

11 The SS-8 program makes determinations of workers' employment tax status as employees or independent contractors. Workers may request determinations by submitting Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding (Form SS-8) to the IRS. An IRS determination of a worker's status has tax consequences for both the worker and the employer.

12 The Trust Fund Recovery Penalty is an enforcement tool the IRS uses to collect unpaid trust fund taxes. If a business taxpayer has failed to collect or pay trust fund taxes, the unpaid liability is assessed against the responsible officer(s). Although the IRS assesses this penalty on multiple taxpayers, these assessments represent only one liability. The IRS may collect the penalty from any combination of the business and related individual taxpayers.

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community has not been immune from the recent trends toward bad corporate practices that have been highlighted in the for-profit area.[13]

For example, in a report issued in Fiscal Year 2008, we stated that the IRS needed to strengthen controls over examination closures to provide assurance that 1) capital raised from issuing tax-exempt bonds will be appropriately used for public works projects, and 2) examinations are conducted with integrity and fairness.[14] In addition, we reported that there was a need for the Exempt Organizations function to perform more detailed analyses of completed casework related to recently established tax-exempt organizations to determine if taxpayer funds allocated to this activity are being used wisely and tax-exempt organizations are being contacted only when necessary.[15]

Providing Quality Taxpayer Service Operations

Since the late 1990s, the IRS has increased its delivery of quality customer service to taxpayers. However, the first goal in the IRS's current strategic plan is to improve taxpayer service. In July 2005, Congress requested that the IRS develop a five-year plan, including an outline of which services the IRS should provide and how it will improve services for taxpayers. The IRS developed the plan the Taxpayer Assistance Blueprint which focuses on services that support the needs of individual filers who file or should file the Form 1040 series tax returns.[16]

The Blueprint identified strategic improvement themes by researching IRS services relative to taxpayers' needs and preferences. It recommended 55 improvement initiatives designed to enhance taxpayer service called the Taxpayer Assistance Blueprint Service Improvement Portfolio. The Portfolio is categorized into initiatives called Electronic Interaction Enablement,[17] Telephone Service Enhancements, Partner Services,[18] Outreach and Education, and Marketing and Promotion. The IRS has begun implementing the initiatives, but many are dependent on future funding.

The Blueprint Phase 2 report issued in April 2007 devoted an entire section to the Taxpayer Assistance Centers (TAC), which are the IRS's walk-in offices. It provided a step-by-step process for future decisions regarding TAC locations called the TAC Geographic Footprint. However, inaccurate and incomplete management information continues to delay implementation of the TAC Geographic Footprint. The IRS cannot measure the effectiveness of the TAC Program without accurate and complete data.

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13 Written Statement of Mark W. Everson, Commissioner of Internal Revenue, Before the Committee on Finance, United States Senate Hearing on Exempt Organizations: Enforcement Problems, Accomplishments, and Future Direction, April 5, 2005.

14 Treasury Inspector General for Tax Administration, Ref. No. 2008-10-052, *The Tax Exempt Bonds Office Has Established Controls, but Improvements Are Needed to Prevent Improprieties* (2008).

15 Treasury Inspector General for Tax Administration, Ref. No. 2008-10-057, *Performance Measures and Improved Case Tracking Would Help the Exempt Organizations Function Better Allocate Resources* (2008).

16 The Form 1040 series tax returns include any IRS tax forms that begin with "1040" such as the U.S. Individual Income Tax Return (Form 1040), U.S. Individual Income Tax Return (Form 1040-A), and Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ).

17 The objective of the Electronic Interaction Enablement initiative is to maximize the taxpayer and partner value of the IRS Web site, making the electronic channel the first choice of taxpayers and partners for obtaining the information and services they need to comply with their tax obligations. The recommended initiatives for Electronic Interaction Enablement address services governance, content management, end-to-end portal and application monitoring, Web site design and usability, online support tools, publication search capability, evaluation of Frequently Asked Questions, and authentication for account-related tools.

18 The objective of the Partner Services initiative is to maximize assistance provided to tax practitioners, commercial preparers, community-based partners, and return preparation software vendors who are helping taxpayers understand and meet their tax obligations. The recommended initiatives for the Partner Services initiative address training and resources; tax practitioner, commercial preparer, and community-based partner collaboration; electronic and telephone resources; community coalition support; and coordination with Federal agencies.

The Blueprint also recognizes the significant role of tax return preparers because more than one-half of all taxpayers use preparers to file their tax returns. As a result, services to both taxpayers and the preparer community are essential to ensure effective tax administration.

Human Capital

In 2001, the President's Management Agenda designated Strategic Management of Human Capital as the first of its five government-wide initiatives. Despite significant focus and progress over the past few years, the GAO has designated human capital as a "high risk" government-wide concern and reported that ample opportunities exist for agencies to improve. The GAO also reported that a government-wide framework to advance human capital reform is needed.[19]

Like many other Federal Government agencies, the IRS has experienced workforce challenges over the past few years, including recruiting, training, and retaining employees, as well as an increasing number of employees who are eligible to retire. In addition, the IRS, along with other Federal Government agencies, is slowly moving toward changing pay, classification, and performance management systems to transition to a more market-based and performance-oriented culture. While the IRS has made some progress, the strategic management of human capital remains one of the IRS's major management challenge areas.

TIGTA has conducted audits in areas such as recruiting, workforce planning, training delivery, and employee turnover. As a result of these audits, we have made a significant number of recommendations for improvement. For example, in a report issued in Fiscal Year 2008, we stated that the IRS needed to complete significant work to ensure that future leaders are identified and developed, as the IRS might lose a large number of its leaders within the next several years.[20] In addition, we reported that while the IRS has established some key parts of a workforce planning foundation, it has not made substantial progress in developing and implementing an agency-wide process that will consistently and accurately project future human resource needs. If accurate projections are not made, the IRS might struggle to fill unforeseen vacancies, which could affect overall service to taxpayers.[21]

Erroneous and Improper Payments

As defined by the *Improper Payments Information Act of 2002*,[22] an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts. For the IRS, improper and erroneous payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors.

Some tax credits, such as the Earned Income Tax Credit (EITC) and the Education Credit, provide opportunities for abuse in income tax claims. The IRS estimated that between $9.6 billion and $11.4 billion (23 percent to 28 percent) of the $41.3 billion in EITC claims paid for tax year 2004 returns should not have been paid.[23] While the EITC program has

19 U.S. Government Accountability Office, GAO-07-310, *High Risk Series: An Update* (2007).

20 Treasury Inspector General for Tax Administration, Ref. No. 2008-10-132, *Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders* (2008).

21 An IRS contractor reported a five-year staffing forecast in March 2006 for Fiscal Years 2006 through 2010. The number of employees projected to retire is expected to steadily increase through 2010, from 5.1 percent (about 4,900 employees) to 8.3 percent (about 8,300 employees).

22 Pub. L. No. 107-300, 116 Stat. 2350.

23 Estimates for tax year 2004 include claims paid in error and a factor for erroneous payments identified and recovered by the IRS, as well as a factor for the impact of the tax year 2002 tax law changes.

been successful in helping millions of taxpayers, the IRS still receives a substantial number of excessive or incorrect EITC claims. Because of the potential EITC compliance problems, Congress passed legislation requiring taxpayers who had had the EITC denied during examinations to prove eligibility before receiving the EITC again. In response to this legislation, the IRS initiated the EITC Recertification Program, which has been successful in helping to reduce the high level of fraud and abuse in the EITC program. However, since Calendar Year 2005, the IRS has been limiting the number of recertification examinations, which reduces the effectiveness of the program.

The IRS's Criminal Investigation Division is responsible for detecting and combating tax refund fraud through its Questionable Refund Program, which was established to address the serious problem of refund fraud now estimated to exceed $1 billion annually. Although the IRS has taken actions to improve the Questionable Refund Program, we continue to have concerns with the growth of fraudulent refunds. The exponential growth in fraud in Processing Year 2007 presented a challenge for the IRS, which did not have the resources to handle the volume.[24] If this trend continues over the next few years, the IRS might issue an even greater number of fraudulent refunds, possibly resulting in a significant annual revenue loss to the Federal Government. As a result, additional burden is placed on honest taxpayers whose tax dollars are being used to support this criminal activity.[25]

Complexity of the Tax Law

Simplicity, transparency, and ease of administration are interrelated and desirable features of a tax system. Over the years, the Federal tax system, especially the Federal income tax, has become more complex, less transparent, and subject to frequent revision. Tax complexity and frequent revisions to the Internal Revenue Code make it more difficult and costly for taxpayers who want to comply with the system's requirements and for the IRS to explain and enforce the tax laws.

Tax law complexity continues to challenge the IRS and taxpayers. The IRS Office of Chief Counsel assists in tax administration by providing correct and impartial interpretation of the revenue laws. While providing tax advice to IRS functional employees auditing tax returns and collecting tax liabilities, Chief Counsel also issued 391 regulations, revenue rulings, revenue procedures, and notices during Fiscal Year 2007 through its Published Guidance Program, which is the IRS's primary means of providing tax guidance to the general public.26 Throughout the year, Chief Counsel receives significantly more requests to clarify tax laws than available resources permit and must prioritize suggestions in the development of its annual business plan for published guidance.

Tax law complexity results in higher costs for both tax administration and tax compliance. For example, in Calendar Year 2006, computer checks identified about 226,000 discrepancies between the Alternative Minimum Tax (AMT) figures reported by the taxpayers and the amounts computed by the IRS.27 These complexities hamper IRS efforts to assist taxpayers. Without meaningful simplification, the complexities of the current tax code will likely continue to contribute to the Tax Gap.

24 TIGTA estimated that the number of potentially fraudulent returns that would have been identified without dollar value and data-mining score restrictions rose by an alarming 70 percent between Processing Years 2006 and 2007. See Treasury Inspector General for Tax Administration, Ref. No. 2008-40-131, *While Progress Has Been Made, Limits on the Number of Examinations Reduce the Effectiveness of the Earned Income Tax Credit Recertification Program* (2008).

25 Treasury Inspector General for Tax Administration, Ref. No. 2008-10-172, *An Estimated $1.6 Billion in Fraudulent Refunds Was Issued During the 2006 and 2007 Filing Seasons* (2008).

26 To help taxpayers understand and meet their tax responsibilities and help the IRS apply the tax laws correctly and uniformly, Chief Counsel's Published Guidance Program provides interpretations of the tax code or new legislation that is formally available and legally relied upon by taxpayers, tax practitioners, and tax officials. The Published Guidance Program is coordinated with the Department of the Treasury Office of Tax Policy.

27 Treasury Inspector General for Tax Administration, Ref. No. 2008-40-146, *Procedures Were Not Always Followed When Resolving Alternative Minimum Tax Discrepancies* (2008).

Taxpayer Protection and Rights

The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of the *IRS Restructuring and Reform Act of 1998* (RRA 98).[28] Annual audit reports are mandated for the following taxpayer rights provisions:

- Notice of Levy;
- Restrictions on the Use of Enforcement Statistics to Evaluate Employees;
- Fair Debt Collection Practices Act Violations;
- Notice of Lien;
- Seizures;
- Illegal Protestor Designations;
- Assessment Statute of Limitations;
- Restrictions on Directly Contacting Taxpayers Instead of Authorized Representatives; and
- Separated or Divorced Joint Filer Requests.

In general, the IRS has improved its compliance with these statutory taxpayer rights provisions. The IRS has shown improvement over prior years when documenting that taxpayers were informed of their rights. The percentage of case files without documentation has steadily decreased over the last five years. However, there were still instances in which there was no documentation in the related case files to show that taxpayers were advised of their rights regarding assessment statute extensions,[29] and the IRS did not always follow procedures for mailing notices to taxpayers or their representatives in Federal Tax Lien cases.

Some IRS management information systems do not track cases that require mandatory annual audit coverage.[30] Thus, neither TIGTA nor the IRS could evaluate the Service's compliance with certain RRA 98 provisions.

Processing Returns and Implementing Tax Law Changes

Each filing season tests the IRS's ability to implement tax law changes made by Congress. It is during the filing season that most individuals file their income tax returns and call the IRS with questions about specific tax laws or filing procedures. Correctly implementing tax law changes is a continuing challenge because the IRS must identify the tax law changes; revise the various tax forms, instructions, and publications; and reprogram the computer systems used for processing returns. Changes to the tax laws have a major effect on how the IRS conducts its activities, what resources are required, and how much progress can be made on strategic goals. Congress frequently changes the tax laws. Thus, some level of change is a normal part of the IRS environment. However, certain types of changes can significantly affect the IRS in terms of the quality and effectiveness of its service and how taxpayers perceive the Service.

For example, the 2008 Filing Season was successful despite the challenges of 1) late enactment of legislation to extend relief from the AMT, and 2) the need to provide taxpayers with Economic Stimulus Payments. Late enactment of AMT

28 Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 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.).

29 Treasury Inspector General for Tax Administration, Ref. No. 2008-40-127, *Fiscal Year 2008 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (2008).

30 Treasury Inspector General for Tax Administration, Ref. No. 2008-40-099, *Fiscal Year 2008 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns* (2008) and Treasury Inspector General for Tax Administration, Ref. No. 2008-40-090, *Fiscal Year 2008 Statutory Review of Restrictions on Directly Contacting Taxpayers* (2008).

relief required the IRS to delay the processing of tax returns with certain forms until February 11, 2008, in order to update and test its systems for the needed changes to these forms without major disruptions to other return processing operations. For the Economic Stimulus Payments, which Congress expected to be in the hands of individuals as soon as possible, the IRS did not have the option to delay implementation until after the 2008 Filing Season. To receive an Economic Stimulus Payment, individuals were required to file a Tax Year 2007 return. The IRS estimated that potentially 20 million individuals will file tax returns that they normally would not have filed.[31]

The Economic Stimulus Payments will also affect the 2009 Filing Season because the payments are a credit for Tax Year 2008, even though the payments were estimated using information reported on Tax Year 2007 returns. Processes will need to be established for the 2009 Filing Season, because individuals who qualify for a larger payment as a result of changes between their Tax Year 2007 and Tax Year 2008 returns will receive the additional amount of payment. In addition, potential changes to the AMT and the possibility of another Economic Stimulus Payment might pose significant challenges for the IRS in the 2009 Filing Season.

Improving Performance and Financial Data for Program and Budget Decisions

While the IRS has made some progress in using performance and financial data for program and budget decisions, this area is still a major challenge. The IRS lacks a comprehensive, integrated system that provides accurate, relevant, and timely financial and operating data that describes performance measures, productivity, and associated costs of IRS programs. In addition, the IRS cannot produce timely, accurate, and useful information needed for day-to-day decisions, which hinders its ability to address financial management and operational issues to fulfill its responsibilities. TIGTA has continued to report that various IRS management information systems are insufficient to enable IRS management to measure costs, determine if performance goals have been achieved, or monitor progress in achieving program goals. For example, our review of performance-based acquisition (PBA)[32] found that lack of internal expertise within program offices on how to implement PBA as an acquisition strategy, insufficient time to complete procurements, lack of a vigorous planning phase, and the inability by program managers to define requirements contributed to underuse of PBA. As a result, the IRS has not achieved the desired PBA usage rates and might not have made the best use of its resources when acquiring goods and services.

PBA is a method for structuring all aspects of an acquisition around the need and outcome desired as opposed to the method by which the work should be done. For example, a need is identified for janitorial services with the desired outcome of clean office spaces. However, the Federal Government does not detail how the janitorial work should be done. This type of procurement shifts much of the risk from the Federal Government to industry because contractors become responsible for achieving the objectives in the work statement using their own best practices. It also allows the Federal Government to focus its monitoring efforts on the desired outcome rather than on how the contractor performs the work resulting in significantly fewer contract administration resources. When used properly, PBA increases performance, innovation, and competition among interested vendors and results in better value for the Federal Government.

31 Treasury Inspector General for Tax Administration, Ref. No. 2008-40-149, *Evaluation of Planning Efforts for the Issuance of Economic Stimulus Payments* (2008).

32 Treasury Inspector General for Tax Administration, Ref. No. 2008-10-098, *Due to the Lack of Experienced Users, the Benefits of Performance-Based Acquisition Are Not Being Fully Realized* (2008).

Conclusion

These are the 10 major management challenges for the IRS in Fiscal Year 2009. TIGTA's *FY 2009 Annual Audit Plan* contains our planned audits and is organized by these challenges. If you have questions or wish to discuss TIGTA's views on the challenges in greater detail, please contact me at (202) 622-6500.

cc: The Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer
Commissioner of Internal Revenue

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 17, 2008

MEMORANDUM FOR J. RUSSELL GEORGE
TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

FROM: Henry M. Paulson, Jr.

SUBJECT: Response to Management and Performance Challenges Facing the Internal Revenue Service

I am responding to your October 15, 2008, memorandum describing the most serious management and performance challenges facing the Internal Revenue Service (IRS). I appreciate your assessment of these challenges, and your acknowledgment of the progress made in addressing them.

The IRS has taken, and will continue to take, many actions to address its performance and management challenges. However, we note that many of these challenges represent inherent risks associated with the IRS mission and the environment in which the IRS operates, rather than deficiencies that can be eliminated. The IRS is taking the appropriate actions to mitigate these challenges to the extent practicable, and has made substantial progress thus far.

This memorandum provides information on the actions completed by the IRS in fiscal year (FY) 2008 and the actions planned for FY 2009 to address the ten management and performance challenges.

Challenge 1 - Modernization

In FY 2008, the IRS continued to make substantial progress in meeting targets for the Business Systems Modernization (BSM) projects, delivering 92% of the system releases within 10% of the estimated cost and schedule. Notable accomplishments in key modernization projects included: 1) a Customer Account Data Engine (CADE) release that processed returns and issued refunds on average five days faster than the legacy system, while expediting the processing of Economic Stimulus Package payments to taxpayers ahead of schedule; 2) new Modernized e-File (MeF) system capabilities for business taxpayers, which enabled the IRS to process 50% more electronic returns than in FY 2007, including a new electronic Form 1120F for foreign corporations and the new Form 990N, the electronic "postcard" for small, tax-exempt organizations; and 3) the implementation of an online address change capability for CADE accounts via the Accounts Management Services system.

The IRS also implemented several initiatives that continue to improve the information technology (IT) infrastructure. The IRS continued to use a consistent standardized governance approach that maps IT projects to a single framework and applies best practices across the entire IT portfolio. In addition, the IRS implemented a repeatable process to assess the condition of IT development, maintenance, and services to better equip decision makers. The process examines the "health" of all IRS IT projects across the portfolio and alerts management if a project is facing unusual challenges that may influence a critical IRS function such as the filing season.

In FY 2009, the IRS will continue to focus on modernization of the tax administration systems in manageable increments to provide additional benefits to taxpayers and maintain continuity of the program while mitigating risk through strict oversight.

Challenge 2 - Security

As part of its mission, the IRS is entrusted with sensitive information including personally identifiable information such as Social Security numbers (SSNs). Protecting this information is vital to maintaining the public trust that encourages voluntary compliance with the tax law and enables the IRS to conduct business effectively. In FY 2008, the IRS focused on establishing enterprise resilience for personal, physical, and IT security as well as disaster recovery capability of the tax administration systems.

Accomplishments in FY 2008 include the establishment of an Office of Online Fraud Detection and Prevention to address increasing and evolving online threats affecting the IRS and taxpayers; continued risk assessments of business processes to address identity protection; and analysis of the use of SSNs for reduction and elimination where possible. The IRS also implemented a process to encrypt removable storage devices; installed a program that automatically encrypts all files written on CD-DVD media; and conducted Operation R.E.D., an IRS-wide event to remind IRS employees of existing policies and procedures regarding safe-guarding of sensitive or personally identifiable information.

Security of infrastructure and IT systems continues to be a top priority for the IRS. In FY 2008, the IRS revised its corrective action plan to address all components of the Information Security material weakness, providing a comprehensive approach to addressing the issues. The actions address IT security training, systems auditing, access controls, systems security configuration control, and IT systems disaster recovery. The Certification and Accreditation and Security

Training components of the plan are closed pending Government Accountability Office (GAO) and Treasury Inspector General for Tax Administration (TIGTA) validation. As TIGTA indicated in its FY 2008 review of IRS compliance with the Federal Information Security Management Act (FISMA), the IRS has made steady progress in complying with FISMA requirements and continues to place a high priority on efforts to improve the security program.

Planned actions for FY 2009 include enhancements to the project lifecycle process to ensure security is part of project development, deployment of an automated means of identifying and accounting for IT assets connected to the network, and upgrading core security infrastructure components. During FY 2009, the IRS expects to develop the methodology and framework to close the Disaster Recovery component of the Information Security material weakness. Ongoing activities will take place to identify and assess new online computer fraud schemes.

Challenge 3 - Tax Compliance Initiatives

In FY 2008, the IRS expanded its research studies of filing, payment, and reporting compliance to provide an overall picture of taxpayer compliance levels. The IRS has begun using a rolling multi-year methodology to obtain more complete and timely data on individual tax filers and continues to conduct other research studies to ensure compliance with the tax code like the ongoing Subchapter S Corporations study. The IRS will use the data from these studies and others like them to continue to update the audit identification and selection tools and better leverage the limited enforcement resources. Studies in subsequent years will also allow the IRS to combine results to make annual updates to its voluntary compliance estimates.

GAO's downgrade of the Tax Revenue and Refunds audit material weakness in the FY 2008 IRS Financial Statement Audit Report was attributable in part to the IRS establishment of a governance body to improve collection efforts and the improved use of modeling to better target collection efforts.

Individuals and Businesses

In FY 2008, the IRS collected over $2.7 trillion in revenue, including $56.4 billion through examination and collection enforcement activities. The IRS focused enforcement presence where it was most needed on corrosive activities of certain types of corporations, high income taxpayers, and other major violators of the tax code to improve efficiency and reduce the burden on compliant taxpayers. The IRS increased analytics in critical programs such as Examination and Collection, and improved the systemic workload identification and selection models to target high risk cases. These actions resulted in increases in the total number of audits started and completed and in closures for the Collection and Automated Underreporter programs. The IRS also continued reengineering the Examination and Collection processes to expand coverage, reduce processing time, and increase yield.

As the flow of trade and capital moves more easily across borders, the global marketplace is developing at an ever increasing rate. With this continued growth, tax planning is increasingly focused on minimizing the worldwide effective tax rate. As a result, taxpayers often have an incentive to adopt structures or arrangements that maximize U.S. expenses or shift income abroad. While U.S. domestic law or treaty provisions clearly address many cross-border transactions, others involve emerging issues that may constitute unacceptable tax avoidance or evasion. Unless adequate compliance resources are provided to identify, develop, and pursue such issues where appropriate, international activities will pose increasingly serious risks to the U.S. tax base.

Planned actions for FY 2009 include testing alternative methods of selection for offshore entities, testing new business rules for identifying and reporting noncompliance, introduction of a new Schedule M-3 to gather information on foreign controlled corporations, improved case selection for Examination and Automated Underreporter cases, and testing of additional soft notices to provide taxpayers with opportunities to self-correct income reporting errors.

In addition, the FY 2009 IRS Budget Request includes a $51 million enforcement initiative to support and expand ongoing research studies of filing, payment, and reporting compliance to provide a comprehensive picture of the overall taxpayer compliance level. Research allows the IRS to better target specific areas of noncompliance, improve voluntary compliance, and allocate resources more effectively to reduce the tax gap.

Tax-Exempt Organizations

Maintaining a strong enforcement presence in the tax-exempt sector is particularly important because these entities can be misused by third parties to facilitate abusive transactions. The IRS expanded its enforcement presence in FY 2008, conducting reviews of executive compensation practices among tax-exempt organizations. The IRS developed new outreach tools, including web-based tools to help tax-exempt entities understand their federal tax requirements, and presentations for issuers and borrowers of tax-exempt bond proceeds to encourage improved compliance procedures after bond issuance.

The IRS has controls in place that are intended to ensure the integrity of the closing process for tax-exempt bond examinations. For example, in FY 2008, the IRS conducted a comprehensive review of administrative procedures related to the tax-exempt bond examination and refund claim closing processes, which resulted in the issuance of a new revenue procedure and development of revised internal procedures to ensure managers approve closing letters and refund claims.

In addition, the IRS increased awareness of IRS Pension Plan Correction Programs via an educational workshop marketed for small business practitioners and encouraged them to use new, online IRS "Fix-It Guides" to help their clients find, fix, and avoid common retirement plan mistakes.

In FY 2009, the IRS will continue to focus its efforts on tax shelter schemes and abusive transactions. The IRS also will continue efforts to improve its understanding of compliance issues in major segments of the exempt sector, including conducting a study of colleges and universities focusing on unrelated business income, endowments, and executive compensation practices.

Challenge 4 - Providing Quality Taxpayer Service Operations

The IRS continued to make improvements in key areas involving services for taxpayers in FY 2008, providing assistance to millions of taxpayers through toll-free call centers, the IRS.gov website, and the 400 Taxpayer Assistance Centers (TACs). The number of partnerships with community-based organizations assisting taxpayers with financial literacy, return preparation, and tax return filing increased. At over 12,000 Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals, filing approximately 3.5 million returns on their behalf, a 34% increase over FY 2007 and a 15% increase in outreach efforts.

To increase the number of eligible taxpayers opting to claim the Earned Income Tax Credit (EITC), the IRS held the second EITC Awareness Day, during which the IRS, along with a cadre of national partners, reached out to the underserved EITC-eligible population, especially those with limited English proficiency.

Actions planned for FY 2009 include implementation of additional Taxpayer Assistance Blueprint (TAB) service improvement initiatives, including recommendation of a set of TAB Measures to serve as the basis for a taxpayer scorecard to measure service improvements; providing taxpayers who did not receive an Economic Stimulus Payment or received less than the maximum amount with information to claim the Recovery Rebate Credit; and completion of the TAC Evaluation Model, the decision tool for determining changes in the TAC geographic footprint.

Challenge 5 - Human Capital

Similar to most other federal agencies, the IRS continues to face major workforce challenges such as large numbers of retirements, competition with both the public and private sectors for critical talent, and ensuring the workforce is prepared to carry out the IRS mission.

Developing future leaders and ensuring adequate bench strength to lead the current organization are two tenets of the IRS succession planning strategy. In 2001, the IRS developed a Leadership Competency Model that enhanced the ability to analyze competency strengths and weaknesses for both individuals and across the Service. This model provided a foundation for the current Leadership Succession Review (LSR) process, designed to assist senior leadership in identifying qualified individuals to fill future leadership positions. In FY 2008, the IRS expanded the LSR process to include bargaining unit employees, allowing for a larger group of employees from which to identify individuals with the potential to become leaders. Individuals identified as ready for management in the next three to five years are encouraged to develop plans that include both training courses and detail opportunities to develop their skills.

In FY 2008, the IRS initiated a leadership coaching pilot to serve and support the current cadre of managers. The pilot program's success and the addition of external coaches validated the coaching concept, and the IRS plans to expand the program in the future. An analysis of the Employee Engagement Survey results for 2007 and 2008 indicates that coaching benefits both managers and employees and strengthens the workgroup.

The IRS is developing and documenting a high-level leadership succession strategy that establishes a process to assess the overall success of its leadership succession activities. The IRS also plans to improve the system in place to capture leadership succession data so the system can be used to quickly replace leaders when vacancies occur.

Additionally, the IRS recently implemented an exit survey process to identify the reasons why employees leave the Service. The survey was sent to individuals who separated in the six months before its implementation, and a preliminary analysis has been conducted. Also in FY 2008, the IRS established a Corporate Incentive Strategy to ensure consistency across the bureau in the use of incentives for hiring, relocation, and retention. The IRS will review the effectiveness of these incentives annually.

The IRS established a "Workforce of Tomorrow" task force to address recruitment and retention issues so the IRS has the necessary leadership and workforce to address the challenges of FY 2009 and beyond. The task force will drive several key workforce priorities, including valuing and retaining people, planning a dynamic hiring strategy, attracting the best candidates both internally and externally, streamlining the hiring process at the IRS, developing future leaders, and enhancing the role of managers.

Challenge 6 - Erroneous and Improper Payments

In 2008, the IRS protected over $3.2 billion in revenue through enforcement efforts for the Earned Income Tax Credit (EITC), which included the examination of over 500,000 returns claiming the EITC, 375,000 document matching reviews, and 425,000 math error corrections. The IRS reduced the number of erroneous and improper EITC payments by developing and implementing business process improvements and business enhancements that resulted from the ongoing analysis of the tax year 2001 National Research Program (NRP) study. The IRS also made a number of significant improvements to the EITC program by improving accuracy, automating release of suspended refunds where the EITC was in question, improving communications with taxpayers, and enhancing the training provided to tax examiners working on EITC cases. The IRS focused on EITC cases that presented the highest compliance risk, conducted a significant number of recertification audits, and provided necessary coverage of other components of EITC error.

In addition, the IRS Questionable Refund Program identified more than 332,000 potentially fraudulent returns claiming over $1.6 billion in refunds and stopped over $41 billion in fraudulent claims using the Electronic Fraud Detection System. Process improvements and automation improved the efficiency in verification routines by 16%.

In FY 2009, the IRS will continue to focus on reducing the number of erroneous and improper payments by analyzing the results from the first year of the multi-year NRP study begun in FY 2008. This study will provide an annual update of the EITC error rate and allow the IRS to more quickly explore research-based, cost-effective approaches to improve EITC participation and minimize errors more quickly than possible using the older data. The IRS will also complete activities associated with the fourth year of the EITC Return Preparer Study and analyze short-term outcomes, including penalties assessed, accuracy of returns prepared, and other outcomes from due diligence visits and education/compliance notices and phone calls to first-time EITC preparers.

Challenge 7 - Complexity of the Tax Law

To ease the burden associated with the complexity of the voluntary tax system and recent revisions to the law, the IRS continued to improve services through automation, outreach, and education of taxpayers. In FY 2008, the IRS.gov website had more than 2.1 billion hits as taxpayers accessed the site in record numbers to get the most up-to-date information. To assist individual taxpayers, the IRS designed a “1040 Central” page which contains news releases, fact sheets, and tax tips, all designed to keep taxpayers informed of changes as they happen. The IRS also developed a three-point plan that expanded EITC outreach initiatives, identified ways to simplify and improve the EITC forms, and outlined efforts to improve IRS.gov, making it more user friendly for EITC filers. To address potential compliance issues for small businesses and individuals with limited English proficiency, chapters in Publication 334, *Tax Guide for Businesses*, and Publication 17, *Your Federal Income Tax*, were translated into Spanish, and the IRS began to offer publications in more languages such as Chinese, Russian, Korean, and Vietnamese.

The complexity of the tax law and resulting transactions created a need for specialized knowledge and expertise in certain areas. Taxpayers increasingly operate in a global environment. New business enterprises are rapidly developing that give rise to increasingly complex tax issues, often crossing international tax jurisdictions. To address these issues, in FY 2008, the IRS reorganized its international resources and programs into one organization to provide for comprehensive, IRS-wide approaches to analyzing the dynamics of globalization and the resulting international tax issues.

In FY 2009, the IRS will continue to monitor proposed changes to the tax laws and prepare accordingly to ensure taxpayers and IRS employees have the necessary forms and information available for the filing season.

Challenge 8 - Taxpayer Protection and Rights

Taxpayer protection remains a high priority for the IRS. The IRS has expanded its taxpayer rights procedures, guidelines, and taxpayer notification processes to ensure compliance. In FY 2008, the IRS continued to monitor compliance with taxpayer rights provisions. Actions taken included quarterly managerial certifications and annual independent reviews of employee and manager files to ensure managers do not use enforcement statistics to evaluate employees and drive behavior in conflict with taxpayer rights. As TIGTA indicated in its reports, because of actions taken by the IRS, taxpayers are better informed of their rights during interviews than in the past, and employees are provided with sufficient guidance with respect to taxpayer rights.

In FY 2008, the IRS completed a Federal Payment Levy Program (FPLP) research project to make sure levies processed against certain benefit programs do not adversely impact certain low-income taxpayers. Further examination of the results is expected to identify recommendations for program changes. The IRS also completed an IRS-wide Return Preparer Strategy plan to address paid preparer noncompliance and establish treatment alternatives consistent with those used to address certain other paid preparer behaviors.

Actions planned for FY 2009 include establishment of an oversight review and approval process for preparer penalties to ensure uniform and consistent application of penalties, and development of metrics for the IRS paid preparer program. Efforts to remove or redact SSNs from outgoing correspondence will continue, as will efforts to identify reliable indicators of taxpayer ability to pay for the FPLP.

Challenge 9 - Processing Returns and Implementing Tax Law Changes

The IRS adeptly ensures that its forms and publications accurately reflect legislative changes, and quickly modifies the tax processing systems upon enactment of new tax law provisions. In February 2008, after the onset of the filing season, the President signed the Economic Stimulus Act of 2008, authorizing economic stimulus payments to over 130 million American households. Before the bill's enactment, the IRS had plans in place to identify taxpayers who qualified for the payment, to send notices to over 130 million taxpayers to alert them of their potential eligibility for the stimulus payments, and to generate publicity to ensure information on the stimulus payments reached the widest possible audience. Because the Economic Stimulus Act became law after the onset of the filing season, its implementation had a major impact on the IRS, requiring quick development of new forms for those taxpayers who normally would not have to file a return to use to claim the stimulus payments, the creation of new publications, and the re-programming of the 38 major filing systems. In addition, the IRS launched an extensive communication strategy that focused on educating the public by maximizing media reach and publicizing the Economic Stimulus Payments. This comprehensive approach to administering the refund allowed the IRS to successfully meet taxpayer and stakeholder expectations for these important tax law changes, all while delivering a successful filing season.

The IRS.gov website allows taxpayers to obtain real-time information on tax law changes. In FY 2008, taxpayers used the site to find out about changes to the alternative minimum tax, used the stimulus calculator to find out the amount of their payment, check on the status of the payment, and get answers to their questions. More than 39 million taxpayers used the traditional "Where's My Refund?" calculator to check on the status of their tax refund, including 317,000 taxpayers who used the new Spanish version, and an additional 38.7 million taxpayers used the "Where's My Stimulus Payment?" to check on the status of their payment.

The IRS will continue to plan and prepare for the 2009 filing season, continuing the focus on electronic filing, particularly for businesses. The rigorous planning and oversight the taxpaying public has come to expect will ensure that new and carry-over legislative provisions are accurately reflected in filing season forms, publications, and on IRS.gov.

Challenge 10 - Improving Performance and Financial Data for Program and Budget Decisions

The IRS has a detailed allocation methodology to provide full cost accounting to the five operating business units, and three complete years of fully allocated cost data in the Integrated Financial System (IFS). The IFS cost module produced the FY 2008 Statement of Net Cost. Also, the IRS developed a full cost return on investment (ROI) calculation for the EITC program, a key factor that allowed the IRS to downgrade the Federal Managers' Financial Integrity Act material weakness for the EITC program in FY 2008. Additionally, in the FY 2008 Financial Statement Audit Report, GAO downgraded the Tax Revenue and Refunds audit material weakness because of the significant progress the IRS made in FY 2008. Specifically, GAO indicated the IRS made substantial cost accounting improvements, including calculation of a full-cost ROI for EITC, improved use of ROI in budget initiatives, establishment of governance bodies to improve collection efforts, and improved use of modeling to better target collection efforts.

To more fully realize the benefits of Performance Based Acquisitions, the IRS implemented requirements to improve training and an on-going process to develop measures for use in tracking IRS progress in reaching the goals mandated by the Office of Management and Budget. The IRS created a training curriculum offering courses designed to train personnel in performance based methods, choosing the most appropriate procurement vehicle, and balancing procurement decisions against requirements for all IRS investments.

In FY 2009, the IRS will continue to use its managerial cost accounting system for cost analysis and cost estimations.

We look forward to working with you to further address these challenges.

cc: The Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer
Commissioner of Internal Revenue

APPENDIX D: MATERIAL WEAKNESSES, AUDIT FOLLOW-UP, AND FINANCIAL SYSTEMS

This section consists of detailed descriptions of the Department's material weakness inventory, including a summary of actions taken and planned to resolve the weaknesses; tracking and follow-up activities related to the Department's GAO, OIG, and TIGTA audit inventory; an analysis of potential monetary benefits arising from audits performed by the Department's Inspectors General; and an update on the Department's financial systems framework.

TREASURY'S MATERIAL WEAKNESSES

Management may declare audit findings or internal situations as a material weakness whenever a condition exists that may jeopardize the Treasury mission or continued operations. Material weaknesses are required in these instances by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA).

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires agencies to establish and maintain internal control. The Secretary must annually evaluate and report on the controls (Section 2) and financial systems (Section 4) that protect the integrity of federal programs. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations. During fiscal year 2008, Treasury closed two material weaknesses: Treasury Departmental Offices Lack of Compliance with the FISMA, and IRS Overclaims in the Earned Income Tax Credit.

As of September 30, 2008, Treasury has four remaining material weaknesses under Section 2 of the FMFIA, summarized as follows:

Summary of FMFIA and FFMIA Material Weaknesses	Section 2	Section 4	Total
Balance at the Beginning of FY 2008	6	0	6
Closures/Downgrades during FY 2008	2	0	2
Reassessed during FY 2008	0	0	0
New MW declared during FY 2008	0	0	0
Balance at the End of FY 2008	4	0	4

Below are detailed descriptions of Treasury's four material weaknesses:

Material Weakness Description	
Internal Revenue Service - Improve Modernization Management Controls and Processes	
The IRS needs to improve its Business Systems Modernization program. Key elements: • Assess the recommendations from the Special Studies and Reviews of the Business Modernization program and projects • Implement and institutionalize procedures for validating contractor-developed costs and schedules • Establish effective contract management practices • Complete a human capital strategy • Improve configuration management practices	
Actions Completed	**What Remains to be Done**
✓ Added expertise in industry-best practice experience ✓ Enhanced capabilities in critical management process areas ✓ Completed Project Release Cost/Schedule milestones within acceptable threshold levels	❍ Allow assessment time to observe long-term effect of actions completed ❍ Targeted Downgrade/Closure: fiscal year 2011

Material Weakness Description	
Internal Revenue Service - Computer Security	
The IRS has various computer security controls that need improvement. Key elements: • Adequately restrict electronic access to and within computer network operational components • Adequately ensure that access to key computer application and systems is limited to authorized persons for authorized purposes • Adequately configure system software to ensure the security and integrity of system programs, files, and data • Appropriately delineate security roles and responsibilities within functional business operating and program units, as required by the Federal Information Security Management Act (FISMA) • Appropriately segregate system administration and security administration responsibilities • Sufficiently plan or test the activities required to restore certain critical business systems where unexpected events occur • Effectively monitor key networks and systems to identify unauthorized activities and inappropriate system configurations • Provide sufficient technical, security-related training to key personnel • Certify and accredit 90% of all systems	
Actions Completed	**What Remains to be Done**
✓ Completed technical security related training to key personnel ✓ Completed certification and accreditation area metrics ✓ Conducted compliance assessment to revalidate security roles and responsibilities ✓ Established an Authoritative Asset Inventory ✓ Certified and accredited 100% of all systems as of fiscal year 2008	❍ Restrict electronic access to and at the operating system level of network operational components ❍ Control access to systems software and applications ❍ Implement configuration management and change control to safeguard the security and integrity of system programs, files, and data ❍ Monitor user activity on network operating devices, operating systems, and applications ❍ Targeted Downgrade/Closure: fiscal year 2012

Material Weakness Description	
Internal Revenue Service - Accounting for Revenue	
The IRS needs to have detail data to support custodial financial reporting for revenue. Key elements: • Inability to provide detailed support for large types of revenue for employment and excise taxes • Lack of effective custodial supporting systems/subsidiary detail • Subsidiary ledger does not track and report one Trust Fund Recovery Penalty (TFRP) balance • Untimely posting of TFRP assessments and untimely review of TFRP accounts • Lack of a single, integrated general ledger to account for tax collection activities and the costs of conducting those activities • Inability to generate and report reliable cost-based performance data for collection activities to make informed resource allocation decisions • IRS's general ledger for its custodial activities does not use the standard federal accounting classification structure	
Actions Completed	What Remains to be Done
✓ Subsidiary payment systems placed into production ✓ Custodial Detail Database (CDDB) master files placed into production ✓ Completed Project Charter, IRS Project Management Plan, and tailoring plan for Redesign Revenue Accounting Control System (RRACS) ✓ Developed a cost accounting policy that provides guidance on managerial cost concepts and established an Office of Cost Accounting to implement the policy	❍ Completion of CDDB Releases to provide a single, integrated subsidiary ledger using standard federal accounting classification structure ❍ Targeted Downgrade/Closure: fiscal year 2010

Material Weakness Description	
Financial Management Service - Consolidated Government-wide Financial Statements	
The government does not have adequate systems, controls, and procedures to properly prepare the Consolidated Government-wide Financial Statements. Key elements: • The government lacks a process to obtain information to effectively reconcile the reported excess of revenue over net costs with the budget surplus • Weaknesses in financial reporting procedures in internal control over the process for preparing the Consolidated Financial Statements	
Actions Completed	What Remains to be Done
✓ Partially reconciled fiscal year 2007 operating revenues with budget receipts ✓ Developed a model to provide analysis of unreconciled transactions that affect the change in net position ✓ Accounted for intra-governmental differences through formal consolidating and elimination accounting entries using all reciprocal fund categories including the General Fund ✓ Federal agencies submit complete closing packages to GAO	❍ Complete reconciliation of operating revenues to budget receipts ❍ Complete reciprocal category for the Treasury General Fund ❍ Implement changes identified by the Fiscal Assistant Secretary as a result of their review of the Reporting Entity definitions per the Financial Accounting Standards Advisory Board (FASAB) criteria ❍ Establish traceability from agency footnotes to the Consolidated Financial Statements (CFS) for completeness ❍ Include all disclosures as appropriate ❍ Include all loss contingencies as appropriate ❍ Targeted Downgrade/Closure: fiscal year 2011

AUDIT FOLLOW-UP ACTIVITIES

During fiscal year 2008, Treasury placed renewed emphasis in both the general administration of internal control issues throughout the Department and the timely resolution of 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 to implement enhancements to the tracking system called the "Joint Audit Management Enterprise System" (JAMES). JAMES is a Department-wide, interactive, web-based system accessible to the OIG, TIGTA, bureau management, Departmental management, and others. The system tracks information on audit reports from issuance through completion of all corrective actions required to address findings and recommendations contained in an audit report.

Potential Monetary Benefits

The Inspector General Act Amendments of 1988, 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. The Department consolidates and analyzes 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 Department management.

In the course of their audits, the Inspectors General periodically identify questioned costs, make recommendations that funds be put to better use, and identify measures that demonstrate the value of audit recommendations to tax administration and business operations. "Questioned costs" include:

- a cost that is questioned because of an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds;
- a finding, at the time of the audit, that such costs are not supported by adequate documentation (*i.e.*, an unsupported cost); or
- a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable.

The Department 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 charts represent audit report activity for the period from October 1, 2007, through September 30, 2008. The data reflect information on reports that identified potential monetary benefits issued by the OIG and TIGTA.

Audit Report Activity With Potential Monetary Benefits For Which Management Has Identified Corrective Actions (OIG and TIGTA) October 1, 2007 through September 30, 2008 (Dollars in Millions)								
	Disallowed Costs		Better Used Funds		Revenue Enhancements		Totals	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Report Total*	Total Dollars
Beginning Balance	12	$36.0	7	$9.7	12	$698.3	29	$744.0
New Reports	4	.2	4	350.3	7	196.1	15	546.6
Total	16	36.2	11	360.0	19	894.4	44	1,290.6
Reports Closed	5	1.1	7	339.1	9	141.2	21	481.4
a. Realized or Actual	3	1.0	5	5.7	6	46.4	14	53.1
b. Unrealized - Written off	3	.1	3	333.4[1]	4	94.8[2]	11	428.3
ENDING BALANCE	11	$35.1	5	$20.9	10	$753.2	23	$809.2

* Reports column may not add due to inclusion of reports in multiple categories.

1 This category includes one report, with $3.28 million written off, for which IRS management did not concur with TIGTA's projected benefits; and one report, with $330 million written off, for which IRS management did not agree with TIGTA's recommended corrective action.

2 This category includes two reports, with $89.57 million written off, for which TIGTA does not agree with the IRS that the benefits have not been realized; and two reports, with $5.27 million written off, for which IRS management did not concur with TIGTA's projected benefits.

The following table provides a snapshot of OIG and TIGTA audit reports with significant recommendations reported in previous semiannual reports for which corrective actions had not been completed as of September 30, 2007, and September 30, 2008, respectively. There were no "Undecided Audit Recommendations" during the same periods.

Significant Unimplemented Recommendations				
	9/30/2007		9/30/2008	
	OIG	TIGTA	OIG	TIGTA
	No. of Reports	No. of Reports	No. of Reports	No. of Reports
Unimplemented	14	39	6	40

The following table presents a summary of TIGTA and OIG audit reports that were open for more than a year with potential monetary benefits at the end of PAR Report Year.

Number of Reports with Potential Monetary Benefits Open for More than One Year				
	PAR Report Year	FY 2006	FY 2007	FY 2008
TIGTA	No. of Reports	15	10	12
	$ Projected Benefits	$13,097.6 million	$66.5 million	$661.5 million
OIG	No. of Reports	0	1	1
	$ Projected Benefits	$0 million	$29.4 million	$29.4 million

The following tables present a summary of TIGTA and OIG audit reports on which management decisions were made on or before September 30, 2007, but the final actions have not been taken as of September 30, 2008.

Details of the Audit Reports with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2007, But Final Actions Have Not Been Taken as of September 30, 2008
(Dollars In Thousands)

Bureau	Report Number	Report Issue Date	Brief Description	Disallowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date/Reason for Delay
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
2004	1				200.0		200.0	

Details of the Audit Reports with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2007, But Final Actions Have Not Been Taken as of September 30, 2008 (Continued)
(Dollars In Thousands)

Bureau	Report Number	Report Issue Date	Brief Description	Disallowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date/Reason for Delay
IRS	2005-30-013	12/2/2005	Consider requiring the use of a standardized tool, such as Decision Point, or analysis tools in the offer evaluation process.			135.0	135.0	Delayed to 12/15/2008. Additional time is needed to complete the pilot and evaluate the results.
FY 2005	1					135.0	135.0	

Details of the Audit Reports with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2007, But Final Actions Have Not Been Taken as of September 30, 2008 (Continued)
(Dollars In Thousands)

Bureau	Report Numbers	Report Issue Date	Brief Description	Disallowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date/Reason for Delay
BEP	OIG-06-010	12/2/2005	Full cost of BEP's Currency Operations is not reflected in its billing rates.			29,.400.0	29,400.0	Delayed to 10/1/2009
IRS	2006-1c-142	9/25/2006	The IRS Contracting Officer (CO) should use the results of the Defense Contract Auditing Agency (DCAA) report to fulfill his/her duties in awarding and administering contracts.	32,373.7			32,373.7	Due 8/15/2009
FY 2006	2			32,373.7		29,400.0	61,773.7	

Continued

Details of the Audit Reports with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2007, But Final Actions Have Not Been Taken as of September 30, 2008 (Continued) (Dollars In Thousands)								
Bureau	Report Numbers	Report Issue Date	Brief Description	Disallowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date/Reason for Delay
IRS	2007-1c-013		The IRS CO will work with DCAA and the contractor to resolve the questioned costs applicable to IRS contracts.	17.1				Due 12/15/2009
IRS	2007-1c-040		The IRS CO will work with DCAA and the contractor to resolve the questioned costs applicable to IRS contracts.	103.6				Due 2/15/2010
IRS	2007-1c-041		The IRS CO will work with DCAA and the contractor to resolve the questioned costs applicable to IRS contracts.	2,247.0				Due 3/15/2010
IRS	2007-1c-044		The IRS CO will work with DCAA and the contractor to resolve the questioned costs applicable to IRS contracts.	22.1				Due 3/15/2010
IRS	2007-30-062		Ensure the revised Form 4137 is used effectively to identify and assess the employer's share of Social Security and Medicare taxes on unreported tip income.			541,124.0		Due 1/15/2009
IRS	2007-10-076		Initiate a legislative proposal to exempt the IRS from issuing a deficiency notice for disallowance of the EITC and other refundable credits when the deficiency and credits are the result of fraudulent returns, if its current efforts through a regulatory change are not successful.			81,500.0		Due 1/31/2009
IRS	2007-20-123		Collect and review lessons learned from the use of independent estimates to determine whether independent estimates can become a consistently more useful negotiation tool.		3,683.0			Due 3/1/2009
IRS	2007-1c-149		The IRS CO will work with DCAA and the contractor to resolve the questioned costs applicable to IRS contracts.	62.1				Due 9/15/2010
IRS	2007-1c-154		The IRS CO will work with DCAA and the contractor to resolve the questioned costs applicable to IRS contracts.	1.2				Due 9/15/2010
FY 2007	9			2,453.1	3,683.0	622,624.0	628,760.1	
TOTAL	13			34,826.8	3,883.0	652,159.0	690,868.8	

PLAN FOR FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

Overview

The Department of the Treasury's financial management systems structure consists of financial and mixed systems maintained by the Treasury bureaus and the Department-wide Financial Analysis and Reporting System (FARS). The bureau systems process and record the detailed financial transactions and submit summary-level data to FARS on a scheduled basis. FARS maintains the key financial data necessary for consolidated financial reporting. In addition, the FARS modules also maintain data on performance management and the status of audit-based corrective actions. Under this systems structure, the bureaus are able to maintain financial management systems that meet their specific business requirements. On a scheduled basis, the required financial and performance data are submitted to FARS to meet Departmental analysis and reporting requirements. The Department uses FARS to produce its periodic financial and performance reports as well as the annual Performance and Accountability Report. This structured financial systems environment enables Treasury to receive an unqualified audit opinion and supports its required financial management reporting and analysis requirements.

The FARS structure consists of the following components: bureau core and financial management systems that process and record detailed financial transactions; the Treasury Information Executive Repository (TIER) data warehouse; CFO Vision to produce monthly financial statements and analyze financial results; the Joint Audit Management Enterprise System (JAMES) to capture information on audit findings, recommendations, and planned corrective actions; and the Performance Reporting System (PRS) to track the status of key performance measures. Bureaus submit summary-level financial data to TIER on a monthly basis, within three business days of the month-end. The data are then used by CFO Vision to generate financial statements and reports on both a Department-wide and bureau-level basis. This structure enables the Department to produce its monthly and audited annual financial statements. During fiscal year 2008, Treasury continued to upgrade its FARS applications to take advantage of improvements in system technology. This included the continued roll-out of CFO Vision to additional Treasury bureaus. CFO Vision provides the bureaus with direct system access for enhanced reporting capabilities and financial analysis.

Treasury continues with its plans to enhance the financial management systems structure. As of September 2008, the Department's inventory of financial management systems lists 60 financial and mixed systems compared to 64 in September 2007. As part of the Department's enhancement effort, twelve Treasury bureaus and reporting entities are cross-serviced for core financial systems by the Bureau of the Public Debt's Administrative Resource Center. Cross-servicing enables these bureaus to have access to core financial systems without having to maintain the necessary technical and systems architectures. In an effort to continue to streamline its financial systems environment, Treasury will work with the remaining bureaus to develop plans to migrate to a Shared Service Provider for core financial systems in accordance with the Financial Management Line of Business requirements. In addition, as part of the Department's implementation of the e-Travel initiative, all bureaus but one have eliminated their legacy travel systems. The remaining bureau began to implement GovTrip during 2008.

Continued Improvement

Treasury's target financial management systems structure will build upon the current FARS foundation. As processing and reporting requirements change and FARS is expanded to collect additional financial and performance data, it may be necessary to implement additional applications to support these new requirements. FARS will provide management with the appropriate tools needed to analyze Department and bureau performance.

In fiscal year 2005, the IRS implemented the Integrated Financial System (IFS) as its new core financial system. IFS provides timely financial statements and reports in accordance with the federal accounting and reporting standards, including information for budgeting, analysis, and government-wide reporting. In addition, IFS provides the core processes of General Ledger, Accounts Payable, Accounts Receivable, Budget Execution, Cost Accounting, Administrative Tax and Travel Accounting, Cost Allocations, some tax processing functionality for Health Care Tax Credit Payments (HCTC), Budget Formulation, Labor Forecasting, and Budget Execution decision support. Detailed financial, cost accounting, property accounting, and procurement data are available for authorized users. Significant accomplishments for fiscal year 2008 include:

- Successful migration of all interfaces to a secure protocol
- Integration of E-Government data for travel posting and payment
- Enhancement of the HCTC interface to support payment increases from legislative changes

In fiscal year 2009, IRS will continue updating its business requirements to upgrade the IFS and migrate to a Shared Service Provider.

The IRS implemented the Custodial Detail Database (CDDB) in fiscal year 2006. CDDB is an enhancement to the Financial Management Information System (FMIS), which serves as the sub-ledger for the Interim Revenue Accounting Control System (IRACS). CDDB maintains detailed records of IRS revenue, refunds, and unpaid assessments. CDDB addresses a Government Accountability Office (GAO) material weakness by providing detailed data to support custodial financial reporting. Full CDDB functionality will be accomplished with the implementation of Release 4 in 2009. During fiscal year 2008, the IRS implemented several enhancements to CDDB. In January, IRS implemented the Trace ID to add all other pre-posted revenue receipt transactions (federal tax deposits, lockbox, integrated submission, and remittance processing), and created a revenue transaction subsidiary ledger. In March, the IRS used CDDB to accelerate revenue and refund processing, and by June GAO determined specific components for review during the fiscal year 2008 financial audit. In July, GAO agreed to test the Electronic Federal Tax Payment System (EFTPS) pre-posted revenue receipt transactions from CDDB Release 3 during the fiscal year 2008 financial audit. EFTPS accounts for approximately 78 percent of the revenue receipts received during the year. The IRS anticipates full use of CDDB for the fiscal year 2009 financial statement audit.

The 2008 Customer Account Data Engine (CADE) release was delivered in time for the filing season. CADE processed 30.6 million returns, a substantial increase from the 2007 posting of 11.2 million returns, and issued over 28.9 million refunds, totaling more than $44.1 billion. CADE is the highest priority business systems modernization project for the IRS and represents the core foundation of modernized systems. With CADE, the IRS will have the flexibility to respond more quickly to complex tax law and policy initiatives – changes which the existing Master File system cannot easily or cost-effectively accommodate.

CADE settles on a daily basis, rather than weekly as with the legacy system. As a result, CADE processes refunds on average five days faster than the legacy system and updates taxpayer account information immediately for improved customer service. The IRS is using a phased, multi-year approach for CADE by processing increasingly more complex tax returns. When fully operational, the CADE database will house tax information for more than 200 million individual and business taxpayers.

As previously indicated, the Bureau of the Public Debt's Administrative Resource Center cross-services twelve Treasury bureaus and reporting entities for core financial systems. In addition to the cross-servicing for core financial systems, Treasury bureaus are also cross-serviced for other financial management services, such as electronic travel and human resource processing. This cross-servicing has resulted in a reduction in the number of financial management systems maintained by the Department.

Federal Financial Management Improvement Act (FFMIA) Compliance

The FFMIA requires agencies to have financial management systems that substantially comply with the federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems shall have general and application controls in place to support management decisions by providing timely and reliable data. The Secretary shall make a determination annually about whether the agency's financial management systems substantially comply with the FFMIA. If the systems are found not to be compliant, management shall develop a remediation plan to bring those systems into substantial compliance. Management shall determine whether non-compliances with FFMIA should also be reported as non-conformances with Section 4 of FMFIA.

As of September 30, 2008, the Treasury Department's financial management systems were not in substantial compliance with FFMIA due to deficiencies with the IRS's financial management systems. The IRS has a remediation plan in place to correct the deficiencies. For each FFMIA recommendation, the remediation plan identifies specific remedies, target dates, responsible officials, and resource estimates required for completion. This plan is reviewed and updated quarterly.

The Redesign Revenue Accounting Control System (RRACS) Release 1 is an IRS fiscal year 2009 Modernization, Vision, and Strategy (MV&S) initiative that will replace the Interim Revenue Accounting Control System (IRACS). It provides new functionality to address GAO material weaknesses, reduces the risk of failure to sustain future clean audit opinions, and streamlines financial reporting. Specifically, RRACS incorporates the USSGL as required by the Core Financial Systems Requirements and the FFMIA. RRACS adds traceability between the revenue, refunds, and unpaid assessments summary records and the IRS processing systems' detail records. Additionally, RRACS will perform all the functionality of the existing IRACS system, which is the IRS custodial accounting system of record. In March 2008, Release 1 business requirements and the high-level project schedule were completed with an implementation date of January 2010. In May 2008, an integrated project team was established to include a project manager, contractor lead, and project management support. In June 2008, IRS held a project kick-off for all IRS partners and completed the project charter for executive signatures. In July 2008, the Project Charter, IRS Project Management Plan, and Tailoring Plan for RRACS Release 1 were completed. Full deployment of RRACS will allow the IRS to address the financial accounting of revenue material weakness and improve IRS statement of custodial activity reporting and Treasury Information Executive Repository submissions.

APPENDIX E: FULL REPORT OF THE TREASURY DEPARTMENT'S FISCAL YEAR 2008 PERFORMANCE MEASURES BY FOCUS AND STRATEGIC GOAL

Fiscal Year 2008 Performance Summary

This section reports the results of the Department of the Treasury's official performance measures by focus and strategic goal, and further by bureau/organization, for which targets were set in the *Fiscal Year 2008 Performance Plan*, as presented in the *Fiscal Year 2009 Congressional Justification for Appropriations and Performance Plans*. For each performance measure, there is a definition of the measure, performance levels and targets for three previous fiscal years (where available), the performance target and actual for the reporting year, and proposed performance targets for the next fiscal year (where available). The report examines unrealized performance targets and presents actions for improvement.

The purpose of the Treasury Department's strategic management effort is to develop effective performance measures to achieve the Department's goals and objectives, and provide recommendations that will improve results delivered to the American public.

Overall, the Department of the Treasury had 167 performance targets in fiscal year 2008; 15 of these measures were baseline, and 24 were discontinued, resulting in 143 measures. Targets exceeded, met, improved and unmet are shown below for two calculations: 1) including baseline and discontinued measures, and 2) including baseline and discontinued measures.

Fiscal Year 2008 Treasury-wide Performance Summary for Active Measures (Excluding Baseline and Discontinued)

Total Measures	Target Exceeded	Target Met	Target Unmet	Target Improved
143	90 (63%)	33 (23%)	17 (12%)	3 (2%)

Fiscal Year 2008 Treasury-wide Performance Summary (Including Baseline and Discontinued)

Total Measures	Target Exceeded	Target Met	Target Unmet	Target Improved	Baseline	Discontinued
167	90 (54%)	18 (11%)	17 (10%)	3 (2%)	15 (9%)	24 (14%)

Definitions and Other Important Information

Determination of Official Measures: A rigorous process is followed to maintain internal controls when establishing or modifying performance measures. If a performance measure is in the performance budget for the year in question, it must be included in the *Performance and Accountability Report,* and must be approved by the Performance Reporting System administrator. Performance measures that are not in the performance budget may also be included in the Performance and Accountability Report.

Actual: For most of the measures included in this report, the fiscal year 2008 actual data is final. Some of the actual data for fiscal year 2008 are estimates at the time of publication, which are indicated by an asterisk (*). Actual data for these estimated measures will be presented in the *Fiscal Year 2010 Congressional Justification for Appropriations* and the *Fiscal Year 2009 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.

Target: The targets shown for fiscal year 2009 are proposed targets and are subject to change. The final targets will be presented in the *Fiscal Year 2010 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 exceeded or met, "Y" will be shown. If the target has improved from the prior year (but was not met), or was not met, "N" will be shown.

Definition: All performance measures in this report have a detailed definition describing the measure and summarizing the calculation.

Source: The basis for 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 fiscal year 2008 performance, or improve on that performance in future years. Explanations may also include justification for any expected degradation in performance.

Discontinued: Some measures will be discontinued in the *Fiscal Year 2010 Congressional Justification for Appropriations* and the *Fiscal Year 2009 Performance and Accountability Report*. New measures are sometimes developed in order to better measure performance; when this happens, the measure being replaced is discontinued, and an explanation is provided.

Baseline Measures: There are 15 new measures in fiscal year 2008 included in this report. Baseline values facilitate target-setting in the future. The target value for a new measure is "baseline," and the actual value is the initial data point. These targets are considered met since the objective was to establish the initial value in the first year of measurement. Targets are then established for subsequent years.

Additional Information: Additional Information relating to Treasury's performance management can be found at *Office of Performance Budgeting and Strategic Planning webpage*.

Legend:	
*	Indicates actual data is estimated and subject to change
Oe	Outcome Measure
E	Efficiency Measure
Ot	Output Measure

*These tables do not include measures that were discontinued prior to fiscal year 2009.

Cash Resources are Available to Operate the Government

Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Revenue Collected When Due Through a Fair and Uniform Application of the Law								
Dollar amount of collections processed through Pay.gov government-wide Internet collections portal ($ billions)	FMS	$40.00	$48.70	122%	Exceeded	$43.00	▲	▲
Percentage collected electronically of total dollar amount of federal government receipts	FMS	79%	80%	101%	Exceeded	80%	▼	▲
Unit cost to process a federal revenue collection transaction	FMS	$1.30	$1.23*	105%	Exceeded	$1.30	▼	▲
Amount of delinquent debt collected per $1 spent	FMS	$40.00	$54.82 +	137%	Exceeded	$43.00	▲	▲
Amount of delinquent debt collected through all available tools ($ billions)	FMS	$3.40	$4.41 +	130%	Exceeded	$3.90	▲	▲
Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral	FMS	95%	99%	104%	Exceeded	97%	▲	▲
Amount of revenue collected per program dollar	TTB	Baseline	$313.00	100%	Met	$300.00	B	B
Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)	TTB	Baseline	94%	100%	Met	92%	B	B
Automated Collection System (ACS) accuracy	IRS	92%	95.3%	104%	Exceeded	92%	▲	▲
Automated Underreporter (AUR) coverage	IRS	2.5%	2.55%	102%	Exceeded	2.5%	▲	▲
Automated Underreporter (AUR) efficiency	IRS	1,961	1,982	101%	Exceeded	2,022	▲	▲
Percent of BSM projects within +/- cost variance	IRS	Baseline	92%	100%	Met	90%	B	B
Percent of BSM projects within +/- schedule variance	IRS	Baseline	92%	100%	Met	90%	B	B
Collection coverage - Units	IRS	53%	55.2%	104%	Exceeded	54.74%	▲	▲
Collection efficiency - Units	IRS	1,835	1,926	105%	Exceeded	1,935	▲	▲
Conviction efficiency rate (Cost per conviction)	IRS	$317,625	$315,751	101%	Exceeded	$317,100	▼	▲
Conviction rate	IRS	92%	92.3%	100.3%	Exceeded	92%	►	▲
Criminal investigations completed	IRS	4,000	4,044	101%	Exceeded	3,900	▲	▲
Customer accuracy - Customer accounts (Phones)	IRS	93.5%	93.7%	100.2%	Exceeded	93.7%	▲	▲
Customer accuracy - Tax law phones	IRS	91%	91.2%	100.2%	Exceeded	91%	▲	▲
Customer contacts resolved per staff year	IRS	8,000	12,634	158%	Exceeded	9,686	▲	▲
Customer Service Representative (CSR) Level of Service (%)	IRS	82%	52.8%	64%	Unmet	77%	▼	▼

(continued)

Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Cash Resources are Available to Operate the Government								
Examination coverage - Business corporations > $10 million	IRS	6.6%	6.1%	92%	Unmet	5.8%	▼	▼
Examination Coverage – individual (%)	IRS	1%	1%	100%	Met	1%	▲	▲
Examination Efficiency – individual (1040 Form)	IRS	133	138	104%	Exceeded	140	▲	▲
Examination Quality (LMSB) - Coordinated industry	IRS	96%	97%	101%	Exceeded	96%	▲	▲
Examination Quality (LMSB) - Industry	IRS	88%	88%	100%	Met	88%	▲	▲
Field collection embedded quality	IRS	86%	79%	92%	Unmet	80%	▼	▼
Field examination embedded quality	IRS	87%	86%	99%	Improved	87%	▶	▲
Health Care Tax Credit cost per taxpayer served	IRS	$14.25	$16.94	81%	Unmet	$17.00	▲	▲
Number of convictions	IRS	2,135	2,144	100.4%	Exceeded	2,135	▶	▶
Office examination embedded quality	IRS	90%	90%	100%	Met	90%	▲	▲
Percent of business returns processed electronically	IRS	20.8%	19.4%	93%	Improved	22.9%	▲	▲
Percent of individual returns processed electronically	IRS	61.8%	57.6%	93%	Improved	64%	▲	▲
Refund timeliness - Individual (paper)	IRS	98.4%	99.1%	101%	Exceeded	98.4%	▶	▲
Health Care Tax Credit sign-up time (days)	IRS	97	94	103%	Exceeded	97	▶	▲
Taxpayer self assistance rate	IRS	51.5	66.8	130%	Exceeded	64.2	▲	▲
Tax Exempt and Government Entities determination case closures	IRS	100,600	10,0050	99%	Unmet	94,000	▼	▼
Timeliness of critical filing season tax products to the public	IRS	86%	92.4%	107%	Exceeded	92%	▲	▲
Timeliness of critical other tax products to the public	IRS	86%	89.5%	104%	Exceeded	89%	▲	▲
Timely and Accurate Payments at the Lowest Possible Cost								
Percentage of paper check and electronic funds transfer (EFT) payments made accurately and on-time	FMS	100%	100%	100%	Met	100%	▶	▶
Percentage of Treasury payments and associated information made electronically	FMS	79%	79%	100%	Met	80%	▲	▲
Percentage of federal agency customers indicating an overall service rating of satisfactory or better	FMS	85%	88%	104%	Exceeded	87%	▲	▲
Unit cost for federal government payments	FMS	$0.40	$0.39*	103%	Exceeded	$0.40	▲	▲
Government Financing at the Lowest Possible Cost Over Time								
Cost per debt financing operation	BPD	$263,306	$237,636*	110%	Exceeded	$275,610	▲	▲
Cost per federal funds investment transaction	BPD	$75.55	$57.81*	123%	Exceeded	$69.11	▼	▼

(continued)

Cash Resources are Available to Operate the Government								
Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percent of auction results released in two minutes +/- 30 seconds	BPD	95%	100%	105%	Exceeded	95%	▶	▲
Cost per TreasuryDirect assisted transaction	BPD	$9.25	$7.23*	122%	Exceeded	$9.34	▲	▼
Cost per TreasuryDirect online transaction	BPD	$4.34	$3.76*	113%	Exceeded	$4.34	▲	▲
Number of Government Agency Investment Services control processes consolidated	BPD	2	2	100%	Met	0	▼	▶
Percentage of retail customer service transactions completed within 12 business days	BPD	90%	99.86%	111%	Exceeded	90%	▶	▲
Effective Cash Management								
Variance between estimated and actual receipts (annual forecast)	DO	5%	4.6%	108%	Exceeded	5%	▶	▼
Accurate, Timely, Useful Transparent and Accessible Financial Information								
Cost per summary debt accounting transaction	BPD	$9.91	$8.29*	116%	Exceeded	$10.01	▼	▼
Release federal government-wide statements on time	DO	Met	Met*	100%	Met	Met	▶	▶
Percentage of government-wide accounting reports issued accurately	FMS	100%	100%	100%	Met	100%	▶	▶
Percentage of government-wide accounting reports issued timely	FMS	100%	100%	100%	Met	100%	▶	▶
Unit cost to manage $1 million dollars of cash flow	FMS	$11.72	$9.21*	121%	Exceeded	$13.39	▲	▲

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad								
Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Strong U.S. Economic Competitiveness								
Administrative cost per number of Bank Enterprise Award (BEA) applications processed	CDFI	$1,455	$3,070	-11%^	Unmet	$1,455	▲	▲
Administrative costs per financial assistance application processed	CDFI	$6,920	$7,200	96%	Unmet	$6,920	▲	▲
Administrative costs per number of Native American CDFI Assistance applications processed	CDFI	$9,090	$10,990	79%	Unmet	$9,090	▼	▲
Administrative costs per number of New Markets Tax Credit (NMTC) applications processed	CDFI	$4,875	$7,400	48%	Unmet	$4,875	▼	▲
Annual percentage increase in the total assets of Native CDFIs	CDFI	15%	19%	127%	Exceeded	15%	▼	▼
Commercial real-estate properties financed by BEA Program applicants that provide access to essential community products and services in underserved communities	CDFI	285	287	100%	Exceeded	285	▶	▶
Community Development Entities' annual investments in low-income communities ($ billion)	CDFI	$2.5	$3.3	132%	Exceeded	$2.5	▲	▲
Community Development Entities' cumulative investments in low-income communities ($ billion)	CDFI	$6.0	$8.9	148%	Exceeded	$8.0	▲	▲
Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance ($ million)	CDFI	$750	$621	83%	Unmet	$635	▲	▼
Increase in community development activities over prior year for all BEA program applicants ($ million)	CDFI	$180	$232	129%	Exceeded	$202	▲	▲
Increase in the percentage of eligible areas served by a CDFI	CDFI	15%	17.8%	119%	Exceeded	15%	▲	▲
Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI program awardees	CDFI	28,676	29,539	103%	Exceeded	30,000	▲	▲
Number of small businesses located in underserved communities financed by BEA Program applicants	CDFI	329	906	275%	Exceeded	288	▼	▲
Percent of CDFIs that increased their total assets (cumulative)	CDFI	70%	87%	124%	Exceeded	70%	▶	▲
Percent of CDFIs that increased their total assets over the previous year (annual)	CDFI	70%	80%	114%	Exceeded	70%	▶	▲

(continued)

Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad								
Percentage of eligible areas served by one or more CDFI	CDFI	3.0%	3.4%	113%	Exceeded	3.0%	▲	▲
Percentage of loans and investments that went into severely distressed communities	CDFI	66%	73%	111%	Exceeded	66%	▶	▲
Average number of days to process an original permit application at the National Revenue Center	TTB	Baseline	64	100%	Met	72	B	B
National Revenue Center (NRC) customer satisfaction survey	TTB	Baseline	90%	100%	Met	85%	B	B
Percent of electronically filed Certificate of Label Approval applications	TTB	52%	62%	119%	Exceeded	52%	▲	▲
Percentage of instances where the utilization of the International Trade Database System identified importers without permits as a percentage of total permits on file	TTB	Baseline	15%	100%	Met	16%	B	B
Free Trade and Investment								
Number of new trade and investment negotiations underway or completed	DO	Baseline	14	100%	Met	6	B	B
Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce U.S. trade law and international agreements	DO	Baseline	68	100%	Met	68	B	B
Prevented or Mitigated Financial and Economic Crises								
Changes that result from project engagement (Impact)	DO	Baseline	3.1	100%	Met	3.1	B	B
Scope and intensity of engagement (Traction)	DO	Baseline	3.7	100%	Met	3.7	B	B
Percent of national banks with composite CAMELS rating of 1 or 2	OCC	90%	92%	102%	Exceeded	90%	▶	▼
Percentage of licensing applications and notices completed with established timeframes	OCC	95%	95%	100%	Met	95%	▶	▶
Percentage of national banks that are categorized as well capitalized	OCC	95%	99%	104%	Exceeded	95%	▶	▶
Percentage of national banks with consumer compliance rating of 1 or 2	OCC	94%	97%	103%	Exceeded	94%	▶	▲
Rehabilitated national banks as a percentage of problem national banks one year ago (CAMELS 3, 4 or 5)	OCC	40%	47%	118%	Exceeded	40%	▶	▲
Total OCC costs relative to every $100,000 in bank assets regulated	OCC	$9.55	$8.39	112%	Exceeded	$9.22	▼	▼
Percent of safety and soundness exams started as scheduled	OTS	90%	94%	104%	Exceeded	90%	▶	▲
Percent of thrifts that are well capitalized	OTS	95%	98.4%	104%	Exceeded	95%	▶	▼

(continued)

Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad								
Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Percent of thrifts with a compliance examination rating of 1 or 2	OTS	90%	95.8%	106%	Exceeded	90%	▶	▲
Percent of thrifts with composite CAMELS ratings of 1 or 2	OTS	90%	90%	100%	Met	90%	▶	▼
Total OTS costs relative to every $100,000 in savings association assets regulated	OTS	$15.08	$15.10	99.99%	Unmet	$15.07	▲	▲
Decreased Gap in Global Standard of Living								
Improve International Monetary Fund (IMF) effectiveness and quality through periodic review of IMF programs	DO	90%	93%	103%	Exceeded	90%	▶	▲
Percentage of grant and loan proposals containing satisfactory frameworks for results measurement	DO	90%	94%	104%	Exceeded	90%	▶	▲

Trust and Confidence in U.S. Notes and Coins								
Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Commerce Enabled Through Safe, Secure U.S. Notes and Coins								
Manufacturing costs for currency (dollar costs per thousand notes produced)	BEP	$33.00	$29.47	111%	Exceeded	$37.00	▲	▲
Maintain International Organization for Standardization certification	BEP	Met	Met	100%	Met	Met	▶	▶
Currency production (billion notes)	BEP	7.7	7.7	100%	Met	6.8	▼	▼
Other financial losses	BEP	$0	$0	100%	Met	$0	▶	▼
Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements	BEP	99.9%	100%	100.1%	Exceeded	99.9%	▶	▶
Currency shipment discrepancies per million notes	BEP	0.01%	0.01%	100%	Met	0.01%	▶	▶
Security costs per 1,000 notes delivered	BEP	$5.65	$5.63	100.4%	Exceeded	$5.65	▼	▼
Total regulatory fines and claims paid	BEP	$27,500	$0	200%^	Exceeded	$20,000	▼	▼
Improper and/or erroneous payments or purchases	BEP	$500	$0	200%^	Exceeded	$500	▼	▼
Total Financial Losses	BEP	$28,000	$0	200%^	Exceeded	$20,500	▼	▼
Conversion costs per 1,000 coin equivalents ($)	Mint	$7.09	$8.46	80.7%	Unmet	$7.99	▲	▲
Conversion costs per 1,000 coin equivalents (% deviation from target)	Mint	Baseline	11.0%	100%	Met	0%	B	B
Protection cost per square foot	Mint	$32.50	$31.76	102%	Exceeded	$31.75	▲	▼
Employee confidence in protection	Mint	86%	81%	94%	Unmet	83%	▼	▼

Pre-Empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security								
Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Removed or Reduced Threats to National Security from Terrorism, Proliferation of Weapons of Mass Destruction, Drug Trafficking and Other Criminal Activity on the Part of Rogue Regimes, Individuals, and Their Support Networks								
Number of open civil penalty cases that are resolved within the Statute of Limitations period	DO	120	233	194%	Exceeded	Discontinued	▲	▲
Increase the number of outreach engagements with the charitable and international financial communities	DO	70%	80%	114%	Exceeded	Discontinued	▼	▼
Number of countries that are assessed for compliance with the Financial Action Task Force (FATF) 40 + 9 recommendations	DO	12	12	100%	Met	Discontinued	▼	▼
Percent of forfeited cash proceeds resulting from high impact cases	Treasury Forfeiture Fund	75%	86.91%	116%	Exceeded	75%	▶	▲
Safer and More Transparent U.S. and International Financial Systems								
Average time to process enforcement matters (in years)	FinCEN	1	0.7%	130%	Exceeded	1	▶	▼
Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule	FinCEN	5.2%	2.5%	152%	Exceeded	5.2%	▶	▼
Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable	FinCEN	90%	94%	104%	Exceeded	90%	▶	▶
Median time taken from date of receipt of Financial Institution Hotline Tip SAR to transmittal of a written analytical report to law enforcement or the intelligence community (days)	FinCEN	16	3	181%	Exceeded	15	▼	▼
Percentage of complex analytical work completed by FinCEN analysts	FinCEN	38%	27%	71%	Unmet	39%	▶	▼
The percent of countries/jurisdictions connected to the Egmont Secure Web within one year of Egmont membership	FinCEN	98%	98%	100%	Met	98%	▶	▶
The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable	FinCEN	79%	83%	105%	Exceeded	80%	▲	▲
The percentage of private industry or financial institution customers finding FinCEN's Suspicious Activity Report (SAR) products highly valuable	FinCEN	74%	75%	101%	Exceeded	76%	▲	▲
Cost per BSA form E-Filed	FinCEN	$0.15	$0.13	113%	Exceeded	$0.15	▼	▼
Number of largest BSA report filers using E-Filing	FinCEN	374	386	103%	Exceeded	454	▲	▲

(continued)

Pre-Empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security

Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Number of users directly accessing BSA data	FinCEN	8,000	9,649	121%	Exceeded	10,000	▲	▲
Percentage of customers satisfied with the BSA E-Filing	FinCEN	90%	93%	103%	Exceeded	90%	▶	▲
Percentage of customers satisfied with WebCBRS and secure outreach	FinCEN	Baseline	81%	100%	Met	81%	B	B
Share of BSA filings submitted electronically	FinCEN	63	71	113%	Exceeded	67	▲	▲
Percent of federal and state regulatory agencies with memoranda of understanding/ information sharing agreements	FinCEN	Baseline	41%	100%	Met	45%	B	B
Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system	FinCEN	Baseline	64%	100%	Met	66%	B	B

Enabled and Effective Treasury Department

Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
A Citizen-Centered, Results-Oriented and Strategically Aligned Organization								
Percent of complainants informally contacting Equal Employment Opportunity (EEO) (for the purposes of seeking counseling or filing a complaint) who participate in the Alternative Dispute Resolution Process)	DO	30	45	150%	Exceeded	30	▲	▲
Completed investigations of EEO complaints within 180 Days	DO	50	56	112%	Exceeded	50	▶	▲
Injury and illness rate Treasury-wide, including DO	DO	1.4	1.29*	108%	Exceeded	1.4	▼	▼
Customer satisfaction approval rating-Financial Management Administrative Support Services	Franchise Fund	80%	97%	121%	Exceeded	74%	▲	▲
Operating expenses as a percentage of revenue – Consolidated/ Integrated Administrative Management	Franchise Fund	12%	17.7	53%	Unmet	Discontinued	▲	▲
Operating expenses as a percentage of revenue – Financial Management Administrative Support	Franchise Fund	12%	3.6%	170%	Exceeded	Discontinued	▶	▲
Operating expenses as a percentage of revenue – Financial Systems, Consulting and Training	Franchise Fund	12%	6.5%	146%	Exceeded	Discontinued	▶	▼

(continued)

Enabled and Effective Treasury Department

Performance Measure	Bureau	FY 2008 Target	FY 2008 Actual	Percent of Target Achieved	Performance Rating	FY 2009 Target	Target Trend	Actual Trend
Exceptional Accountability and Transparency								
Number of material weaknesses (Significant management problems identified by GAO, the IGs and/or bureaus) closed	DO	3	2	67%	Unmet	0	▼	▼
Number of completed audit products	OIG	56	64	114%	Exceeded	60	▲	▲
Number of investigations referred for criminal prosecution, civil litigation or corrective administrative action	OIG	105	93	89%	Unmet	105	▲	▲
Percent of statutory audits completed by the required date	OIG	100%	100%	100%	Met	100%	▶	▶
Percentage of audit products delivered when promised to stakeholders	TIGTA	60%	65%	108%	Exceeded	65%	▲	▼
Percentage of recommendations made that have been implemented	TIGTA	80%	85%	106%	Exceeded	83%	▲	▼
Percentage of results from investigative activities	TIGTA	76%	78%	103%	Exceeded	78%	▲	▼

Legend	Symbol
Favorable upward trend	▲
Favorable downward trend	▼
Unfavorable upward trend	▲
Unfavorable downward trend	▼
No change in trend, no effect	▶
No change in trend, favorable effect	▶
No change in trend, unfavorable effect	▶
Baseline	B
Estimate	*
Data does not include offset collections from the stimulus package	+
Percent of target achieved is calculated as (Actual/Target) for measures where a rising trend is favorable (*e.g.* efficiency measures, customer satisfaction measures). Percent of target achieved is calculated as [1 - {(Actual-Target)/Target}] for measures where a declining trend is favorable (*e.g.* cost measures or measures related to losses). Using this latter formula, measures with an actual result of zero and positive trend will show percent of target as 200 percent; more than double the target will produce a negative result.	^

STRATEGIC GOAL:
Effectively Managed U.S. Government Finances

STRATEGIC OBJECTIVE: Cash Resources are Available to Operate the Government

OUTCOME: Revenue Collected When Due Through a Fair and Uniform Application of the Law

Financial Management Service

Measure: Dollar Amount of Collections Processed Through Pay.Gov Government-Wide Internet Collections Portal ($ billions) (Ot)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	12	15	30	40	43
Actual	6	29.5	37.94	48.7	
Target met?	N	Y	Y	Y	

Definition: Pay.gov is a financial management transaction. It offers a suite of online electronic financial services that FA can use to meet their responsibilities towards the public.

Indicator Type: Measure

Data Capture and Source: Pay.Gov has been developed to meet the FMS commitment to process collections electronically using Internet technologies. Pay.Gov is a secure government-wide collection portal. The application is web-based allowing customers to access their accounts from any computer with Internet access. The Pay.Gov application is comprised of four services: Collections (ACH and Credit Card), Forms, Billing/Notification, and Reporting.

Data Verification and Validation: Data is verified and validated on a monthly, quarterly, and yearly basis. Reporting is presented from the Federal Reserve Bank of Cleveland, as well as through CA$H-LINK and Fifth Third Bank (credit Card only). These numbers are cross checked to verify accuracy.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal and plans to meet its future goals with its efficient operations.

Measure: Percentage Collected Electronically of Total Dollar Amount of Federal Government Receipts (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	82	83	80	79	80
Actual	79	79	79	80	
Target met?	N	N	N	Y	

Definition: Electronic collections data are retrieved from the CA$H-LINK system, which encompasses eight collection systems.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The agencies that report collections are responsible for ensuring the deposit reports are correct. Financial institutions and Federal agencies report deposits into the CA$H-LINK deposit reporting system using an Account Key which identifies the collection mechanism (lockbox, which is non-electronic or ACH, electronic) through which the collection was made. FMS analysts gather deposit information from CA$H-LINK reports and then report totals and percentages on a monthly Collections Summary Report and on the Total Government Collections Report. The Total Government Collections Report totals all deposits divided into electronic/non-electronic mechanisms and tax and non-tax totals within the mechanisms.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. FMS will continue to work with agencies to promote the use of web and electronic technologies for revenue collection.

Measure: Unit Cost to Process a Federal Revenue Collection Transaction (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1.4	1.37	1.33	1.3	1.3
Actual	1.2	1.1	1.19	1.23*	
Target met?	Y	Y	Y	Y	

Definition: The unit cost to process a revenue collection transaction.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: At the end of each year actual costs for collections are accumulated and calculated for electronic and non-electronic collections. In addition, the number of transactions is calculated for each collection system. This information is calculated in conjunction with and verified by the program office, and is reviewed by senior level executives.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. In the future, FMS will continue to expand electronic collection tools to other agencies in an effort to improve efficiency and keep costs low. FMS has initiated a comprehensive effort to streamline, modernize and improve the processes and systems supporting Treasury's collections and cash management program. This effort will improve financial performance by enabling FMS and government agencies to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes.

Measure: Amount of Delinquent Debt Collected Per $1 Spent (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	41.09	36.4	36.5	40	43
Actual	36.23	39.97	53.55	54.82*	
Target met?	N	Y	Y	Y	

Definition: This measure shows the efficiency of the Debt Collection program. The costs include all debt collection activities and all funding sources.

Indicator Type: Measure

Data Capture and Source: Collection of data and reporting on the cost of the debt collection program are performed on an annual basis.

Data Verification and Validation: Data from FMS' collection program systems is validated against data contained in FMS' Debt Management Accounting System by program staff and verified by senior management. Program costs are derived from FMS' accounting system and budget reports. The methodology and the origin of the data are consistent from year to year.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. FMS will continue to look for efficiencies to lower program costs by streamlining debt management systems while increasing delinquent debt collected.

Measure: Amount of Delinquent Debt Collected Through All Available Tools ($ billions) (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	3	3.1	3.2	3.4	3.9
Actual	3.25	3.34	3.76	4.41	
Target met?	Y	Y	Y	Y	

Definition: This measure provides information on the total amount collected, in billions, through debt collection tools operated by Debt Management Services.

Indicator Type: Measure

Data Capture and Source: The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The collection data is generated by the program systems (TOP and DMSC) and is reported on a monthly basis. The tools include: tax refund offset, administrative offset, private collection agencies, demand letters, and credit bureau reporting. FMS also collects debt through the State debt program and tax levy.

Data Verification and Validation: The data from the program systems is validated against the data contained in the Debt Management Account System (DMAS).

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS had record collections in fiscal year 2008 as a result of program efficiencies, streamlining systems and increased volumes in the Federal Payment Levy program. For the future, FMS will continue these efforts as well as work to incorporate additional payment types into the payment offset and levy programs.

Measure: Percentage of Delinquent Debt Referred to FMS for Collection Compared To Amount Eligible For Referral (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	92	93	94	95	97
Actual	97	95	100	99	
Target met?	Y	Y	Y	Y	

Definition: The measure tracks the percentage of the dollar volume of debt referred to the total dollar volume that is eligible for referral.

Indicator Type: Measure

Data Capture and Source: The process of collecting and reporting the debt collection data is performed on a monthly basis. The methodology and the origin of the data are consistent from month to month. The referral data is contained in the program systems (TOP and DMSC). The referral data is loaded from the files received from Federal Program Agencies (AFPAs).

Data Verification and Validation: The agencies are responsible for certifying the debt referrals to Treasury.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met the target performance measure for fiscal year 2008. FMS will continue to educate and encourage agencies to refer all eligible delinquent debt in a timely manner.

Alcohol and Tobacco Tax and Trade Bureau

Measure: Amount of Revenue Collected Per Program Dollar (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	300
Actual				313	
Target met?	N/A	N/A	N/A	Y	

Definition: Represents the amount of federal excise taxes collected divided by the amount of resources expended to collect the taxes.

Indicator Type: Measure

Data Capture and Source: Taxes collected are captured by the Federal Excise Tax database; expense data are maintained in Oracle Financials.

Data Verification and Validation: Both of these components represent information that is subject to annual audits and routine reconciliation.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TTB discontinued the "Resources as a percentage of revenue" measure and instituted this new measure in fiscal year 2008 with a revised compilation methodology. In fiscal year 2009, TTB expects a slight decline in revenues, largely due to the erosion of tobacco collections (an average loss of $50 million each year), related to public policy surrounding tobacco products. Any decline in revenues, caused by fluctuating demand for alcohol and tobacco products or public policy decisions, affects our return on the public investment in the Collect the Revenue program. Still, this measure offers an important gauge of TTB's effectiveness in using its budget efficiently to collect excise tax. To improve upon our efficiency in fiscal year 2009, TTB will explore options for an automated permit application system that will greatly reduce the processing time and turnaround for permits. If this system were to be implemented, taxpayers will be able to commence business sooner and thus remit taxes sooner. Additionally, the Tax Audit Division has developed an aggressive annual audit plan that incorporates a new risk model that takes effect in fiscal year 2009; the risk model is reviewed and updated annually. In fiscal year 2008, TTB found unpaid tax liabilities resulting from the industry's misuse of alcohol for fuel use and unsupported exports. By continuing to focus on these areas, TTB can potentially detect and collect millions in additional tax revenue rightfully due under the Internal Revenue Code. TTB also is developing procedures to fully investigate and audit persons suspected of being involved in diversion schemes to avoid payment of taxes.

Measure: Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely and Accurately (In Terms of Revenue) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	92
Actual				94	
Target met?	N/A	N/A	N/A	Y	

Definition: The percentage of total revenue dollars from taxpayers who file over $50,000 in tax payments annually collected on or before the scheduled due date (without notification of any delinquency from the National Revenue Center).

Indicator Type: Measure

Data Capture and Source: The NRC maintains all tax return and payment information in the FET system.

Data Verification and Validation: The National Revenue Center (NRC) generates reports to identify late-filed returns and payments in the Federal Excise Tax (FET) system.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The National Revenue Center (NRC) consistently achieved a voluntary compliance rate of 90 percent or higher in fiscal year 2008 from large taxpayers (owing $50,000 or more in excise tax payments annually). However, due to the influx of newly permitted taxpayers combined with the saturation of Pay.gov by longer term taxpayers, TTB expects more modest improvements in voluntary compliance in fiscal year 2009. We will focus our efforts on educational programs, such as TTB Expo 2009, in which our staff will provide advanced instruction on how to properly report operations and pay excise taxes.

Measure: Cumulative Percentage of Excise Tax Revenue Audited Over 3 Years (Ot) [DISCONTINUED FY 2008]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	65	90	12	Discontinued	Discontinued
Actual	82	93	16		
Target met?	Y	Y	Y	N/A	

Definition: The portion of total excise tax revenue that is audited in the fiscal years covered in the 5-year period.

Indicator Type: Measure

Data Capture and Source: TTB tracks completion of all scheduled audits.

Data Verification and Validation: Audit results–we designed the audit to verify and validate the accuracy of the revenue collected for the entity (ies) audited in the given fiscal year.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008. TTB's historical audit results have shown more pervasive industry member non-compliance and potential excise tax liability among small and mid-size taxpayers as well as among those operating outside the regulatory system. Discontinuing this external measure gives TTB the flexibility to leverage its limited resources to audit the high-risk industry members identified in risk models while still maintaining a visible presence with its largest taxpayers.

Measure: Percentage of Total Tax Receipts Collected Electronically (%) (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	98	98	98	Discontinued	Discontinued
Actual	98	98	98		
Target met?	Y	Y	Y	N/A	

Definition: The portion of total tax collected from taxpayers via electronic funds transfer (EFT).

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: When the tax return is processed the system displays all unmatched EFT messages for the taxpayer. The NRC selects the payment that matches the tax return. The system then records the control number of the tax return in the Electronic Wire Transfer table, updates the Returns table to show the return closed and posts tax liability and payment transactions to the Audit table.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008 as part of a review of its performance measures. TTB determined that its goal in measuring our performance in EFT collections has been met.

Measure: Percentage of Voluntary Compliance in Filing Tax Payments Timely and Accurately (In Terms of Number of Compliant Industry Members) (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	70	74	74	Discontinued	Discontinued
Actual	70	75.95	75		
Target met?	Y	Y	Y	N/A	

Definition: The portion of total taxpayers that file payments on or before the scheduled due date, without notification of any delinquency.

Indicator Type: Measure

Data Capture and Source: TTB maintains late-filed tax payments in FETS.

Data Verification and Validation: TTB runs reports to identify late-filed returns and payments in FET.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008 and developed a new measure with revised methodology - "Percentage of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)." TTB determined that measuring timely and accurate payments is a more reliable indicator of compliance versus the number of compliant industry members. The new parameters account for the timeliness and accuracy of payments, and center on large taxpayers owing more than $50,000 in excise tax annually. This group has less flexibility in the method and frequency of payment, eliminating the need for estimation in reporting the percentage of voluntary compliance. Also, "large" taxpayers constitute 99.8 percent of TTB tax collections on an annual basis, which provides a true indication of the compliance level of industry.

Measure: Percentage of Voluntary Compliance in Filing Timely and Accurate Tax Payments (In Terms of Revenue) (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	84	86	86	Discontinued	Discontinued
Actual	86.3	87.2	86.37		
Target met?	Y	Y	Y	N/A	

Definition: The portion of total taxpayers, by revenue, that file payments on or before the schedule due date without notification of any delinquency.

Indicator Type: Measure

Data Capture and Source: Late filed tax payments are maintained in the Federal Excise Tax system (FET).

Data Verification and Validation: The Unit Supervisor has the capability to run canned reports to identify late filed returns and payments in FET.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008 and developed a new measure with revised methodology - “Percentage of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue).” New legislation that allows the quarterly filing of tax returns for qualified industry members nullified the assumptions involved in the original compilation methodology regarding the frequency of payment. The new parameters account for the timeliness and accuracy of payments, and center on large taxpayers owing more than $50,000 in excise tax annually. This group has less flexibility in the method and frequency of payment, eliminating the need for estimation in reporting the percentage of voluntary compliance. Also, “large” taxpayers constitute 99.8 percent of TTB tax collections on an annual basis, which provides a true indication of the compliance level of industry.

Measure: Resources as a Percentage of Revenue (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	.4	.34	.34	Discontinued	Discontinued
Actual	.37	.31	.31		
Target met?	Y	Y	Y	N/A	

Definition: Represents the amount of resources expended to collect taxes, divided by the amount of taxes collected.

Indicator Type: Measure

Data Capture and Source: Taxes collected is captured by the Federal Excise Tax database; expense data is maintained in Oracle Financials.

Data Verification and Validation: Both of these components represent information that is subject to annual audits and routine reconciliation.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008 and replaced it with a new measure, “Amount of revenue collected per program dollar,” and revised the compilation methodology.

Measure: Unit Cost to Process an Excise Tax Return (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			76	Discontinued	Discontinued
Actual		76	61		
Target met?	N/A	Y	Y	N/A	

Definition: The cost of resources that it takes to process one excise tax return.

Indicator Type: Measure

Data Capture and Source: Capturing excise tax returns: Tax returns are submitted via mail and the Pay.gov system. Mail submissions are assigned a unique control number and date of receipt is logged into the Integrated Revenue Information System (IRIS). Pay.gov assigns a unique number and date of submission automatically. This information is then transmitted and consolidated in IRIS. TTB generates a report from IRIS indicating the number of tax returns processed. Capturing resource cost data: NRC captures resource expenses in the Status of Funds Report in Discoverer (Oracle Financial Reporting System).

Data Verification and Validation: Capturing excise tax returns: TTB reconciles the returns received vs. logged returns daily. Capturing resource cost data: Resource data is captured and available four times a day in Discoverer.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008 as part of a review and revision that resulted in a new suite of measures that better represent the Bureau's performance.

Internal Revenue Service

Measure: Automated Collection System (ACS) Accuracy (%) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	88	88	91	92	92
Actual	88.5	91	92.9	95.3	
Target met?	Y	Y	Y	Y	

Definition: Percent of taxpayers who receive the correct answer to their ACS question.

Indicator Type: Measure

Data Capture and 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.

Data Verification and Validation: 1.CQRS management samples QRDbv2 records and validates that sample plans have been followed. 2. CQRS management reviews QRDbv2 employee input DCIs for consistency and coding. 3. CQRS tracks and reviews rebuttals quarterly, and an annual sample of each product line's rebuttals are performed. 4. A rebuttal web site is used to share technical and coding issues in CQRS.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS will leverage the process improvements made in prior years and use prior year accuracy statistics to better focus managerial reviews.

Measure: Automated Underreporter Coverage (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	2.3	2.5	2.5	2.5
Actual	2.2	2.4	2.5	2.55	
Target met?	Y	Y	Y	Y	

Definition: The sum of all individual returns closed, by SB/SE and W&I AUR divided by the total individual return filings for the prior calendar year. Effective: 10/2006

Indicator Type: Measure

Data Capture and Source: NUMERATOR: The sum of all individual returns closed will be extracted as follows: SB/SE AUR: AUR MISTLE Report W&I AUR: AUR MISTLE Report DENOMINATOR: The source for the total individual return filings for the prior calendar year is the Office of Research Projections of return filings as shown in IRS Document 6187 (Table 1A). AUR MISTLE AUR Management Information System for Top Level Executives (MISTLE)

Data Verification and Validation: 1.AUR run controls are reviewed to see if the weekend processing has been completed and are accurate. 2. MISTLE reports are reviewed with other AUR reports to see if processing has been completed and are accurate. 3. MISTLE reports are reviewed to see if information is complete and accurate.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS plans to leverage prior process improvements implemented to improve workload selection and productivity, reducing the number of cases closed without taxpayer contact.

Measure: Automated Underreporter (AUR) Efficiency (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1701	1759	1932	1961	2022
Actual	1701	1832	1956	1982	
Target met?	Y	Y	Y	Y	

Definition: The sum of all individual returns closed by AUR in SB/SE and W&I divided by the Total staff years expended in relation to those individual returns. Effective: 10/2006

Indicator Type: Measure

Data Capture and Source: Each case initiated in AUR results in a closure either in the pre-notice or notice phases. All closing actions are posted on the system through the use of process codes that describe the reason& type of closure. Pre-notice closures (no taxpayer contact) include screenouts (discrepancy accounted for on the return), transfers and referrals. Pre-notice closures are included in the Efficiency Measure numerator. Notice phase closures can be posted at the CP2501, CP2000 or Statutory phases. Tax examiners evaluate taxpayer/practitioner responses to the notice and close cases using process codes that denote the respondent's full or partial agreement or disagreement, no change to the original tax liability, transfer or referral. Time: Examiners complete Form 3081 to record time charged to each program code. The Form 3081 is input onto the WP&C system and a Resource Allocation Report generated. Source: Management Information System for Top Level Executives (MISTLE).

Data Verification and Validation: Closures – 1.AUR run controls are reviewed to see if the weekend processing has been completed and are accurate. 2. MISTLE Reports are reviewed with other AUR reports to see if processing has been completed and are accurate. 3. MISTLE reports are reviewed to see if information is complete and accurate. Time - 1.Managers review Form 3081 prior to input to verify that time is appropriately charged. 2. WP&C monitored to ensure appropriate time usage.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will leverage the process improvements implemented in fiscal year 2008 to improve workload selection and productivity and reduce the number of cases closed with taxpayer contact.

Measure: Percent of BSM Projects Within +/- Cost Variance (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	90
Actual				92	
Target met?	N/A	N/A	N/A	Y	

Definition: The percent of projects that were within +/- 10% cost variance by release/sub-release of a Business Systems Modernization (BSM) funded project's initial approved cost estimate versus current, approved cost estimate. Cost variances less than or equal to +/- 10% are categorized as being within acceptable tolerance thresholds. Cost variances greater than +/- 10% of the variance are categorized as being outside of acceptable thresholds.

Indicator Type: Measure

Data Capture and Source: The data is collected from the approved and enacted Expenditure Plan and subsequent modifications resulting from changes to project cost plans as approved via the BSM Governance Procedures and documented by the Resource Management Office.

Data Verification and Validation: The baseline data will be reviewed/ validated by the Program Performance Management (PPM) Team and Manager. To indicate the baseline is valid and approved, the manager will send a notification that the data (Excel spreadsheets) may be placed in the PPM shared library. Before the measure is reported, the PPM Team and Manager will review/ validate the report. The PPM Manager will provide the monthly report to the Deputy Associate CIO for Business Integration for approval. Concurrence will be obtained from the Associate CIO for BSM. To indicate the report is validated and approved, the manager will send a notification to store the report in the PPM shared library and report on Improvement Measure externally.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will continue reporting on the cost variance measure in accordance with the agreed upon performance methodology. Variance exceeding the +/- 10 percent threshold is subject to IRS change notification process review, Executive Steering Committee approval and, if applicable, Modernization and Information Technology Services Enterprise Governance Committee approval.

Measure: Percent of BSM Projects Within +/- Schedule Variance (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	90
Actual				92	
Target met?	N/A	N/A	N/A	Y	

Definition: The percent of projects that were within +/- 10% schedule variance by release/sub-release of a BSM funded project's initial approved schedule estimate versus current, approved schedule estimate. Schedule variances less than or equal to +/- 10% will be categorized as being within acceptable tolerance thresholds. If schedule variances are greater than +/- 10%, the variance will be categorized as being outside of acceptable thresholds.

Indicator Type: Measure

Data Capture and Source: The data is collected at the time of Expenditure Plan creation and subsequent modifications resulting from changes to project schedule plans as approved via the BSM Governance Procedures and documented by the Resource Management Office.

Data Verification and Validation: The baseline data will be reviewed/ validated by the Program Performance Management (PPM) Team and Manager. To indicate the baseline is valid and approved, the manager will send a notification that the data (Excel spreadsheets) may be placed in the PPM shared library. Before the measure is reported, the PPM Team and Manager will review/ validate the report. The PPM Manager will provide the monthly report to the Deputy Associate CIO for Business Integration for approval. Concurrence will be obtained from the Associate CIO for BSM. To indicate the report is validated and approved, the manager will send a notification to store the report in the PPM shared library and report on Improvement Measure externally.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will continue reporting on the schedule variance measure in accordance with the agreed upon performance methodology. Variance exceeding the +/- 10 percent threshold is subject to IRS change notification process review, Executive Steering Committee approval and, if applicable, Modernization and Information Technology Services Enterprise Governance Committee approval. Schedule variances exceeding +/- 10 percent or $1 million require Congressional notification. At each review juncture, management ensures that proposed project changes as reported in the BSM expenditure plan are valid and that mitigation plans are in place when applicable.

Measure: Collection Coverage - Units (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		52	54	53	54.74
Actual		54	54	55.2	
Target met?	N/A	Y	Y	Y	

Definition: The volume of collection work closed as compared to the volume of collection work available.

Indicator Type: Measure

Data Capture and Source: The data comes from the Collection Activity Report (CAR.)

Data Verification and Validation: 1. Changes to programming of Collection Activity Reports are generally made once a year. Those changes are tested and verified by program analysts at headquarters before the first new report is released. Monthly spot checks are also done to verify they match the data sent to the DataMart. 2. Accuracy of Automated Offer in Compromise database is validated by management checks in the operating units.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS plans to continue to facilitate the process for allocating its resources and planning for program delivery through the Collection Governance Council. This will ensure enterprise-wide coordination of case selection and delivery decisions.

Measure: Collection Efficiency - Units (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	1650	1723	1835	1935
Actual	1514	1677	1828	1926	
Target met?	Y	Y	Y	Y	

Definition: The total work disposed (sum of all modules) by the Automated Collection System and the Collection field function divided by the total FTE realized for those areas (Total work disposed = delinquent accounts, investigations, offer-in-compromise, automated substitution for return).

Indicator Type: Measure

Data Capture and Source: The data comes from the Collection Activity Report (CAR) and the Integrated Financial System (IFS).

Data Verification and Validation: 1.Changes to programming of Collection Activity Reports is generally made once a year. Those changes are tested and verified by program analysts at headquarters before the first new report is released. Monthly spot checks are also done to verify they match the data sent to the DataMart. 2. Accuracy of Automated Offer in Compromise database is validated by management checks in the operating units.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS plans to continue to facilitate the process for allocating its resources and planning for program delivery through the Collection Governance Council to ensure enterprise-wide coordination of case selection and delivery decisions.

Measure: Conviction Efficiency Rate (Cost Per Conviction) (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	332194	339565	314008	317625	317100
Actual	295316	328750	301788	315751	
Target met?	Y	Y	Y	Y	

Definition: The cost of CI's program divided by the number of convictions. The number of convictions is the total number of cases with the following CIMIS statuses: guilty plea, nolo contendere, judge guilty or jury guilty. The Criminal Investigation financial plan includes all appropriations and reimbursements for the entire year. It is the fully loaded cost, including employees' salaries, benefits, and vacation time, as well as facility costs (office space, heating, cleaning, computers, security, etc.), and other overhead costs.

Indicator Type: Measure

Data Capture and Source: The final fiscal year-end expenses as documented in IFS plus corporate costs as determined by the Chief Financial Officer divided by the number of convictions reported for the year. The source: CI Management Information System (CIMIS) and the Integrated Financial System (IFS)

Data Verification and Validation: Criminal Investigation management dictates that the lead agent assigned to the investigation and/or the agent's manager(s) input investigation data directly into CIMIS. Agents and management are to enter status updates into CIMIS within five calendar days of the triggering event. Further, upper management directs first line managers to review individual work group CIMIS reports for accuracy each month to ensure any system input errors or omissions are corrected within 30 days of the initial issuance of the monthly data tables. The CFO, Associate CFO for Internal Financial Management, and Associate CFO Corporate Performance Budgeting ensure the functionality and accuracy of the Integrated Financial System-the Service's core accounting system of records. (Rev. 1-07)

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The Conviction Efficiency Rate (CER) 2009 target was reduced to $317,100 from $321,940, an amount calculated last year. The CER is calculated by dividing the entire Criminal Investigation financial plan including all appropriations and reimbursements for the entire year by the number of Convictions for the year. The fiscal year 2009 Budget Continuing Resolution coupled with anticipated lower reimbursable and asset forfeiture amounts over last year will result in a smaller financial plan number, the numerator in the equation. Criminal Investigation has adjusted the target to better reflect this lower dollar amount and smaller Conviction Efficiency Rate result.

Measure: Conviction Rate (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	92	92	92	92	92
Actual	91.2	92	90.2	92.3	
Target met?	N	Y	N	Y	

Definition: The percent of adjudicated criminal cases that result in convictions. The conviction rate is defined as the total number of cases with CIMIS status codes of guilty plea, nolo-contendere, judge guilty, or jury guilty divided by these status codes and nolle prosequi, judge dismissed and jury acquitted.

Indicator Type: Measure

Data Capture and Source: Cases are tracked in CIMIS with frequent updates to the status code.

Data Verification and Validation: Criminal Investigation management dictates that the lead agent assigned to the investigation and/or the agent's manager(s) input investigation data directly into CIMIS. Agents and management directs first line managers to review individual work group CIMIS reports for accuracy each month to ensure any system input errors or omissions are corrected within 30 days of the initial issuance of the monthly data tables. (Rev. 1-07) Standardized reports extract data related to the status codes sited above on a monthly basis. This calculation is performed monthly.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Criminal Investigation's conviction rate historically has been among the highest of any Federal law enforcement agency. One of the ambitious goals CI has set for itself is to obtain a conviction rate of 92%. For fiscal year 2008 CI narrowly exceeded this goal by achieving a conviction rate of 92.3%.

Measure: Criminal Investigations Completed (Ot)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	3895	3945	4000	4000	3900
Actual	4104	4157	4269	4044	
Target met?	Y	Y	Y	Y	

Definition: The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.

Indicator Type: Measure

Data Capture and Source: Criminal Investigations Management Information System (CIMIS)

Data Verification and Validation: The guidance and direction given by upper management to first line managers is that the first line managers should review their individual work group CIMIS data tables at the beginning of each month. The use of this procedure will assure that system input errors are corrected no later than 30 days after the error is initially reported in the monthly CIMIS data tables. Additionally, national standard monthly reports and statistical information are circulated among the senior staff and headquarter analysts for their review and use. If the published information on the official critical measure appears to be out of line with what is normal or expected, headquarters analysts or senior staff request that the CI research staff verify that the published and circulated information and/or report is accurate. If the published and circulated information is not accurate, then the CI research staff corrects the error and issues revised data for the month.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Criminal Investigation will continue to utilize a balanced enforcement program to facilitate the development and prosecution of quality financial investigations. The intent of enforcement efforts is to produce a strong deterrent effect, enhancing voluntary compliance and promoting confidence in the fairness of the tax system. The focus of CI's resources in fiscal year 2009 will be on the development of complex, high impact investigations, training of new hires, and enhanced efforts to reduce the escalating pipeline inventory. Declining investigative resources, however, are expected to negatively influence the number of investigation completed. The target for completed investigations has consequently been reduced from 4025 in fiscal year 2008 to 3900 in fiscal year 2009.

Measure: Customer Accuracy - Customer Accounts (Phones) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	89.8	92	93.3	93.5	93.7
Actual	91.5	93.2	93.4	93.7	
Target met?	Y	Y	Y	Y	

Definition: The percentage of correct answers provided by a telephone assistor. The measure indicates how often customers receive the correct answer to their account inquiry and/or had their case resolved correctly based upon all available information and Internal Revenue Manual required actions.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Field 715 on the DCI is coded by the CQRS monitor as calls are reviewed. Data is input to the NQRS. The NQRS contains several levels of validation that occur as part of the review process. The input records are validated requiring entries and combinations of entries based upon the relationships inherent in different product lines or based upon an entry in a quality attribute. The national reviews conducted by CQRS site staff on telephone product lines are sampled by local management and management officials at the CQRS site. In addition, every review is available on-line to the site for verification purposes. Sites monitor their review records daily and have a small rebuttal period to contest any review.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Incremental improvement in performance is expected in fiscal year 2009 and beyond from continued improvement efforts such as the development of new online tools for assistors to research taxpayer questions.

Measure: Customer Accuracy - Tax Law Phones (%) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	82	90	91	91	91
Actual	89	90.9	91.2	91.2	
Target met?	Y	Y	Y	Y	

Definition: The percentage of correct tax law answers provided by a telephone assistor. The measure indicates how often customers receive the correct answer to their tax law inquiry based upon all available information and Internal Revenue Manual required actions.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Field 715 on the DCI is coded by the CORS monitor as calls are reviewed. Data is input to the NQRS. The NQRS contains several levels of validation that occur as part of the review process. The input records are validated requiring entries and combinations of entries based upon the relationships inherent in different product lines or based upon an entry in a quality attribute. The national reviews conducted by CORS site staff on telephone product lines are sampled by local management and management officials at the CORS site. In addition, every review is available on-line to the site for verification purposes. Sites monitor their review records daily and have a small rebuttal period to contest any review.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS will maintain Tax Law Accuracy above 90 % in fiscal year 2009. The type and complexity of tax law questions changes each year as new and often complex tax laws are enacted.

Measure: Customer Contacts Resolved Per Staff Year (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	7261	7477	7702	8000	9686
Actual	7585	7414	7648	12634	
Target met?	Y	N	N	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: 1. Data is compiled from several sources (see individual components below). Each area is responsible for component accuracy: Enterprise Telephone Data (ETD) Snapshot Report, Accounts Management Information Report (AMIR), Internet Refund/Fact of Filing, MIS Reporting Tool, Electronic Tax Administration (ETA) Website, Work Planning & Control (WP&C) Report, Resource Allocation Report (RAR)

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The Service continued to handle customer contacts effectively with the resources available. The Customer Contacts Resolved per Staff Year (CCR) rate was above the planned rate due to the continued impact of the Economic Stimulus Payment. Usage of the web service continued to show a significant increase, reporting 38.7 million completions. The total usage of all web services was 83 million completions which is 113% above plan. The IRS is expecting efficiency to continue to increase as more taxpayers choose to use automated means to contact the IRS instead of traditional, labor intensive methods.

Measure: Customer Service Representative (CSR) Level of Service (%) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	82	82	82	82	77
Actual	82.6	82	82.1	52.8	
Target met?	Y	Y	Y	N	

Definition: The number of toll-free callers that either speak to a Customer Service Representative or receive automated informational message divided by the total number of attempted calls.

Indicator Type: Measure

Data Capture and Source: Enterprise Telephone Database (ETD)

Data Verification and Validation: 1. Validation of monthly report data by W&I P&A staff. 2. The JOC validates CSR LOS data prior to publication of the weekly official Snapshot report. Independent weekly CSR LOS source data is also gathered and validated by comparing data with the data used to produce the official Snapshot report.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2008, the CSR Level of Service (LOS) was 52.8%, roughly 29 percentage points below the target of 82%. The shortfall was caused by the high call volume from the Economic Stimulus Payments (ESP) issuance. Assistor Services were 119.7% of plan and Calls Answered were 123% of plans as a result of ESP demand. The IRS realigned resources to answer calls and seasonal employees were kept on board longer.

Measure: Examination Coverage - Business Corporations >$10 million (%) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	7	7.3	8.2	6.6	5.8
Actual	7.8	7.4	7.2	6.1	
Target met?	Y	Y	N	N	

Definition: The number of Large and Mid-Size Business customer returns with assets greater than $10 million examined and closed during the current fiscal year, divided by filing of the same type returns from the preceding calendar year.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: 1. Examination Support & Processing (ESP) group (SBSE) validates data on AIMS (Detroit server) and makes necessary correction. 2. LMSB picks closing codes and downloads data down to (A-CIS) Access database (Atlanta server). Charles Johnson (Plantation, FL) validates data, uploads to A-CIS. 3. (LMSB - Chicago) downloads LMSB version of data and performs data validation before providing data to CPP. 4. The information is Document 6186 is validated by the Office of Research, Analysis and Statistics before it is released.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: IRS exceeded its large business return closures goal of 13,059 returns, closing 13,186 returns. However, the coverage percentage dropped to 6.1% due to higher than estimated return fillings. The IRS' emphasis on streamlining and improving the examination process, coupled with better risk analysis, will continue to provide for early resolution of post-filing examination issues and enhance large business examination coverage.

Measure: Examination Coverage - Individual (Oe) (%)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	.9	.9	1	1	1
Actual	.9	1	1	1	
Target met?	Y	Y	Y	Y	

Definition: The sum of all individual returns closed by SB/SE, W&I, and LMSB (Field Examination and Correspondence Examination) divided by the total individual return filings for the prior calendar year. In fiscal year 2005, Automated Underreported (AUR) cases were included as part of this measure. In fiscal year 2006, AUR is covered as a separate measure.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: new measure - verification and validations will be supplied

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The IRS will continue to balance its audit coverage to emphasize reduction of the tax gap.

Measure: Examination Efficiency – Individual (1040 form) (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	121	121	136	133	140
Actual	121	128	137	138	
Target met?	Y	Y	Y	Y	

Definition: The sum of all individual returns closed by SB/SE, W&I, and LMSB (Field Examination and Correspondence Examination) divided by the Total Full Time Equivalents (FTE) expended in examining those individual returns. In fiscal year 2005, Automated Underreporter (AUR) cases were included as part of this measure.

Indicator Type: Measure

Data Capture and Source: 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 Exams time reporting system and the Integrated Financial System.

Data Verification and Validation: Closures and AIMS Closures - 1.Case closing documents are reviewed for accuracy during sample reviews by managers and quality reviewers. 2. AIMS data is validated prior to distribution. 3. Queries used to retrieve data are reviewed for thoroughness and accuracy. Frivolous Filers (Non-AIMS Closures): 1. Cases are reviewed by managers for accuracy, timeliness and completeness at any point in the process. 2. Headquarters Analyst reconciles WP&C data to Summary Report in order to validate data. SB/SE AUR: Closures – 1.Managerial review samples (phone calls, open and closed cases). 2. Checks and balances exist in the AUR Control System to validate the input. 3. Sample physical review of cases closed on the AUR Control System by Program Analysis System ("PAS") for accuracy and appropriateness of actions.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Future plans include leverage National Research Program (NRP) data to improve return selection criteria, streamline automation, emphasis on multi-year non-compliance and utilization of risk analysis/assessment in all business processes.

Measure: Examination Quality (LMSB) - Coordinated Industry (%) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	90	92	97	96	96
Actual	89	96	96	97	
Target met?	N	Y	N	Y	

Definition: The average of the percentage of critical elements passed on Coordinated Industry cases reviewed.

Indicator Type: Measure

Data Capture and Source: The Large & Mid-Size Business (LMSB) Quality Measurement System (LQMS) database.

Data Verification and Validation: The Examination Teams make a reasonable effort to keep the CEMIS database accurate and timely with milestone completion information. The LQMS Industry Review Team Managers regularly review the work being performed by the Reviewers. Each Review Group has two senior Review Team Leaders (GS-14 employees) and they are actively involved in overseeing the reviews being conducted by their team members. The groups have regularly scheduled meetings at which consistent determinations on issues is reviewed by the entire group of Reviewers. The team of Managers and Analysts that prepare the quarterly reports are involved in reviewing the conclusions for mistakes and inconsistencies. The Coordinated Industry LQMS Program Managers also performs reviews of the work processes in the Coordinated Industry LQMS Groups. The review of Specialty issues (such as International, Engineering, Economist, etc.) is done by Specialists in those areas.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS plans to identify areas that warrant further attention and improvement.

Measure: Examination Quality (LMSB) - Industry (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	78	80	88	88	88
Actual	77	85	87	88	
Target met?	N	Y	N	Y	

Definition: The average of the percentage of critical quality attributes passed on Industry cases (corporations, S-corps (pass through corporations) and partnerships with assets over $10 million) reviewed.

Indicator Type: Measure

Data Capture and Source: The Large & Mid-Size Business (LMSB) Quality Measurement System (LQMS) database.

Data Verification and Validation: There are controls and validity checks built into the ERCS database that ensure that is captures all closed cases. The LQMS Industry Review Team Managers regularly review the work being performed by the Reviewers. Each Review Group has two senior Review Team Leaders (GS-14 employees) and they are actively involved in overseeing the reviews being conducted by their team members. The groups have regularly scheduled meetings at which consistent determinations on issues is reviewed by the entire group of Reviewers. The team of Managers and Analysts that prepare the quarterly reports are involved in reviewing the conclusions for mistakes and inconsistencies. The Industry LQMS Program Managers also performs reviews of the work processes in the Industry LQMS Groups.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS plans to identify areas that warrant further attention and improvement.

Measure: Field Collection Embedded Quality (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		84.2	86	86	80
Actual		84.2	84	79	
Target met?	N/A	Y	N	N	

Definition: The number of EQ quality attributes that are scored as "met" by an independent centralized review staff divided by the total attributes measured (meets + not met) in a sample of closed cases. All measured attributes have the same weight when calculating the score.

Indicator Type: Measure

Data Capture and Source: Monthly reports supplied from the EQMS database.

Data Verification and Validation: Cases are sent to the review sites to be reviewed. The cases are then reviewed and results are recorded into the CQMS EQ database. A validity check is conducted by EQ review site management. Once the data has been validated the information is transmitted to the EQ website.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2008, the quality score was 79%, 7% points below the target of 86%. Effort to reduce the number of aged cases in the quality inventory, coupled with the overall quality of the older cases had an impact on the cumulative quality score. Improvements to job aids, continuation of quarterly reviews and an annual "Quality Summit" focusing on specific quality attributes in need of improvement are on-going to focus attention on case quality.

Measure: Field Examination Embedded Quality (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		85.9	87	87	87
Actual		85.9	85.9	86	
Target met?	N/A	Y	N	N	

Definition: The score awarded to a reviewed Field Examination case by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.

Indicator Type: Measure

Data Capture and Source: Monthly reports supplied from the EQMS database.

Data Verification and Validation: A manual validation for inconsistencies in the data input is completed at the end of each monthly cycle. Potential errors are sent to the EQMS site managers for either verification or correction. Monthly consistency meetings are held with EQMS management, analyst and reviewers to ensure consistent application of the quality ratings.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: During fiscal year 2008, a quality action plan was implemented to address weaknesses identified within the Timeliness, Income Probe and Multi-year Pick Up attributes. In addition, area quality improvement teams were established to address area specific quality weaknesses. As a result of these efforts, significant improvements with the quality score were realized during the second half of fiscal year 2008.

Measure: HCTC Cost Per Taxpayer Served (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	14.25	14.25	17
Actual		13.71	14.93	16.94	
Target met?	N/A	Y	N	N	

Definition: Costs associated with serving the taxpayers including program kit correspondence, registration and program participation. [IFS Monthly Disbursement – (83% IT Cost + 60% Program Management Costs + Special Projects and Costs + (IRS Non-Labor Costs – Printing))] divided by Taxpayers Served * 1.6 Where Taxpayers Served is the unique count of SSNs for primary candidates that are enrolled, and/or interact with the customer contact center including correspondence and program kits, 1.6 is a factor attributed to the average number of taxpayers served per primary enrollee, to reflect affected Qualified Family Members.

Indicator Type: Measure

Data Capture and Source: IRS costs and exclusions: IFS disbursement report Accenture costs and exclusions: Monthly Work Request report. Taxpayers served: Health Care Tax Credit Siebel system provides data extracts to the HCTC reporting database, and further queries and reports are created from there.

Data Verification and Validation: 1.Health Care Tax Credit Program office reviews IFS disbursement, 2.Health Care Tax Credit PMO team reviews and checks Contractor costs and exclusions 3.PMO reporting team verifies the source data against previous months of IFS data and Work Request data

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2008, the cumulative cost per taxpayer served was $16.94, 19% above the target of $14.25. A decrease in the number of taxpayers eligible for the credit and taxpayers gaining a better understanding of the invoicing and payment cycle are reasons for the decline in the number of taxpayers served volume.

Measure: Number of Convictions (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	2260	2069	2135	2135
Actual	2151	2019	2155	2144	
Target met?	Y	N	Y	Y	

Definition: Convictions are the total number of cases with Criminal Investigation Management Information System (CIMIS) status codes of guilty plea, nolo-contendere, and judge guilty or jury guilty.

Indicator Type: Measure

Data Capture and Source: Standardized reports extract data related to the status codes sited above on a monthly basis.

Data Verification and Validation: Cases are tracked in CIMIS with frequent updates to the status code.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: CI is committed to the identification and development of complex, high-impact investigations by emphasizing management accountability at all levels. Devoting greater resources to pipeline investigations contributes to successful prosecutions, which in turn generates positive publicity, fosters deterrence, and enhances voluntary compliance.

Measure: Office Examination Embedded Quality (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		88.2	89	90	90
Actual		88.2	89.4	90	
Target met?	N/A	Y	Y	Y	

Definition: The score awarded to a reviewed Office Examination case by a Quality Reviewer using the Examination Quality Measurement System (EQMS) quality standards.

Indicator Type: Measure

Data Capture and Source: Examination Quality Measurement System

Data Verification and Validation: A manual validation for inconsistencies in the data input is completed at the end of each monthly cycle. Potential errors are sent to the EQMS site managers for either verification or correction. Monthly consistency meetings are held with EQMS management, analyst and reviewers to ensure consistent application of the quality ratings.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2009 and beyond, the IRS will use results to drive improvements in work products and help improve the taxpayer's experience.

Measure: Percent of Business Returns Processed Electronically (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	17	18.6	19.5	20.8	22.9
Actual	17.8	16.6	19.1	19.4	
Target met?	Y	N	N	N	

Definition: The number of electronically filed business returns divided by the total business returns filed.

Indicator Type: Measure

Data Capture and Source: Work Planning and Control reports from W&I Submission Processing campuses.

Data Verification and Validation: 1. At each Submission Processing Center, managerial oversight is used to ensure that the balancing instructions for the Balance Forward Listing are followed and that necessary adjustments are made. 2. Management Officials review Program Analysis Reports prior to its release to Headquarters personnel. 3. Headquarters Personnel release preliminary data for peer and managerial review prior to releasing data for the measure.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: fiscal year 2008 target was based on a Fall 2007 projection of 20.8% which was modified in the Spring 2008 to 19.6%. A significant decrease (nearly 28.5%) in projected volume of electronically filed Forms 1041, primarily due to a regulation change allowing certain grantor trusts to be reported on Form 1099 instead of Form 1041, contributed to the decline.

Measure: Percent of Individual Returns Processed Electronically (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	51	55	57	61.8	64
Actual	51.1	54.1	57.1	57.6	
Target met?	Y	N	Y	N	

Definition: Number of electronically filed individual tax returns divided by the total individual returns filed.

Indicator Type: Measure

Data Capture and Source: Working Planning and Control reports from W&I Submission Processing campuses.

Data Verification and Validation: 1. At each Submission Processing Center, managerial oversight is used to ensure that the balancing instructions for the Balance Forward Listing are followed and that necessary adjustments are made. 2. Management Officials review "II" Report prior to its release to Headquarters personnel. 3. Headquarters Personnel release preliminary data for peer and managerial review prior to releasing data for the measure.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For fiscal year 2008, the Percent of Individual Returns Processed Electronically was 57.6% which is 4.2 percentage points below the target of 61.8%. Excluding taxpayers who filed solely to claim a stimulus payment, the percentage of e-file returns would have been 63 percent.

Measure: Refund Timeliness - Individual (paper) (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	98.4	99.2	99.2	98.4	98.4
Actual	98.3	99.3	99.1	99.1	
Target met?	N	Y	N	Y	

Definition: Percentage of refunds from paper returns processed within 40 days.

Indicator Type: Measure

Data Capture and Source: Submission Processing Measures Analysis and Reporting Tool (SMART). Data is extracted from a Generalize Mainframe Framework computer run that processes data input by the processing centers.

Data Verification and Validation: The calculation for Refund Timeliness is a ratio of untimely IMF paper refunds in a sample compared against the total number of IMF paper refunds reviewed in a sample. The result of the ratio is weighted against the entire volume of refund returns a center has processed on a monthly basis. The monthly results are tabulated to determine the performance rating at the corporate and site level.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS expects its performance for refund timeliness to remain stable under the current processing system and within resource constraints.

Measure: HCTC Sign-up Time (days) (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	97	97	97
Actual		98.7	93.3	94	
Target met?	N/A	Y	Y	Y	

Definition: The calculation of this measure is the median number of calendar days that elapse per registration from the date the Program Kit is mailed to the date the first payment is received from the participant. This is calculated based on queries and reports from system data.

Indicator Type: Measure

Data Capture and Source: 1.Dates captured in system during operations, 2.Data queried by Health Care Tax Credit Program Evaluation and Reporting team, 3.Measure calculated by Health Care Tax Credit Program Evaluation and Reporting team. Source: Siebel via Microsoft Systems Reporting.

Data Verification and Validation: 1.Data is reviewed by Health Care Tax Credit Program Evaluation and Reporting function and compared with previous months, 2.Diagnostic reports will be available for further review

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2009, the IRS will continue to explore program enhancements and efficiencies to minimize the time it takes to enroll for Health Care Tax Credit.

Measure: Taxpayer Self Assistance Rate (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	42.5	45.7	48.6	51.5	64.2
Actual	42.5	46.8	49.5	66.8	
Target met?	Y	Y	Y	Y	

Definition: The percent of contacts that are resolved by automated self-assistance applications.

Indicator Type: Measure

Data Capture and Source: Enterprise Telephone Data (ETD) Snapshot Report, Accounts Management Information Report (AMIR), Internet Refund/Fact of Filing Project Site, MIS Reporting Tool, Electronic Tax Administration (ETA) Website, Microsoft Excel Spreadsheet tracking (Kiosk Visits)

Data Verification and Validation: Automated Calls Answered + Web Services Completed Divided by: Assistor Calls Answered + Automated Calls Answered + Web Services Completed + Electronic Interactions + Customer Accounts Resolved (Paper) Taxpayer Assistance Centers Contact. This measure summarizes the following self-service activities: telephone automated calls answered, and web services (IRFOF, Internet EIN, Disclosure Authorization, P-TIN) compared to the volume of all interactions, including correspondence and amended returns, electronic interactions such as from electronic interactions such as ETLA, & I-EAR and assistor calls answered.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS expects performance to continue to increase as more taxpayers choose to use automated applications to resolve issues and questions instead of more traditional methods such as contact with the IRS by telephone and correspondence.

Measure: TEGE Determination Case Closures (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	131700	112400	118200	100600	94000
Actual	126481	108462	109408	100050	
Target met?	N	N	N	N	

Definition: Cases established and closed on the Employee Plans-Exempt Organizations Determination System (EDS) includes all types of tax exempt and employee plan application cases.

Indicator Type: Measure

Data Capture and Source: Tax Exempt and Government Entities (TE/GE) Determination System (EDS) Table 2A

Data Verification and Validation: 1. Group managers review data entered on closing documents by determination specialists prior to approving the case for closing. 2. Error registers/reports are generated for data not meeting system consistency checks

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS was within 99% of its target. The shortfall resulted from the increasing number of applications that are subject to an in-depth review for potential abuses in the Exempt Organizations Determination program. These applications, along with others identified for potential promoter or fraud issues during the screening process, required more extensive development and coordination than the traditional determination workload, resulting in higher per case. The shortfall was minimized due to the increase in merit closures, which required fewer hours to complete.

Measure: Timeliness of Critical Filing Season Tax Products to the Public (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	80	92	85.2	86	92
Actual	91.4	83	83.5	92.4	
Target met?	Y	N	N	Y	

Definition: The percentage of Critical Tax Products, paper and electronic, made available to the public timely. Critical 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.

Indicator Type: Measure

Data Capture and Source: Publishing Services Data (PSD) System

Data Verification and Validation: Nightly processes provide analysts and management with reports concerning production status, missing data problems, and past due situations.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS expects to continue to timely deliver tax products to the public in fiscal year 2009.

Measure: Timeliness of Critical Other Tax Products to the Public (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	80	85	79.6	86	89
Actual	80	61.2	84	89.5	
Target met?	Y	N	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: Publishing Services Data System (PSD)

Data Verification and Validation: Nightly processes provide analysts and management with reports concerning production status, missing data problems, and past due situations.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The IRS expects to continue to timely deliver tax products to the public in fiscal year 2009.

Measure: BSM Project Cost Variance by Release/Subrelease (E) [DISCONTINUED FY 2008]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		0	10	Discontinued	Discontinued
Actual		0	10		
Target met?	N/A	Y	Y	N/A	

Definition: Percent variance by release/sub-release of a BSM funded project's initial, approved cost estimate versus current, approved cost estimate. Cost variances < or = to +/- 10% are categorized as being within acceptable thresholds. Cost variances greater than +/- 10% are considered outside acceptable thresholds.

Indicator Type: Measure

Data Capture and Source: The data is collected from the approved and enacted Expenditure Plan and subsequent modifications resulting from changes to project cost plans as approved via the BSM Governance Procedures and documented by the Resource Management Office.

Data Verification and Validation: The baseline data will be reviewed/ validated by the Program Performance Management (PPM) Team and Manager. To indicate the baseline is valid and approved, the manager will send a notification that the data (Excel spreadsheets) may be placed in the PPM shared library. Before the measure is reported, the PPM Team and Manager will review/ validate the report. The PPM Manager will provide the monthly report to the Deputy Associate CIO for Business Integration for approval. Concurrence will be obtained from the Associate CIO for BSM. To indicate the report is validated and approved, the manager will send a notification to store the report in the PPM shared library and report on Improvement Measure externally.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: This measure is being discontinued in fiscal year 2008 and is being replaced with a new cost variance measure because there was a change in methodology.

Measure: BSM Project Schedule Variance by Release/Subrelease (E) [DISCONTINUED FY 2008]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		0	10	Discontinued	Discontinued
Actual		0	0		
Target met?	N/A	Y	N	N/A	

Definition: Percent variance by release/sub-release of a BSM funded project's initial, approved schedule estimate versus current, approved schedule estimate. Schedule variances < or = to +/- 10% are categorized as being within acceptable thresholds. Schedule variances greater than +/- 10% are considered outside acceptable thresholds.

Indicator Type: Measure

Data Capture and Source: The data is collected at the time of Expenditure Plan creation and subsequent modifications resulting from changes to project schedule plans as approved via the BSM Governance Procedures and documented by the Resource Management Office.

Data Verification and Validation: The baseline data will be reviewed/ validated by the Program Performance Management (PPM) Team and Manager. To indicate the baseline is valid and approved, the manager will send a notification that the data (Excel spreadsheets) may be placed in the PPM shared library. Before the measure is reported, the PPM Team and Manager will review/ validate the report. The PPM Manager will provide the monthly report to the Deputy Associate CIO for Business Integration for approval. Concurrence will be obtained from the Associate CIO for BSM. To indicate the report is validated and approved, the manager will send a notification to store the report in the PPM shared library and report on Improvement Measure externally.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: This measure is being discontinued in fiscal year 2008 and is being replaced with a new schedule variance measure because there was a change in methodology.

OUTCOME: Timely and Accurate Payments at the Lowest Possible Cost

Financial Management Service

Measure: Percentage of Paper Check and Electronic Funds Transfer (EFT) Payments Made Accurately And On-Time (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Accuracy is ensured through payment processes and accounting systems that are subject to numerous internal controls and audit reviews. RFC managers validate payment controls. Systems and accounting reports are used to independently validate payment accuracy and identify the number of duplicate payments. RFCs balance the input to the PRS with a payment control file. The volume of checks released to the USPS is verified against the volume of checks listed on Postal Form 3600. USPS timeliness is ensured through Form 3600, which contains the time and date of release of checks from RFCs to the USPS. For EFT timeliness verification, the volume of payments released is verified against the volume of payments listed on the transmission report which also states the time and date of transmission from an RFC to the Federal Reserve Bank.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. FMS plans to continue to issue 100% of payments accurately and on-time. The Secure Payment System (SPS) used by program agencies to certify checks, clearinghouses, or wire payments to recipients in a secure environment is a critical component in achieving the performance goal.

Measure: Percentage of Treasury Payments and Associated Information Made Electronically (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	76	78	78	79	80
Actual	76	77	78	79	
Target met?	Y	N	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: The volume of payments is tracked through FMS' Production Reporting System. The amount and number of payments are also maintained under accounting control.

Data Verification and Validation: Accounting controls provide verification that the number of payments, both checks and EFT, is accurately tracked and reported. The number of inquires made against Federal check payments, whether disbursed by FMS or by other agencies, is separately tracked and reported. Additionally, payment files are balanced with payment authorizations that are electronically certified and submitted to FMS by Federal program agencies. The Federal Reserve Banks also validate the payment files.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. FMS will continue to implement the successful Go-Direct Campaign to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. In April 2008, FMS launched the nationwide Direct Express card program to target the un-banked customers of benefit payments. It is available now to all SSA and SSI recipients. To date over 100,000, enrollments have been processed.

Measure: Percentage of Federal Agency Customers Indicating an Overall Rating of Satisfactory or Better (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	80	81	81	85	87
Actual	80	80	88	88	
Target met?	Y	N	Y	Y	

Definition: The percentage of customers who utilize our collections network who are at least satisfied with the process.

Indicator Type: Measure

Data Capture and Source: The survey is sent out via e-mail with a link to a specially designed website to complete the survey. Data is captured in the website.

Data Verification and Validation: FMS' Agency Relationship Management Division sends out a survey every year to all the agencies (approximately 100 CFO and non-CFO agencies) asking for their feedback on a number of things such as people, policies, products, etc. These agencies are asked to rate these categories as very satisfied, satisfied, neutral, dissatisfied and very dissatisfied. The satisfied and very satisfied responses are added to give the satisfaction measure.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal and plans to meet its future goals by providing effective and efficient customer service.

Measure: Unit Cost For Federal Government Payments (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	.35	.35	.39	.4	.4
Actual	.355	.37	.39	.39*	
Target met?	N	N	Y	Y	

Definition: Unit cost combines both paper and electronic payment mechanisms and includes the aftermath processes (reconciliation and claims) for both types of payment mechanisms.

Indicator Type: Measure

Data Capture and Source: The cost data is captured through an activity based costing process. The unit cost is the calculated ratio of cost per payment.

Data Verification and Validation: At the end of each fiscal year, actual costs for issuing payments are accumulated and calculated for checks and EFT payments. This information is calculated in conjunction with and verified by the program office and is reviewed by senior executives. Additional accounting controls provide verification that the number of payments is accurately tracked and reported.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. In the future FMS will continue to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs. This helps decrease the number of paper checks issued and minimize costs associated with postage, the re-issuance of lost, stolen and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits.

OUTCOME: Government Financing at the Lowest Possible Cost Over Time

Bureau of the Public Debt

Measure: Cost Per Debt Financing Operation (E)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	133683	228409	263306	275610
Actual	126828	148926	235172	237636*	
Target met?	Y	N	N	Y	

Definition: This performance measure divides debt financing operations costs, determined by an established cost allocation methodology, by the number of auctions and buybacks.

Indicator Type: Measure

Data Capture and Source: The number of debt financing operations is captured in the Global Securities Services (GSS) system and on-line at TreasuryDirect.gov. Costs are captured in BPD's administrative accounting system.

Data Verification and Validation: Analysts manually count the number of auctions in the GSS system and cross-reference this number to the historical information query on-line at www.TreasuryDirect.gov to determine the number of debt financing operations. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon the third quarter year-to-date figures, the cost per debt financing operation falls below the fiscal year 2008 target of $263,306. The projected cost for fiscal year 2009 of $275,610 includes increases for inflation and upgrades to the Treasury Automated Auction Processing System (TAAPS). These upgrades to TAAPS will ensure that Public Debt keeps pace with technology changes and conducts financing operations timely and with 100 percent accuracy. *Cost per item does not include fourth quarter data and therefore represents an estimate of year-end numbers.

Measure: Cost Per Federal Funds Investment Transaction (E)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	90.15	72.33	75.55	69.11
Actual	88.74	62.64	68.53	57.81*	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: The automated investment accounting system captures and reports transaction counts. Costs are captured in Public Debt's administrative accounting system.

Data Verification and Validation: Accountants review transaction reports for reasonableness and any unusual trends are investigated. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon third quarter year-to-date figures, Public Debt forecasts the cost per federal funds investment transaction to fall below the target of $75.55. Due to inflationary cost increases and constant transaction volumes coupled with reducing the number of systems used to support GAIS, Public Debt establishes a target for fiscal year 2009 of $69.11. *Cost per item does not include fourth quarter data and therefore represents an estimate of year-end numbers.

Measure: Percent of Auction Results Released in Two Minutes +/- 30 Seconds (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	95	95	95	95	95
Actual	95	100	99.1	100	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: BPD's automated auction processing systems

Data Verification and Validation: For each auction, analysts verify and validate the system time stamps that record the auction close and auction posting times.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: A key component of Public Debt's mission is to borrow the money required to run the federal government at the lowest possible cost to the taxpayer. Public Debt fulfills this mission by creating an investment environment that is predictable and reliable. Public Debt's ability to meet the performance measure of releasing Treasury auction results to the public in two minutes +/- 30 seconds, 95 percent of the time demonstrates the ability to reliably publish security information to financial markets and contributes to its overall mission. In fiscal year 2008, Public Debt achieved an auction release time performance of 100 percent, exceeding the stated goal of 95 percent for timely releases. For the upcoming fiscal year, Public Debt continues to focus on identifying and correcting any auction system defects in order to ensure ongoing success with this performance metric.

Measure: Cost Per TreasuryDirect Assisted Transaction (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	7.75	6.16	9.25	9.34
Actual	8.51	4.97	6.65	7.23*	
Target met?	Y	Y	N	Y	

Definition: This performance measure divides TreasuryDirect customer service transaction costs, determined by an established cost allocation methodology, by the number of customer requests completed with assistance by a customer service representative.

Indicator Type: Measure

Data Capture and Source: For customer service transactions received by mail and for some requests received by phone or internet, Public Debt (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.

Data Verification and Validation: The accuracy of the system-generated volumes is verified twice a year by customer service staff performing manual counts. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon the third quarter year-to-date figures, the cost per TreasuryDirect assisted transaction falls below the fiscal year 2008 target of $9.25. The fiscal year 2009 target is $9.34. Public Debt continues to realign resources to handle a changing mixture of customer transactions that result from a growing number of accounts and an expansion of services available in TreasuryDirect. *Cost per item does not include fourth quarter data and therefore represents an estimate of year-end numbers.

Measure: Cost Per TreasuryDirect Online Transaction (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	2.99	2.96	4.34	4.34
Actual	3.43	3.06	3.24	3.76*	
Target met?	Y	N	N	Y	

Definition: This performance measure divides TreasuryDirect online transaction costs, determined by an established cost allocation methodology, by the number of TreasuryDirect online transactions.

Indicator Type: Measure

Data Capture and Source: Workload figures are captured from information stored in TreasuryDirect. Costs are captured in Public Debt's administrative accounting system.

Data Verification and Validation: Workload figures are electronically verified by the Treasury Direct system. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon the third quarter year-to-date figures, the cost per TreasuryDirect online transaction falls below the fiscal year 2008 target of $4.34. The fiscal year 2009 target is $4.34. Public Debt continues to promote customer self-sufficiency in TreasuryDirect—an internet-accessed system that provides one-stop shopping, account management, and product information. *Cost per item does not include fourth quarter data and therefore represents an estimate of year-end numbers.

Measure: Number of Government Agency Investment Services Control Processes Consolidated (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			Baseline	2	0
Actual			3	2	
Target met?	N/A	N/A	Y	Y	

Definition: Government Agency Investment Services (GAIS), one of the Bureau of Public Debt's primary Lines of Business (LOB), is responsible for the accounting of the Federal Investments, Special Purpose Securities, and Loans Receivable programs. In July 2005, Public Debt management announced a strategic direction to reduce the number of systems used to support GAIS. Through systems reduction, Public Debt will streamline the diversity of technology involved in supporting this business line. Additionally, this effort will allow Public Debt to consolidate and standardize the internal controls over processes common to all GAIS programs. The control environment consists of 18 processes that will be transformed into 6 standardized processes. The processes are funds management, investment accounting, standard reporting, customer interface, account maintenance, and enhanced reporting.

Indicator Type: Measure

Data Capture and Source: The Project Manager (PM) is responsible for tracking the status of the project using a project plan detailing all stages of the System Development Life Cycle (SDLC). This plan includes milestones that help to measure significant accomplishments. This information is routinely shared with management of the program areas as part of an established and well-documented IT governance and change management process.

Data Verification and Validation: The Project Manager (PM) for the systems consolidation project is responsible for keeping management informed of the project plan and implementation dates of the system consolidation effort. The PM coordinates with program areas on all system related efforts to ensure the control environment is reduced with each system consolidation effort. With each milestone achieved in the systems consolidation project, there is a corresponding standardization and reduction of controls in the GAIS program. For example, in fiscal year 2007 the loans receivable program consolidated funds management, investment accounting, and standard reporting. This would bring the total processes from 18 to 15 with the ultimate goal of 6 standardized processes by fiscal year 2012.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: For fiscal year 2008, Public Debt met its goal to consolidate two Government Agency Investment Services (GAIS) control processes. During fiscal year 2008, the Borrowings program consolidated customer interface and account maintenance bringing the total number of control processes from 15 to 13 with the ultimate goal of 6 standardized processes by fiscal year 2012. The project manager (PM) continues to monitor the scope, time, and cost of the project against the approved baseline, and the PM keeps management informed of the project plan and implementation dates of the system consolidation effort.

Measure: Percent of Retail Customer Transactions Completed Within 12 Business Days (Ot)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	90	90	90	90	90
Actual	88.7	98	99.43	99.86	
Target met?	N	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: For customer service transactions received by mail and for some requests received by phone or e-mail, Public Debt 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.

Data Verification and Validation: The accuracy of system-generated data is crosschecked at least twice a year by customer service staff performing manual counts.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Public Debt met its fiscal year 2008 target for completing 90 percent of time-sensitive retail customer service transactions within 12 business days. In fiscal year 2009, Public Debt will shorten the processing expectation for these transactions to 90 percent completion within 11 business days. This is an important step towards meeting the long-term goal of completing 90 percent of time-sensitive retail customer service transactions within 10 business days by fiscal year 2010. Public Debt continues to streamline work processes and increase the volume of electronic business actions in order to meet this goal.

Measure: Percentage of Government Agency Customer Initiated Transactions Conducted Online (Oe) [DISCONTINUED FY 2008]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		65	75	Discontinued	Discontinued
Actual	72.7	97.03	97.31		
Target met?	Y	Y	Y	N/A	

Definition: Public Debt (BPD) administers three programs in which government agencies conduct transactions: 1. Government Account Series Securities (Federal Investments) 2. Treasury Loans Receivable (Borrowings) 3. State and Local Government Series securities. Prior to an initiative to make BPD systems available on the internet, customers faxed all requests to Public Debt, and BPD manually entered the transactions into the various systems. BPD's long-term goal is to have 80 percent of customer-initiated transactions completed online by the end of fiscal year 2008.

Indicator Type: Measure

Data Capture and Source: Total transaction counts are captured from the investment accounting systems in automated reports that differentiate online transactions from other transactions entered into the systems.

Data Verification and Validation: Accountants review the total online transaction counts for reasonableness and unusual volumes are investigated.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Discontinued in fiscal year 2008.

OUTCOME: Effective Cash Management

Departmental Offices

Measure: Variance Between Estimated and Actual Receipts (Annual Forecast) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	5	5	5	5	5
Actual	5	3.9	2.1	4.6	
Target met?	Y	Y	Y	Y	

Definition: Percentage error measures the accuracy of the Mark receipt forecasts produced monthly by the Office of Fiscal Projections. It measures the relative amount of error or bias in Office of Fiscal Projection receipt forecasts.

Indicator Type: Measure

Data Capture and Source: The Office of Fiscal Projections 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). The Office of Fiscal Projections 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.

Data Verification and Validation: The percentage error is computed by subtracting the forecast value of tax receipts from the actual (At -Ft), and dividing this error of forecast by the actual value, and then multiplying it by 100. PEt = ((At - Ft)/At) *100 At is actual value of receipts at time t, and Ft is forecasted value of receipts at time t. The average percentage error is more general measure that will be used to compare the relative error in the forecasts. This measure adds up all the percentage errors at each point and divides them by the number of time point APE = |(?t=1TPEt)|/T where PEt is the percentage error of forecasts in (1) and T is the total number of time point. The absolute value of the average percentage error will be used to measure the magnitude of error or bias in the receipts forecasts.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2009, Treasury anticipates that forecasting government receipts and outlays will continue to be challenging. Volatility caused by changing economic conditions and new programs and initiatives enacted by Congress to address systemic risks and market concerns is added to the forecasting mix. Treasury's investments may need to be of a shorter duration, giving up some higher returns normally associated with longer-term investments.

OUTCOME: Accurate, Timely, Useful, Transparent and Accessible Financial Information

Bureau of the Public Debt

Measure: Cost Per Summary Debt Accounting Transaction (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	11.59	10.98	9.91	10.01
Actual	12.62	10.96	9.29	8.29*	
Target met?	Y	Y	Y	Y	

Definition: This performance measure divides summary debt accounting transaction costs, determined by an established cost allocation methodology, by the number of summary debt accounting transactions.

Indicator Type: Measure

Data Capture and Source: Public Debt's investment accounting systems capture and report transaction counts. Costs are captured in Public Debt's administrative accounting system.

Data Verification and Validation: Accountants review transactional activity reports for reasonableness and any unusual trends are investigated. Senior management regularly reviews the cost allocation methodology and the allocations are updated at least annually.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based upon third quarter year-to-date figures, Public Debt forecasts the cost per summary debt accounting transaction to fall below the fiscal year 2008 target of $9.91. Due to inflationary cost increases and constant transaction volumes, Public Debt establishes a target for fiscal year 2009 of $10.01. Public Debt will continue to maintain and support strong accounting controls to ensure integrity of the operations and accuracy of the information provided to the public. *Cost per item does not include fourth quarter data and therefore represents an estimate of year-end numbers.

Departmental Offices

Measure: Release Federal Government-Wide Financial Statements on Time (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1	1	1	1	1
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.

Indicator Type: Measure

Data Capture and Source: Data are collected from the audited financial results of all federal agencies and is audited by GAO.

Data Verification and Validation: Report is released to the public with a release date that can be independently verified. Due date is established by Treasury/OMB policy decision since it exceeds the statutory requirement of March 31.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: This data is not available until December 15, 2008, after this report is published. Treasury will evaluate the information at that time and determine what actions to take in the 2009.

Measure: Audit Opinion Received on Government-wide Financial Statements (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1	1	1	Discontinued	Discontinued
Actual	Met	Met	Met		
Target met?	Y	Y	Y	N/A	

Definition: This is the independent audit opinion rendered on the financial statements by GAO. Treasury expects to receive a disclaimed audit opinion until fiscal year 2007.

Indicator Type: Measure

Data Capture and Source: GAO is the statutorily prescribed auditor.

Data Verification and Validation: Opinion is included in the published financial report and is also available directly from GAO.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: There are material weaknesses in DOD and DHS which will not be resolved in the near term, making this measure an inappropriate gauge of Treasury's performance. As a result, prior data is invalid. A new measure will be developed in fiscal year 2009 to replace this measure. Based on OIG comments, Treasury is considering developing a measure that would track the timeliness and accuracy of the statements that Treasury delivers.

Financial Management Service

Measure: Percentage of Government-Wide Accounting Reports Issued Accurately (%) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: All government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be 100% accurate.

Indicator Type: Measure

Data Capture and Source: A monthly tracking system reports on the various published statements and monitors errata as it pertains to this data.

Data Verification and Validation: There are no errata in any of the published government-wide financial information.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. FMS will continue to revamp government-wide accounting processes to provide more useful and reliable financial information on a regular basis. FMS is building and implementing a system to improve the exchange of financial information among FMS, Federal Program Agencies (FPA), Office of Management and Budget and the banking community. Once completed, this Government-wide Accounting Modernization Project will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. It will improve the reliability, usefulness, and timeliness of the government's financial information, provide FPAs and other users with better access to that information, and will eliminate duplicate reporting and reconciliation burdens by agencies. FMS is also moving forward on a project called Financial Information Reporting Standardization which will integrate budgetary and proprietary accounting data as well as several accounting data collection systems to improve the integrity and accuracy of government-wide financial information and reports.

Measure: Percentage of Government-Wide Accounting Reports Issued Timely (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: All Government-wide financial data that FMS publishes relating to U.S. Treasury cash-based accounting reports (i.e., the Daily Treasury Statement, the Monthly Treasury Statement, and the Annual Combined Report) will be on time 100% of the time.

Indicator Type: Measure

Data Capture and Source: A monthly reporting system is used to track the release dates to the public of all of the various government-wide statements.

Data Verification and Validation: Procedures are in place to validate that the statements are released on time to the public 100% of the time.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. FMS is building and implementing a system to improve the exchange of financial information among FMS, Federal Program Agencies (FPA), Office of Management and Budget (OMB) and the banking community. Once completed, this Government-wide Accounting (GWA) Modernization Project will comprehensively replace current government-wide accounting functions and processes that are both internal and external to FMS. It will improve the reliability, usefulness, and timeliness of the government's financial information.

Measure: Unit Cost to Manage $1 Million Dollars of Cash Flow (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	10.69	11.72	13.39
Actual		8.5	10.36	9.21*	
Target met?	N/A	Y	Y	Y	

Definition: This Unit Cost Measure assesses Government Wide Accounting's (GWA's) Cost to Manage Government Operations. The Government Operations consists of total GWA costs which consist of all Directorates, Systems, Administrative Overhead, and major initiatives performed within GWA. On a monthly basis the Cost-per-Million of Cash Flow managed by GWA is calculated.

Indicator Type: Measure

Data Capture and Source: The Total GWA Cost data is retrieved from the year ending Cost Accounting Report. The Operating Cash, which is rounded in millions, is determined from the final DTS of each month for the fiscal year. The ratio of total costs to GWA per month over Deposits and Withdrawals (Excluding Transfers) gives us the cost to manage $1 Million dollars of cash flow. This ratio is calculated for GWA alone to determine controllable costs, and using Information Resources / TWAI and Management Overhead to determine the uncontrollable costs attributed to GWA.

Data Verification and Validation: At the beginning of each month, the actual operating cash of the United States in the form of Deposits and Withdrawals is obtained from the Last Daily Treasury Statement (DTS) of the previous month. GWA total costs are broken down and retrieved from the Cost Accounting Report that is prepared at the end of the fiscal year. This information is verified and excludes Financial Services. Additional data is retrieved from this source and included in the report and is reviewed by senior executives.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FMS has met its fiscal year 2008 performance goal. Though cash flow is beyond the control of FMS, FMS plans to continue its efforts in improving efficiencies and lowering its costs in managing the nation's money.

STRATEGIC GOAL:
U.S. and World Economies Perform at Full Economic Potential

STRATEGIC OBJECTIVE: Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth At Home And Abroad

OUTCOME: Strong U.S. Economic Competitiveness

Community Development Financial Institution Fund

Measure: Administrative Costs Per Number of Bank Enterprise Award (BEA) Applications Processed (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	1280	1455	1455	1455
Actual	1280	1630	1950	3070	
Target met?	Y	N	N	N	

Definition: The fixed and variable cost per application for Bank Enterprise Award (BEA) applications.

Indicator Type: Measure

Data Capture and Source: The Fund will analyze the cost of materials as well as staff time and contractor's time to determine the total cost per application.

Data Verification and Validation: The Fund will conduct an analysis of the total cost of processing a single BEA application. The analysis will include both fixed and variable costs for the project.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Admin cost increased from previous fiscal year due to: 1) an incorrect number of applications reported in FY07. FY07 restated with correct number of applications results in an administrative cost per application of $2,272; 2) an increase in salary and benefits and training cost primarily a result of FY08 being the first full fiscal year with new dedicated FTE to program; 3) a significant increase in IT costs from the previous year; and 4) the inclusion of application intake cost (FY07 does not include application intake cost).

Measure: Administrative Costs Per Financial Assistance Application Processed (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	5130	6920	6920	6920
Actual	5130	8710	7180	7200	
Target met?	Y	N	N	N	

Definition: The cost per application for Financial Assistance (FA) applications.

Indicator Type: Measure

Data Capture and 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.

Data Verification and Validation: The Fund will conduct an analysis of the total cost of processing a single FA application. The analysis will include both fixed and variable costs for the project.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Admin cost increased from previous year. Percent increase in costs higher than percent increase in number of applications from 2007 to 2008. As a result of an independent assessment performed by a contractor and approved by the CDFI Fund, new SOPs to streamline the application and award process have been developed. By late 2009, the CDFI Fund should be able to determine the effectiveness of the new SOPs currently being implemented.

Measure: Administrative Costs Per Number of Native American CDFI Assistance Applications Processed(E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	10050	9090	9090	9090
Actual	10050	8130	13510	10990	
Target met?	Y	Y	N	N	

Definition: The Fund will determine the total cost associated with Native American CDFI Assistance (NACA) applications based on fixed and variable costs.

Indicator Type: Measure

Data Capture and Source: The Fund will capture this information through budget documentation.

Data Verification and Validation: The Fund will determine the total cost of a single NACA application based on material costs as well as the amount staff and contractor time per application.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Admin cost decreased from previous year. Percent increase in applications much greater than percent increase in costs from 2007 to 2008. As a result of an independent assessment performed by a contractor and approved by the CDFI Fund, new SOPs to streamline the application and award process have been developed. By late 2009, the CDFI Fund should be able to determine the effectiveness of the new SOPs currently being implemented.

Measure: Administrative Costs Per Number of New Markets Tax Credit (NMTC) Applications Processed (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	5390	4875	4875	4875
Actual	5390	4360	5320	7400	
Target met?	Y	Y	N	N	

Definition: The cost per application for New Markets Tax Credit (NMTC) applications.

Indicator Type: Measure

Data Capture and 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.

Data Verification and Validation: The Fund will conduct an analysis of the total cost of processing a single NMTC application. The analysis will include both fixed and variable costs for the project.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Admin cost increased from previous year. Percent increase in costs higher than percent increase in number of applications from 2007 to 2008. As a result of an independent assessment performed by a contractor and approved by the CDFI Fund, new SOPs to streamline the application and award process have been developed. By late 2009, the CDFI Fund should be able to determine the effectiveness of the new SOPs currently being implemented.

Measure: Annual Percentage Increase In The Total Assets of Native CDFIs (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	35	33	33	15	15
Actual	103	182	19	19	
Target met?	Y	Y	N	Y	

Definition: Measure the percent change in total assets that Native CDFIs report from one year to the next. The Fund will calculate: [Total Assets in Current Year - Total Assets in Previous Year] / [Total Assets in Previous Year]

Indicator Type: Indicator

Data Capture and Source: The Native CDFIs financial data is captured through the annual Institution Level Report.

Data Verification and Validation: Native CDFIs report their total assets to the Fund in their Institution Level Report. The Fund verifies the total assets reported against the organization's submitted balance sheet. Organizations are contacted regarding any discrepancies in the data reported. The Fund compares the total assets of CDFIs from year-to-year.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based on 2007 reporting. Increased assets indicate a stronger financial institution which also indicates a maturing CDFI industry as a whole. It is expected that CDFIs receiving awards from the CDFI Fund should be able to maintain the target level. Please note that the asset growth rate target for Native CDFIs is significantly lower than for other CDFIs.

Measure: Commercial Real-Estate Properties Financed by BEA Program Applicants That Provide Access to Essential Community Products And Services In Underserved Communities (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			Baseline	285	285
Actual			301	287	
Target met?	N/A	N/A	Y	Y	

Definition: Number of commercial real-estate projects financed by BEA applicants.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The data is self-reported by applicants during the application process.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The number of commercial real estate loans provided by BEA applicants has remained level over the past three years. Given the current credit crunch, the Fund maintains an assumption of no growth in this area.

Measure: Community Development Entities' Annual Investments In Low-Income Communities ($ billions) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1.4	1.6	2.1	2.5	2.5
Actual	1.1	2	2.5	3.3	
Target met?	N	Y	Y	Y	

Definition: Amount of investments in Low Income Communities that Community Development Entities have made with capital raised through their New Markets Tax Credits (NMTC) allocations. The Fund will report NMTC Qualified Low-Income Community Investments (QLICIs) that are supported by NMTC Qualified Equity Investments (QEIs).

Indicator Type: Measure

Data Capture and Source: The Fund will capture the data in the CDEs' annual Institution Level and Transaction Level Reports.

Data Verification and Validation: CDEs will attract private sector equity in the form of QEIs. CDEs will have 12 months to invest these QEIs in QLICIs. The CDEs will self-report QLICIs in their annual Transaction Level Report. The Fund uses these reports for research, reporting, and compliance. The Fund is confident that CDEs will accurately report, as the consequence of misinformation may be recapture of the New Markets Tax Credits.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Reported in 2007. This measure is directly tied to the performance and target of the measure "CDEs cumulative investments in low-income communities". The cumulative actual performance in 2008 is $8.9B. The target set in 2009 is $11.4B. This is a difference of $2.5B, which is the 2009 target set for this specific measure.

Measure: Community Development Entities' Cumulative Investments in Low-Income Communities ($ billion) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1.4	2	4	6	11.4
Actual	1.1	3.1	5.6	8.9	
Target met?	N	Y	Y	Y	

Definition: Amount of cumulative investments in Low Income Communities that Community Development Entities have made with capital raised through their New Markets Tax Credits (NMTC) allocations in billions. The Fund will report NMTC Qualified Low-Income Community Investments (QLICIs) that are supported by NMTC Qualified Equity Investments (QEIs).

Indicator Type: Measure

Data Capture and Source: The Fund will capture the data in the CDEs' annual Institution Level and Transaction Level Reports.

Data Verification and Validation: CDEs will attract private sector equity in the form of QEIs. CDEs will have 12 months to invest these QEIs in QLICIs. The CDEs will self-report QLICIs in their annual Transaction Level Report. The Fund uses these reports for research, reporting, and compliance. The Fund is confident that CDEs will accurately report, as the consequence of misinformation may be recapture of the New Markets Tax Credits.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Cumulative thru 2007. As the NMTC program continues to receive funding, this measure will increase as the allocation will go directly to the Community Development Entities (CDEs) to raise Qualified Equity Investments (QEIs). Based on past funding trends, the CDFI Fund expects to have a minimum allocation of $2.0 billion available to be awarded in 2009.

Measure: Dollars of Private and Non-CDFI Fund Investments That CDFIs are Able To Leverage Because of Their CDFI Fund Financial Assistance. ($ million) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	500	1100	861	750	635
Actual	1800	1400	778	621	
Target met?	Y	Y	N	N	

Definition: 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 (FA) award. For CDFIs, leverage is defined as the one-to-one non-federal match (as required by the FA program), plus funds the CDFI is able to leverage with CDFI Fund FA grant and equity dollars, plus dollars that the awardees' borrowers leverage for projects. (Project leverage example - Of the total financing needed for a housing development is $5 million and the awardee lends $1 million, while other investors lend the remaining $4 million, then the $4 million is the project leverage).

Indicator Type: Measure

Data Capture and Source: FA award disbursements are made once CDFIs provide documentation showing that they have received or been committed matching funds. Disbursements of FA 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 FA grants and equity dollars, as well as project level leverage.

Data Verification and Validation: CDFI awardees' one-to-one match is equal to the amount disbursed to awardees. The FA grant and equity dollar leverage ratio is taken from the awardees' financial statements. (In most cases, the financial statements have been audited.) Project level leverage is reported by the awardee and is not verifiable by the Fund.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The shortfall was due to a drop of FA disbursements from $40M (in 2006) to $28M (in 2007). Although this is a drop in the overall leverage, the single dollar leverage increased from the previous year went from 1:19 in 2007 to 1:22 in 2008, respectively. FA disbursements are dependent on how much money the CDFI Fund has available so the single dollar leverage is a better indicator of the effectiveness of the grants being provided.

Measure: Increase in Community Development Activities Over Prior Year For All BEA Program Applicants ($ million) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	134	81	100	180	202
Actual	103	318	227	232	
Target met?	N	Y	Y	Y	

Definition: This measures the Bank Enterprise Award (BEA) applicants' increase in qualified community development activities over prior year.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The data is self-reported by applicants during the application process.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: BEA activity increased this funding round due to an increased level of financial support provided to certified CDFIs and small businesses in economically distressed areas. The Fund will continue to support these efforts through the BEA awards.

Measure: Increase in the Percentage Of Eligible Areas Served by a CDFI (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	5	8	15	15
Actual	3.3	13.5	19.5	17.8	
Target met?	Y	Y	Y	Y	

Definition: From 2000 census data, there are 24,795 geographic tracts in the U.S. that are designated as eligible to be served by CDFIs. The CDFI Fund captures portfolio data at the specific project address level from organizations receiving awards. By having this information, it can be determined how many eligible tracts CDFIs are serving in an annual reporting year.

Indicator Type: Measure

Data Capture and Source: Each awardee collects and tracts their portfolio data in its own management information system(s). It is then uploaded into the CDFI Fund's Community Investment Impact System (CIIS). This information is self-reported by the awardees.

Data Verification and Validation: The CDFI Fund will collect portfolio data thru the annual transaction level reports. Data provided is compared to the awardees' actual financial statements for accuracy and "reasonableness" as defined by the CDFI Fund. Awardees are contacted regarding any discrepancies.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Portfolio data shows that CDFIs have projects in 4,407 out of 24,795 CDFI eligible tracts (17.8%) for reporting year 2007. As the CDFI industry expands and more investments/projects are finalized, there should be an increase in coverage of projects in distressed communities.

Measure: Number of Full-Time Equivalent Jobs Created Or Maintained In Underserved Communities By Businesses Financed by CDFI Program Awardees (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	26995	29158	34009	28676	30000
Actual	23656	22329	35022	29539	
Target met?	N	N	Y	Y	

Definition: 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).

Indicator Type: Measure

Data Capture and Source: Each awardee and allocatee collects and tracks job data in its own management information system(s). The information is self-reported by awardees and allocatees. Many organizations 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 awardee and NMTC Allocatee is required to complete a Transaction Level Report. CDFI awardees report FTE data in the Institution Level Report or Transaction Level Report, while NMTC Allocatees report FTE data in the Transaction Level Report only.

Data Verification and Validation: The Fund will collect FTE through the annual Institution Level and Transaction Level Reports. Data provided is compared to the awardees' and allocatees' actual financial statements for accuracy and "reasonableness" as defined by the Fund. Awardees and allocatees are contacted regarding any discrepancies.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Based on 2007 reporting. Job creation will be of great importance during this economic down turn. As CDFIs receive funding from the CDFI Fund, they will be able to continue investing in projects that will improve low-income communities and create jobs.

Measure: Number of Small Businesses Located In Underserved Communities Financed by BEA Program Applicants (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			Baseline	329	288
Actual			375	906	
Target met?	N/A	N/A	Y	Y	

Definition: Number of loans provided to small businesses financed by BEA applicants.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The data is self-reported by applicants during the application process.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In 2007, there was a significant rise in the number of loans provided to small business owners in economically distressed areas. Given the uncertainty in the lending markets, the Fund does not predict this level of growth to continue but to more closely resemble the cycle experience in the past three years.

Measure: Percent of CDFIs that Increased Their Total Assets (Cumulative) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	69	70	70	70	70
Actual	74	84	82	87	
Target met?	Y	Y	Y	Y	

Definition: Measure the # of CDFIs that reported an increase in total assets in the current year compared to the original year that was first reported to the CDFI Fund.

Indicator Type: Measure

Data Capture and Source: CDFIs financial data is captured through the annual Institutional Level Report.

Data Verification and Validation: CDFIs report their total assets to the CDFI Fund in their Institutional Level Report. The CDFI Fund verifies the total assets reported against the organization's submitted balance sheet. Organizations are contacted regarding any discrepancies in the data reported.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Assets increased in 117 out of 134 CDFIs for reporting year 2007 compared to the original reporting year. Increased assets indicate a stronger financial institution which also indicates a maturing CDFI industry as a whole. It is expected that CDFIs receiving awards from the CDFI Fund should be able to maintain the target level.

Measure: Percent of CDFIs that Increased Their Total Assets Over the Previous Year (Annual) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	69	69	70	70	70
Actual	73	82	74	80	
Target met?	Y	Y	Y	Y	

Definition: Measure the # of CDFIs that reported an increase in total assets over the previous year.

Indicator Type: Measure

Data Capture and Source: The CDFIs financial data is captured through the annual Institution Level Report.

Data Verification and Validation: CDFIs report their total assets to the CDFI Fund in their Institutional Level Report. The CDFI Fund verifies the total assets reported against the organization's submitted balance sheet. Organizations are contacted regarding any discrepancies in the data reported. The CDFI Fund compares the total assets of CDFIs from year-to-year.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Assets increased in 103 out of 128 CDFIs for reporting year 2007. Increased assets indicate a stronger financial institution which also indicates a maturing CDFI industry as a whole. It is expected that CDFIs receiving awards from the CDFI Fund should be able to maintain the target level.

Measure: Percentage of Eligible Areas Served by One Or More CDFI (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	1	1	3	3
Actual	.1	1.6	4.2	3.4	
Target met?	Y	Y	Y	Y	

Definition: Same definition as the measure "CDFI - Increase in the pct. of eligible areas served". The difference is that this measure focuses on one or more CDFI serving the same geographic tract, which would indicate demand for CDFIs.

Indicator Type: Measure

Data Capture and Source: Each awardee collects and tracts their portfolio data in its own management information system(s). It is then uploaded into the CDFI Fund's Community Investment Impact System (CIIS). This information is self-reported by the awardees.

Data Verification and Validation: The CDFI Fund will collect portfolio data thru the annual transaction level reports. Data provided is compared to the awardees' actual financial statements for accuracy and "reasonableness" as defined by the CDFI Fund. Awardees are contacted regarding any discrepancies.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Portfolio data shows that 832 out of 24,795 CDFI eligible tracts (3.4%) are being served by one or more CDFI for reporting year 2007. As the CDFI industry expands and more investments/projects are finalized, there should be an increase in coverage of projects in distressed communities.

Measure: Percentage of Loans and Investments that Went Into Severely Distressed Communities (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	66	66	66	66
Actual	64	71	76	73	
Target met?	Y	Y	Y	Y	

Definition: Portfolio data being reported by allocatees' at the project level is used to determine the percentage of loans going into a distressed community. A distressed community is composed of any of the following criteria: 1)Poverty > 30% 2)Median Income < 60% 3)Unemployment Rate 1.5x National Average

Indicator Type: Measure

Data Capture and Source: Each allocatee collects and tracts their portfolio data in its own management information system(s). It is then uploaded into the CDFI Fund's Community Investment Impact System (CIIS). This information is self-reported by the awardees.

Data Verification and Validation: The CDFI Fund will collect portfolio data thru annual transaction level reports. Data provided is compared to the awardees' actual financial statements for accuracy and "reasonableness" as defined by the CDFI Fund. Awardees are contacted regarding any discrepancies.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Cumulative thru 2007, 1,453 out of 1,980 projects are considered to be located in severely distressed communities. With more emphasis on assisting rural communities in the latest award round, this measure should easily exceed the projection for the next reporting year.

Alcohol and Tobacco Tax and Trade Bureau

Measure: Average Number of Days to Process an Original Permit Application at the National Revenue Center (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	72
Actual				64	
Target met?	N/A	N/A	N/A	Y	

Definition: The average numbers of days to process an original permit application (including those rejected) at the National Revenue Center (NRC). An application is stamped when received and recorded when processed.

Indicator Type: Measure

Data Capture and Source: The NRC generates statistical reports, searches, and queries from the IRIS system.

Data Verification and Validation: The NRC maintains data in the Integrated Revenue Information System (IRIS) database that reflects the receipt date of the application and the permit issue or close date. The IRIS system contains built-in data integrity controls to validate the information.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB used fiscal year 2008 results to baseline this measure and set a performance target for fiscal year 2009. In setting the target, TTB took into consideration that the National Revenue Center (NRC) is currently experiencing an eight percent annual growth in permit applications. This has led to growth in the backlog of applications and to the expenditure of unplanned overtime costs for the NRC. The NRC will review its business processes and explore funding options for an automated permit application system that will greatly reduce the processing time for permits.

Measure: National Revenue Center (NRC) Customer Satisfaction Survey Results (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	85
Actual				90	
Target met?	N/A	N/A	N/A	Y	

Definition: The NRC will conduct a customer survey to determine satisfaction levels among industry members applying for a permit or filing a claim with TTB. The questions used in this survey will be standardized for each commodity.

Indicator Type: Measure

Data Capture and Source: Data is captured from clients through a survey mechanism. Results are posted to a detailed Excel spreadsheet. There are periodic reports generated for management.

Data Verification and Validation: Supervisor reviews report developed summary data developed by National Revenue Center (NRC) staff.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The TTB National Revenue Center (NRC) intends to achieve a score of 85 or better (a B+ rating) in fiscal year 2009 by improving forms and clarifying form instructions, an area that the fiscal year 2008 survey indicated as vulnerability. The NRC plans to target key stakeholders in the upcoming fiscal year, concentrating on the few regulated industries with the lowest apparent scores on the satisfaction survey.

Measure: Percent of Electronically Filed Certificate of Label Approval Applications (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	16	27	47	52	52
Actual	25	38	51	62	
Target met?	Y	Y	Y	Y	

Definition: Calculated by dividing the number of e-filed applications by the total Certificate of Label Approval applications (COLA) submissions (paper and electronic). The quarterly results are cumulative.

Indicator Type: Measure

Data Capture and Source: Data is captured through the COLAs Online database system. There are periodic statistical reports, searches, and queries that are generated.

Data Verification and Validation: Supervisor reviews canned report developed from COLAs Online database.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB continues to monitor COLAs Online user feedback to develop and implement system enhancements as resources allow. These updates result in a more user-friendly system that attracts and retains e-filers. The Advertising, Labeling and Formulation Division (ALFD) plans to continue its outreach efforts by participating as session speakers and booth exhibitors at TTB Expo 2009. Also, resources permitting, ALFD will hold another series of COLAs Online Workshops at locations throughout the United States, and will attend and present at various national seminars sponsored by industry. Further, ALFD is making a strategic effort to identify and reach out to large paper filers for one-on-one presentations and system demonstrations to show the benefits of filing label applications electronically.

Measure: Percentage of Instances Where the Utilization of International Trade Database System Identified Importers Without Permits as a Percentage of Total Permits on File (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	16
Actual				15	
Target met?	N/A	N/A	N/A	Y	

Definition: The percentage of occurrences in which any individual or business importer has no known authorization (e.g., permit) to operate in the alcohol or tobacco industries in the U.S. where instances in the ITDS fail to match those within the NRC's integrated Revenue System (IRIS). The results reported quarterly are cumulative findings for the year up through the reporting date.

Indicator Type: Measure

Data Capture and Source: Data is captured through the ITDS and compared with that of the NRC permit database. There are periodic statistical reports, searches, and queries that are generated.

Data Verification and Validation: Supervisor reviews report developed from ITDS compared to National Revenue Center (NRC) permit database.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB plans to begin monitoring alcohol importers in the International Trade Database System (ITDS) in fiscal year 2009. Due to staffing levels, TTB concentrated on targeting illicit tobacco importers in fiscal year 2008. TTB will send cease and desist letters to illegal importers of alcohol and tobacco products. If database records indicate that these importers continue to import product, TTB intelligence specialists will refer the importer to TTB's Trade Investigations Division and/or TTB's Tax Audit Division for investigation.

Measure: Percentage of COLA Approval Applications Processed within 9 Calendar Days of Receipt (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	30	55	45	Discontinued	Discontinued
Actual	50	44	42		
Target met?	Y	N	N	N/A	

Definition: The percentage of Certificate of Label Applications (COLA) processed electronically and by paper within 9 days of receipt.

Indicator Type: Measure

Data Capture and Source: Data is captured thru the COLAs Online data base system. There are periodic statistical reports, searches, and queries that are generated.

Data Verification and Validation: There are statistical reports, searches and queries that are generated. In addition, there are data integrity controls in place within the application to validate the data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008. The nine-day standard for processing COLA applications, set in the 1990's, is no longer representative of staffing or workload levels, given that the number of COLA applications has risen 25 percent in the past three years alone. TTB replaced this customer service measure with another customer-oriented measure, "National Revenue Center customer service survey results."

Measure: Percentage of Permit Applications (original and amended) Processed by the National Revenue Center within 60 Days (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	67	80	80	Discontinued	Discontinued
Actual	81	86	85.09		
Target met?	Y	Y	Y	N/A	

Definition: The average number of days to process a permit application (original including those rejected by the NRC. An application is stamped when received and recorded when processed.

Indicator Type: Measure

Data Capture and Source: NRC generates statistical reports, searches and queries. In-place data integrity controls exist within the application to validate the data.

Data Verification and Validation: NRC maintains data in the IRIS database that reflects receipt date and issued or closed date.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008 and instituted a replacement measure, "Average number of days to process an original permit application at the National Revenue Center," which tracks our customer service level. The 60-day standard for processing original and amended permit applications grew to be unrealistic due to significantly increasing applications with no corresponding increase in authorized staffing levels at the National Revenue Center.

Future Plans/Explanation for Shortfall: Discontinued for fiscal year 2008.

Measure: Unit Cost to Process a Wine Certificate of Label Approval (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			0	Discontinued	Discontinued
Actual			34		
Target met?	N/A	N/A	Y	N/A	

Definition: This is the allocated cost of the resources used in processing the COLA divided by the number of COLAs.

Indicator Type: Measure

Data Capture and Source: The COLA online database.

Data Verification and Validation: Capturing excise tax returns: TTB reconciles the returns received vs. logged returns daily. Capturing resource cost data: Resource data is captured and available four times a day in Discoverer.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: TTB discontinued this measure in fiscal year 2008 as part of a review and revision that resulted in a new suite of measures that better represent the Bureau's performance.

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Discontinued for fiscal year 2008.

OUTCOME: Free Trade and Investment

Departmental Offices

Measure: Number of New Trade and Investment Negotiations Underway Or Completed (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	6
Actual				14	
Target met?	N/A	N/A	N/A	Y	

Definition: 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, including new commitments by a foreign government to open its financial services markets to U.S. providers. It includes bilateral agreements such as Free Trade Agreements, Bilateral Investment treaties and multilateral undertaking (e.g., WTO) from which the U.S. benefits.

Indicator Type: Measure

Data Capture and Source: International Affairs staff and U.S. Trade Representative's office reporting.

Data Verification and Validation: Based upon a count by International Affairs staff responsible for such negotiations and verifiable by reference to U.S. Trade Representative's office of financial services and investment.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Rising protectionist sentiment around the globe is impeding efforts to complete both bilateral and multilateral negotiations. Progress towards Department goals could be slowed if weaker economic conditions exacerbate this protectionist trend. The Department will make every effort to complete the target of six negotiations for 2009.

Measure: Number of Specific New Trade Actions Involving Treasury Interagency Participation in Order to Enact, Implement, and Enforce U.S. Trade Law and International Agreements (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	68
Actual				68	
Target met?	N/A	N/A	N/A	Y	

Definition: Specific trade actions involving Treasury interagency participation under legislation, decision whether to initiate trade disputes, review of country eligibility for preference programs, and review of specific trade petitions and recommendations (under preference programs, Section 301, CITA, Section 337, etc.)

Indicator Type: Measure

Data Capture and Source: International Affairs staff and U.S. Trade Representative's office reporting.

Data Verification and Validation: Based upon a count by International Affairs staff responsible for such negotiations and verifiable by reference to U.S. Trade Representative's office of financial services and investment.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Challenging economic conditions increased the number of new trade actions for 2008 beyond initial expectations. High likelihood of similar economic conditions in 2009 will most likely keep trade actions at an elevated level. The actual result for 2008, 68 actions, has thereby been retained as the target for 2009.

Measure: Number of New Free Trade Agreement (FTA) Negotiations and Bilateral Investment Treaty Negotiations Underway or Completed (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	5	9	7	Discontinued	Discontinued
Actual	7	12	10	0	
Target met?	Y	Y	Y	N/A	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: International Affairs staff and U.S. Trade Representative's office reporting.

Data Verification and Validation: : Based upon a count by International Affairs staff responsible for such negotiations and verifiable by reference to U.S. Trade Representative's office of financial services and investment.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure was Discontinued in fiscal year 2008.

OUTCOME: Prevented or Mitigated Financial and Economic Crises

Departmental Offices

Measure: Changes that Result from Project Engagement (Impact) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	3.1
Actual				3.1	
Target met?	N/A	N/A	N/A	Y	

Definition: The extent to which a Technical Assistance project objective contributes to the achievement of the goal(s) described in the Terms of Reference and addresses the country problem describe

Indicator Type: Measure

Data Capture and Source: Generated by the Financial Technical Assistant Advisor who manage the project in the countries were technical assistant project exist.

Data Verification and Validation: The data is verified by the five contracting office representatives, the Associate Director of OTA and approved by the director of OTA.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: During fiscal year 2009 OTA will continue work already begun on analysis of fiscal year 2008 baseline data; continue reviewing team processes of generating, recording, and reviewing individual project data; and review team indicators for the four Program Key Results Areas that comprise the overall Program Performance Measures.

Measure: Scope and Intensity of Engagement (Traction) (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	3.7
Actual				3.7	
Target met?	N/A	N/A	N/A	Y	

Definition: The degree to which a Technical Assistance project brings about changes in behavior among the counterparts and other country participants.

Indicator Type: Measure

Data Capture and Source: Generated by the Financial Technical Assistant Advisor who manage the project in the countries were technical assistant project exist.

Data Verification and Validation: The data is verified and validated by the five contracting office representatives, the Associate Director of OTA and approved by the Director of OTA.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: During fiscal year 2009 OTA will continue work already begun on analysis of fiscal year 2008 baseline data; continue reviewing team processes of generating, recording, and reviewing individual project data; and review team indicators for the four Program Key Results Areas that comprise the overall Program Performance Measures.

Measure: U.S. Real Gross Domestic Product (GDP) Growth Rate (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	3.6	3.4	3.3	Discontinued	Discontinued
Actual	3.6	3	2.4		
Target met?	Y	N	N	N/A	

Definition: Real GDP is the most comprehensive measure of economic activity and is compiled throughout the year to reflect developments in each calendar quarter.

Indicator Type: Measure

Data Capture and Source: Data are provided by the Department of Commerce, Bureau of Economic Analysis (BEA).

Data Verification and Validation: Data is drawn from the Department of Commerce, Bureau of Economic Analysis, and checked twice to make sure the data is accurate.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Discontinued for fiscal year 2008.

Measure: U.S. Unemployment Rate (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	5.3	5.2	5.1	Discontinued	Discontinued
Actual	5.1	4.6	4.5		
Target met?	Y	Y	Y	N/A	

Definition: The percentage of the U.S. labor force reported as unemployed in the last quarter of the reference fiscal year.

Indicator Type: Measure

Data Capture and Source: Data are collected from the U.S. Department of Labor, Bureau of Labor Statistics

Data Verification and Validation: Data are drawn from the U.S. Department of Labor, Bureau of Labor Statistics and checked twice to make sure the data are accurate.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Discontinued for fiscal year 2008.

Office of the Comptroller of the Currency

Measure: Percent of National Banks With Composite CAMELS Rating 1 or 2 (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	90	90	90	90	90
Actual	94	95	96	92	
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.

Indicator Type: Indicator

Data Capture and 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.

Data Verification and Validation: Either quarterly or semi-annually, an independent reviewer compares a sample of Reports of Examination to the Examiner View (EV) and Supervisory Information System (SIS) data to ensure the accuracy of the recorded composite ratings. Any discrepancies between the supporting documentation and the systems data are reported to the respective Assistant Deputy Comptroller or Deputy Comptroller for corrective action.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that focuses on credit quality, allowance of loan and lease losses (ALLL) 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 it's 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 Licensing Applications and Notices Completed within Established Timeframes (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	95	95	95	95	95
Actual	96	94	96	95	
Target met?	Y	N	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The Licensing Department tracks processing of all applications and notices through the Corporate Activity Information System (CAIS). The analyst who is assigned the application will verify the accuracy of the CAIS data as the application is processed. The senior analyst or manager who approves the final decision also verifies the accuracy of the CAIS data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

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.

Measure: Percentage of National Banks that are Categorized as Well Capitalized (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	95	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.

Indicator Type: Indicator

Data Capture and 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.

Data Verification and Validation: The banks' boards of directors attest to the accuracy of the reported data. The reliability of these quarterly reports is evaluated by OCC examiners during bank examinations.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that focuses on the capitalization levels of all national banks to ensure that our examination process focuses on banks that have or may develop problems related to capitalization levels. The OCC also will continue it's 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 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	94	94	94	94	94
Actual	94	94	97	97	
Target met?	Y	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.

Indicator Type: Indicator

Data Capture and 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.

Data Verification and Validation: Consumer compliance ratings are assigned at the completion of each consumer compliance examination. These ratings are entered into OCC's management information systems, Examiner View (EV) and Supervisory Information System (SIS), by the banks' Examiner-in-Charge and reviewed and approved by the Supervisory Offices' Assistant Deputy Comptroller (Mid-Size/Community banks) or Deputy Comptroller (Large banks).

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that encourages and ensures that national banks have strong compliance management functions in place. The OCC also will continue it's recruiting of entry-level examiners, aligning supervision resources to the areas of greatest risk, training the examiner staff, and enhancing examination guidance.

Measure: Rehabilitated National Banks as a Percentage of Problem National Banks One Year Ago (CAMEL 3,4, or 5) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	40	40	40	40	40
Actual	44	46	52	47	
Target met?	Y	Y	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.

Indicator Type: Indicator

Data Capture and 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.

Data Verification and Validation: Either quarterly or semi-annually, an independent reviewer compares a sample of Reports of Examination to the Examiner View (EV) and Supervisory Information System (SIS) data to ensure the accuracy of the recorded composite ratings. Any discrepancies between the supporting documentation and the systems data are reported to the respective Assistant Deputy Comptroller or Deputy Comptroller for corrective action.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: To sustain this level of achievement, the OCC will execute its Bank Supervision Operating Plan that focuses on banks with the highest degree of problems and to work with those banks to resolve their problems in order to ensure the national banking system remains stable and strong. 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: Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated ($) (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	9.55	9.55	9.22
Actual		8.84	8.89	8.39	
Target met?	N/A	Y	Y	Y	

Definition: This measure reflects the efficiency of OCC operations while meeting the increasing supervisory demands of a growing and more complex national banking system.

Indicator Type: Measure

Data Capture and Source: OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. Banks assets are those reported quarterly by national banks on their Reports of Condition and Income.

Data Verification and Validation: OCC's financial statements and controls over the data are audited by an independent accountant each year. National banks file quarterly Reports on Condition and Income with the FFIEC through the FDIC's data processing center. The banks' boards of directors attest to the accuracy of the reported data. The reliability of these quarterly reports is evaluated by OCC examiners during bank examinations.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: OCC will continue implementation of a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system. This measure supports the OCC's strategic goal of efficient use of agency resources.

Office of Thrift Supervision

Measure: Percent of Safety and Soundness Exams Started as Scheduled (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	90	90	90	90	90
Actual	93	94	95	94	
Target met?	Y	Y	Y	Y	

Definition: 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 its 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Data regarding safety and soundness examinations started as scheduled are available from the Examination Data System. The System reports assist in scheduling examinations and monitoring past performance. When necessary, management determines why standards are not being met and will initiate steps to improve performance.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The fiscal year 2009 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will 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.

Measure: Percent of Thrifts that are Well Capitalized (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	95	95	95	95	95
Actual	99.5	99.9	99	98.4	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The Assistant Managing Director, Examinations and Supervision – Operations monitors and validates the capital measures. Quarterly press releases provide capital measures to the public.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The fiscal year 2009 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will 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.

Measure: Percent of Thrifts with a Compliance Examination Ratings of 1 or 2 (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	90	90	90	90	90
Actual	94	93	97	95.8	
Target met?	Y	Y	Y	Y	

Definition: 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, regulations and requirements. 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Summary and detail reporting of compliance ratings are available online through the Examination Data System. The Assistant Managing Director, Examinations and Supervision – Operations monitors the status of compliance exam ratings.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The fiscal year 2009 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will 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.

Measure: Percent of Thrifts with Composite CAMELS Ratings of 1 or 2 (%) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	90	90	90	90	90
Actual	94	93	93	90	
Target met?	Y	Y	Y	Y	

Definition: On December 9, 1996, the FFIEC 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 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.

Indicator Type: Measure

Data Capture and Source: 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 composite CAMELS rating of 1 or 2 by the total number of OTS-regulated savings associations that have been assigned a composite CAMELS rating.

Data Verification and Validation: Summary and detail reporting of CAMELS ratings are available online through the Examination Data System and are provided to each association at the conclusion of an exam. The composite rating is used semi-annually in the assessment process. The Assistant Managing Director, Examinations and Supervision – Operations continuously monitors the status of exam ratings. Quarterly press releases provide a summary of the thrift industry's CAMELS ratings to the public.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The fiscal year 2009 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. OTS will 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.

Measure: Total OTS Costs Relative to Every $100,000 in Savings Association Assets Regulated (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	14.33	15.08	15.07
Actual		13.46	13.9	15.1	
Target met?	N/A	Y	Y	N	

Definition: Beginning in fiscal year 2006, OTS included a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex thrift industry. This measure supports OTS's ongoing efforts to efficiently use agency resources. The efficiency measure is impacted by the relative size of the savings associations regulated. As of June 30, 2006, 63% of all savings associations have total assets of less than $250 million and are generally community-based organizations that provide retail financial services in their local markets. In addition, the measure does not include over $7 trillion in assets of holding company enterprises regulated by OTS.

Indicator Type: Measure

Data Capture and Source: The OTS expenses published in OTS's annual audited financial statement are used in this calculation. If the performance measure calculation is provided before the audited financial statement is available, the estimated expenses are derived from OTS's Budget Variance System. The OTS regulated assets are published in the OTS quarterly press release of thrift industry financial highlights and are derived from the institutions' quarterly Thrift Financial Reports. The measure is calculated by dividing total fiscal year expenses by total thrift assets.

Data Verification and Validation: OTS expenses are verified during the annual CFO audit and reflect those published in the OTS annual audited financial statements. The industry's assets are reported by OTS's regulated institutions in the quarterly Thrift Financial Report, edited and verified by OTS staff, and then published in the OTS quarterly press release and available to the public on the OTS Internet site. OTS allows amendments from the industry for six months after the filing date.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: OTS plans to maintain its current high level of achievement for this measure. The fiscal year 2009 Budget/Performance Plan describes the goals, strategies, and priorities that will guide OTS's operations. The fiscal year 2008 success rate for this measure does not include one time unusual and extraordinary expenses for infrastructure improvements.

Measure: Difference Between the Inflation Rate and the OTS Assessment Rate Increase (%) (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	0	0	0	Discontinued	Discontinued
Actual	0	0	0		
Target met?	Y	Y	Y	N/A	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The Chief Financial Officer monitors and initiates change to the assessment rates. Changes are finalized and announced through a Thrift Bulletin after a period of public comment.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Treasury requested that OTS use this measure only as an in-house measure. This measure was Discontinued for PAR reporting in fiscal year 2008 and is being replaced by another measure.

OUTCOME: Decreased Gap in Global Standard of Living

Departmental Offices

Measure: Improve International Monetary Fund (IMF) Effectiveness and Quality through Periodic Review of IMF Program(Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	90	90	90	90	90
Actual	78	100	100	93	
Target met?	N	Y	Y	Y	

Definition: 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 IMB 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.

Indicator Type: Measure

Data Capture and Source: International Affairs staff tracks and accounts for actions undertaken during the reporting period.

Data Verification and Validation: Publicly available accounts of meetings (press, etc.), communiqués issued following multilateral or bilateral meetings.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: The ongoing credit crisis will increase IMF program activity related to emerging market countries. For fiscal year 2008 the IMF met their program requirements, despite challenges associated with significant management restructuring. The Office of International Affairs will continue to closely monitor IMF program activities and report on matters in a timely fashion.

Measure: Percentage of Grant and Loan Proposals Containing Satisfactory Frameworks for Results Measurement (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	90	90	90	90
Actual	78	88	92	94	
Target met?	Y	N	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: MDB monthly operational report, special requests to MDBs for loan and grant approvals, MDB annual reports and U.S. voting positions

Data Verification and Validation: Data provided by the MDB is compared with Treasury MDB Office vote history database and internal supporting memoranda.

Data Accuracy: Reasonable

Data Frequency: Semi-Annually

Future Plans/Explanation for Shortfall: Results measurement for grant and loan proposals at the MDBs remains a challenge. Long-term Millennium Development Goals exist, but short-term measures of progress against these goals are weak or non-existent. Greater transparency and accountability at the MDBs has permitted a somewhat clearer insight into their contribution to growth and alleviation of poverty, but stronger interim measures are needed. The Department will continue to closely monitor MDB financing programs.

STRATEGIC OBJECTIVE: Trust and Confidence in U.S. Currency Worldwide

OUTCOME: Commerce Enabled Through Safe, Secure U.S. Notes and Coins

Bureau of Engraving and Printing

Measure: Manufacturing Costs For Currency (Dollar Costs Per Thousand Notes Produced) ($) (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	31	28.5	32.5	33	37
Actual	28.83	27.49	28.71	29.47	
Target met?	Y	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.

Indicator Type: Measure

Data Capture and Source: Cost data is collected through BEP's accrual-based cost accounting system.

Data Verification and Validation: BEP's accrual-based cost accounting system is audited annually as part of the financial statement audit.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In 2008 BEP was able to exceed its target for cost of currency for the forth consecutive year despite a change in the currency production program to deliver a different amount and mix of currency notes due to changes in the demand for currency. In 2009, BEP will produce and deliver the Federal Reserves order while continuing to monitor design and overhead costs related to the manufacture of currency to ensure the most efficient production and distribution of future denomination.

Measure: Maintain ISO Certification (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1	1	1	1	1
Actual	Met	Met	Met	Met	
Target met?	Y	N/A	N/A	Y	

Definition: The effectiveness of the manufacturing program is also demonstrated by the attainment of ISO 9001 certification. ISO is an internationally recognized quality assurance program aimed at promoting the adoption of a management system that establishes a process that governs the transformation of inputs into outputs to meet customer requirements. Components of the Bureau's ISO certified system include elements of the accountability activity in that the identification and traceability of product tracking procedures are tested for consistency and reliability.

Indicator Type: Measure

Data Capture and Source: ISO compliance is verified by periodic audits of the Bureau's quality management system by an independent ISO designated firm. Periodically the International Organization for Standardization updates the quality standards, thereby, requiring organizations already ISO certified to upgrade their quality management systems in order to maintain certification.

Data Verification and Validation: Certification is achieved based on a successful compliance audit by an independent firm under the auspices of the International Organization for Standardization.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The Bureau maintained its certifications for both the ISO 14001 Environmental Management Systems and the ISO 9001 Quality Management Systems during 2008. These certifications are a testament to the Bureau's commitment to protecting the environment while producing the highest quality currency notes, BEP plans to continue its efforts in order to maintain these certifications in 2009 as well.

Measure: Currency Production (billion notes) (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	8.6	8.2	9.1	7.7	6.8
Actual	8.6	8.2	9.1	7.7	
Target met?	Y	Y	Y	Y	

Definition: A measure of BEP's ability to meet customer order delivery schedule. The customer considers this measure satisfied when complete shipments of finished currency are received in the Federal Reserve vault where it is held prior to final distribution to Federal Reserve district banks.

Indicator Type: Measure

Data Capture and Source: Product delivery data is collected and verified through various through various BEP's product accountability systems.

Data Verification and Validation: Product delivery data is reconciled to invoices generated by BEP, and confirmed by the customer.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: BEP will produce and deliver the Federal Reserves fiscal year 2009 order while continuing to monitor design and overhead costs related to the manufacture of currency to ensure the most efficient production and distribution of future denominations.

Measure: Percent of Currency Notes Delivered to the Federal Reserve that Meet Customer Quality and Requirements (%) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	99.9	99.9	99.9	99.9	99.9
Actual	99.9	99.9	100	100	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: Quality inspections are performed at each Federal Reserve Bank. Any discrepancies found are reported to BEP on a per shipment basis.

Data Verification and Validation: Quality review audits are performed by internal BEP auditors on all Federal Reserve inspection systems as well as the procedures followed in reporting data to BEP. These audits are conducted on an annual basis with additional audits performed upon request by Federal Reserve Banks.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In 2008 BEP was able to maintain its high level of providing quality currency notes to our customer and exceeded this target for the year. In order to continue to produce high quality counterfeit deterrent notes for 2009, BEP will work closely with the Advanced Counterfeit Steering Committee to identify and evaluate current and future counterfeit deterrent designs.

Measure: Currency Shipment Discrepancies Per Million Notes (%) (Ot)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	.01	.01	.01	.01	.01
Actual	0	.01	.01	.01	
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.

Indicator Type: Measure

Data Capture and Source: The customer captures this data and report to BEP on a monthly basis.

Data Verification and Validation: BEP reports product discrepancy data based on monthly information provided by the customer.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: During 2008, BEP was able to maintain its high level of security and accountability and met our target for the shipment of currency notes to our customer. For 2009 BEP plans to continue to ensure that proper accountability is addressed during each stage of currency production and delivery.

Measure: Security Costs Per 1,000 Notes Delivered ($) (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	5.95	6.25	6	5.65	5.65
Actual	5.75	6	5.92	5.63	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: BEP's accrual-based cost accounting system is audited annually as part of the financial statement audit.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In 2008 BEP was able to exceed its target for cost of security despite a reduction in the currency production program. Guarding against theft is the top priority of the BEP security program; in 2009, BEP will produce and deliver the 2009 currency order while continuing to monitor the cost of providing effective and efficient product security and accountability.

Measure: Total Regulatory Fines and Claims Paid (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	70000	30000	27500	20000
Actual	101380	48693	8304	0	
Target met?	Y	Y	Y	Y	

Definition: The annual amount of all regulatory fines and tort claims paid by the BEP.

Indicator Type: Indicator

Data Capture and Source: BEP Management Information System (BEPMIS)

Data Verification and Validation: BEP Annual Financial Audit, the CFO Performance and Accountability Report

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Fiscal year 2008 marked the fourth consecutive year that BEP has received an unqualified opinion on its internal controls over financial reporting. BEP will continue its efforts to mark a fifth consecutive year in fiscal year 2009.

Measure: Improper and/or Erroneous Payments or Purchases (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	1000	500	500	500
Actual	790	2126	0	0	
Target met?	Y	N	Y	Y	

Definition: An indicator reflecting the ability of the Bureau of Engraving and Printing to make payment for goods and services for only authorized expenses and in a timely manner.

Indicator Type: Measure

Data Capture and Source: BEP Management Information System (BEPMIS)

Data Verification and Validation: BEP Annual Financial Audit, The CFO Performance and Accountability Report

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Fiscal year 2008 marked the fourth consecutive year that BEP has received an unqualified opinion on its internal controls over financial reporting. BEP will continue its efforts to mark a fifth consecutive year in fiscal year 2009.

Measure: Other Financial Losses					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	0	0	0	0
Actual	30000	15500	0	0	
Target met?	Y	N	Y	Y	

Definition: The face value of product theft that has been reported, investigated as unrecoverable, and verified, during the production, delivery and destruction process.

Indicator Type: Indicator

Data Capture and Source: BEP Management Information System (BEPMIS)

Data Verification and Validation: BEP Annual Financial Audit, the CFO Performance and Accountability Report

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Fiscal year 2008 marked the fourth consecutive year that BEP has received an unqualified opinion on its internal controls over financial reporting. BEP will continue its efforts to mark a fifth consecutive year in fiscal year 2009.

Measure: Total Financial Losses (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	71000	30500	28000	20500
Actual	131000	66319	8304	0	
Target met?	Y	Y	Y	Y	

Definition: The aggregate amount of annual financial losses that have been reported, investigated, and verified as unrecoverable, as a result of the following: improper and/or erroneous payments or purchases (including late payment penalties); total regulatory fines and claims paid; and other financial losses.

Indicator Type: Indicator

Data Capture and Source: BEP Management Information System (BEPMIS)

Data Verification and Validation: BEP Annual Financial Audit, the CFO Performance and Accountability Report

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Fiscal year 2008 marked the fourth consecutive year that BEP has received an unqualified opinion on its internal controls over financial reporting. BEP will continue its efforts to mark a fifth consecutive year in fiscal year 2009.

United States Mint

Measure: Conversion Costs Per 1,000 Coin Equivalents (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	7.03	6.62	7.27	7.09	7.99
Actual	7.42	7.55	7.23	8.46	
Target met?	N	N	Y	N	

Definition: 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 equivalized to a quarter.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: United States Mint analysts review the data pulled from the accounting system for reasonableness and accuracy on a monthly basis.

Data Accuracy: Reasonable

Data Frequency: Monthly

Future Plans/Explanation for Shortfall: The United States Mint was unable to reduce conversion costs in fiscal year 2008 because of sustained fixed costs and rising energy and fuel costs. As production volumes declined, these costs were spread over fewer units, resulting in a higher overall cost per 1000 coin equivalents.

Measure: Conversion Costs Per 1,000 Coin Equivalents (E) (% deviation from target)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	0
Actual				11	
Target met?	N/A	N/A	N/A	Y	

Definition: The United States Mint's costs vary by product, and the product mix has been variable over time. This makes it difficult to compare operating results from year to year. The coin equivalent calculation converts the production output to a common denominator based on the circulating quarter. Production costs, excluding metal and fabrication, are then divided by this standardized production level, thus resulting in "conversion costs per 1,000 coin equivalents." This allows comparison of performance over time by negating the effects of changes in the product mix. Starting in fiscal year 2008, the target and results will be presented as a percentage difference from the baseline. By showing the target and performance as a percentage, this allows for the impact of fixed costs as they get spread over varying levels of production.

Indicator Type: Measure

Data Capture and Source: 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

Data Verification and Validation: United States Mint analysts review the data pulled from the accounting system for reasonableness and accuracy on a monthly basis.

Data Accuracy: Reasonable

Data Frequency: Monthly

Future Plans/Explanation for Shortfall: The United States Mint will report on this performance measure for PART reporting until the Mint's new suite of performance measures are approved and the old measures are fully discontinued. Until then the Mint's fiscal year 2009 target for this performance measure should be 0%.

Measure: Protection Cost Per Square Foot (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	31.86	32	32.99	32.5	31.75
Actual	32.43	32.49	31.75	31.76	
Target met?	N	N	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and 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.

Data Verification and Validation: United States Mint analysts review the data for reasonableness and accuracy on a monthly basis.

Data Accuracy: Reasonable

Data Frequency: Monthly

Future Plans/Explanation for Shortfall: Protection cost per square foot increased from $31.29 in fiscal year 2007 to $31.76 in fiscal year 2008.The United States Mint is restating the FY2007 results, originally reported at $31.75. The restated figure of $31.29 excludes depreciation expense. The FY2004 –FY2006 results all exclude depreciation expense and do not have to be restated. FY2008 performance measure was below the target of $32.11. Protection reduced expenses for overtime and travel in FY2008 compared to FY2007. Contracted services expense increased by 52 percent due to one time charge for a prior year R&D project not fully capitalized, and an increase in charges from other federal agencies due to increase in background investigations of Mint staff and contractors and HSPD 12. Both of the programs cost discussed previously were higher than anticipated. Supplies increased by 43 percent replenishment of firearm supplies and shelter in place supplies. Shelter in place supplies are replaced every five years.

Measure: Employee Confidence in Protection (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	86	86	86	86	83
Actual	84	82	81	81	
Target met?	N	N	N	N	

Definition: Percentage of United States Mint employees reporting a favorable response to their confidence in the Office of Protection to safeguard United States Mint assets and assets in the custody of the United States Mint.

Indicator Type: Indicator

Data Capture and Source: Contractor administered quarterly Employee Pulse Check survey which assesses the attitudes of United States Mint employees concerning their work environment.

Data Verification and Validation: Results and data are captured and verified by United States Mint analysts.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Employee Confidence in Protection was 81 percent in fiscal year 2008, below the target of 86 percent. The main reason performance fell short of the target was apparent differences in the way various segments of the United States Mint perceive the survey question. While many employees answer the question favorably, Office of Protection personnel tend to view the question differently and record lower ratings than non-Protection personnel. Employee Confidence in Protection reported by only Protection employees was 76 percent in fiscal year 2008. Employee Confidence in Protection reported by other offices ranged from 81 to 90 percent in fiscal year 2008. The United States Mint will continue to evaluate the drivers of performance in order to address operating and communication needs and improve results. The fiscal year 2008 figure consists of the average of three quarterly Employee Pulse Check surveys. The Department of the Treasury conducted a department-wide employee survey in the first quarter of fiscal year 2008 pursuant to 5 CFR 250 Subpart C. The United States Mint Office of Workforce Solutions did not conduct the Employee Pulse Check survey in that quarter in lieu of the departmental survey. The fiscal year 2009 target for Employee Confidence in Protection is 83 percent. The Office of Workforce Solutions will begin conducting the Employee Pulse Check survey biannually in fiscal year 2009.

Measure: Cycle Time (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	53	67	75	Discontinued	Discontinued
Actual	69	72	61	0	
Target met?	N	N	Y	N/A	

Definition: Cycle time is the length of time from when material enters a production facility until it is delivered to the customer.

Indicator Type: Measure

Data Capture and Source: Data for each element is pulled from the United States Mint's Enterprise Resource Planning system.

Data Verification and Validation: United States Mint analysts review the data pulled from the accounting system for reasonableness and accuracy on a monthly basis.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure was Discontinued in fiscal year 2008.

Measure: Order Fulfillment (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	0	95	96	Discontinued	Discontinued
Actual	94	95	98	0	
Target met?	Y	Y	Y	N/A	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Order Fulfillment is a new measure that tracks the overall order fulfillment for the circulating coins shipped to the Federal Reserve and the numismatic coins sold to the public. The measure captures the percentage of orders that are shipped in a timely manner. 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)]. United States Mint analysts review the data for reasonableness and accuracy regularly.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure was Discontinued in fiscal year 2008.

Measure: Total Losses (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	250000	15000	10000	Discontinued	Discontinued
Actual	1135	0	0		
Target met?	Y	Y	Y	N/A	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Analysts in the Protection organization compile and analyze the incident data on a monthly basis. Protection senior management reviews the total losses report for reasonableness and accuracy and reports to United States Mint management on a quarterly basis.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure was Discontinued in fiscal year 2008.

STRATEGIC GOAL:
Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems

STRATEGIC OBJECTIVE: Pre-Empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security

OUTCOME: Removed or Reduced Threats to National Security From Terrorism, Proliferation of Weapons of Mass Destruction, Drug Trafficking and Other Criminal Activity on the Part of Rogue Regimes, Individuals, and Their Support Networks

Departmental Offices

Measure: Number of Open Civil Penalty Cases that are Resolved within the Statute of Limitations Period (Ot) [DISCONTINUED FY 2009]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		85	85	120	Discontinued
Actual	85	85	296	233	
Target met?	Y	Y	Y	Y	

Definition: Timely imposition of civil penalties plays a major role in deterring and appropriately punishing violations of sanctions by U.S. persons. OFAC receives a very high volume of law enforcement referrals regarding potential violations. It is devising strategies to reduce the backlog of civil penalty and enforcement actions and increase efficiency in drafting warning and cautionary letters, assessing penalties, negotiating penalty resolutions and processing monetary penalties.

Indicator Type: Measure

Data Capture and Source: Penalty case information is recorded in OFAC's main Oracle database (FACDB). That database has a Report function that allows us to query the database and generate reports according to a number of variables such as status, date of action, etc. Information generated from these reports is used to calculate the number of cases that were closed during a given time frame. Additionally, we have implemented processes to check a representative sampling of the closed cases to verify that the data within the system matches our hard copy records.

Data Verification and Validation: The Assistant Director for Civil Penalties Cases reviews every case that is closed. Cases that involve a settlement, an assessment, or penalty come under additional review by OFAC's Chief Counsel's Office. Cases that result in settlement or an assessment or penalty are also posted on OFAC's public website.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2009, OFAC plans to discontinue this measure. OFAC will continue to track the number of cases resolved within the statute of limitations period to use as an indicator in its newly developed measure.

Measure: Increase the Number of Outreach Engagements with the Charitable and International Financial Communities (Ot) [DISCONTINUED FY 2009]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		105	70	70	Discontinued
Actual	95	45	85	80	
Target met?	Y	N	Y	Y	

Definition: The effectiveness of the USG's efforts to combat terrorist financing and other forms of illicit finance depends upon the understanding and cooperation of the domestic and international private sector, particularly the financial services industries and other vulnerable sectors such as charities. The Office of Terrorist Finance and Financial Crimes (TFFC) outreach engagements allows the USG 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.

Indicator Type: Measure

Data Capture and Source: Data collected by the Department of Treasury's Office of Terrorism and Financial Intelligence (TFI); Terrorist Financing and Financial Crimes (TFFC).

Data Verification and Validation: Department of the Treasury's TFI data based on outreach events.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TFFC will discontinue this measure in fiscal year 2009, but will continue to collect evidence that the private sector (particularly, financial institutions and the charitable sector) is responding to TFFC engagements by taking action to identify and safeguard against terrorist financing and money laundering threats and vulnerabilities.

Measure: Number of Countries that are Assessed for Compliance with the Financial Action Task Force (FATF) 40+9 Recommendations (Ot) [DISCONTINUED FY 2009]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		45	6	12	Discontinued
Actual	49	5	6	12	
Target met?	Y	N	Y	Y	

Definition: TFFC is the lead Treasury component and representative to the Financial Action Task Force (FATF). As such, TFFC is responsible for leading international efforts to identify and close money laundering and terrorist financing vulnerabilities in the international financial system, and to ensure that countries throughout the world comply with international anti-money laundering/counter-terrorist financing standards. 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.

Indicator Type: Measure

Data Capture and Source: Data collected by the Department of Treasury's Office of Terrorism and Financial Intelligence (TFI); Terrorist Financing and Financial Crimes (TFFC).

Data Verification and Validation: TFFC data undergoes multiple quality checks to ensure accuracy.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: TFFC will discontinue this measure in fiscal year 2009, but will continue to track the number of countries assessed for compliance with international AML/CFT standards and use it as part of a broader indictor to illustrate demonstrated action in key regions to identify and address threats and vulnerabilities to financial systems.

Treasury Forfeiture Fund

Measure: Percent of Forfeited Cash Proceeds Resulting from High-Impact Cases (%) (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	75	75	75	75	75
Actual	81	72.93	84.18	86.91	
Target met?	Y	N	Y	Y	

Definition: A "high impact case" is a case, based on designation or executive order, 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.)

Indicator Type: Measure

Data Capture and Source: 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).

Data Verification and Validation: The source of the data that supports our performance calculation comes from the general ledger of the Treasury Forfeiture Fund which data is audited annually pursuant to our financial statement audit. Therefore, the annual financial statement audit process serves to "verify and validate" the data used to support our performance measure on an annual basis.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: The Treasury Forfeiture Fund will continue to work with participating bureaus to urge the use of asset forfeiture in high-impact cases.

OUTCOME: Safer and More Transparent U.S. and International Financial Systems

Financial Crimes Enforcement Network

Measure: Average Time to Process Enforcement Matters (in years) (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	1.1	1	1	1	1
Actual	1.3	1	1.1	.7	
Target met?	N	Y	N	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: The enforcement matters are entered into the automated log and evaluated to determine whether there is enforcement potential through a civil monetary penalty or otherwise. FinCEN has established time management guidelines to reduce the average processing time for civil penalty cases.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN surpassed its target for the average time to process enforcement matters in one year with an average time of 0.7. FinCEN will continue to actively manage casework to meet targets in the next fiscal year.

Measure: Percentage of Bank Examinations Conducted by the Federal Banking Agencies Indicating a Systemic Failure of the Anti-Money Laundering Program Rule (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			Baseline	5.2	5.2
Actual			5.2	2.5	
Target met?	N/A	N/A	Y	Y	

Definition: The percentage of bank examinations that reveal the existence of systemic compliance failure (i.e., demonstrated by cited violations of the anti-money laundering program rule) is a meaningful measure because it provides an intermediate assessment of the effectiveness of the efforts of the Regulatory Policy and Programs Division's three offices in providing policy guidance and taking formal and informal compliance and enforcement actions to increase financial industry compliance with the Bank Secrecy Act. At the present time, the only financial sector from which we are receiving useful data to quantify this measure is the banking sector supervised and examined for Bank Secrecy Act compliance by the Federal Banking Agencies.

Indicator Type: Measure

Data Capture and Source: The Federal Banking Agencies aggregated information provided pursuant to the Memorandum of Understanding executed in 2004 with FinCEN.

Data Verification and Validation: This information can be validated from the quarterly aggregate reports provided to FinCEN by each agency pursuant to the Memorandum of Understanding of 2004.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2008, the percentage of banking institutions cited for program failures during examinations was significantly below the 5.2 percent indicator level, only 2.5 percent were cited, this exceeded the indicator level. This is primarily attributable to greater consistency among bank regulators in citing instances of program failures. FinCEN will continue collaborating with the Federal Financial Institutions Examination Council and will conduct outreach to the banking industry to keep future performance results positive.

Measure: Percentage of FinCEN's Regulatory Resource Center Customers Rating the Guidance Received as Understandable (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	90	90	90
Actual		94	91	94	
Target met?	N/A	Y	Y	Y	

Definition: The percentage of financial institution customers who contact the Resource Center and respond to a survey, who find the information/response/guidance received was understandable. Providing guidance that is understandable is a desired result and is critical for financial institutions to establish programs that comply with the BSA.

Indicator Type: Measure

Data Capture and Source: Resource Center customer records and survey data.

Data Verification and Validation: Results and data will be captured and verified by a professional survey consultant.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The fiscal year 2008 goal was to maintain a 90 percent satisfaction level for customers rating the guidance as "understandable," and FinCEN surpassed its goal with 94 percent. In order to meet targets in the next fiscal year, FinCEN will continue to make guidance available on the Internet, accept and analyze customer feedback, and conduct surveys to measure customer satisfaction.

Measure: Median Time Taken from Date of Receipt of Financial Institution Hotline Tip SAR to Transmittal of the Information to Law Enforcement or the Intelligence Community (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	30	25	16	15
Actual	35	19	7	3	
Target met?	Y	Y	Y	Y	

Definition: The purpose of the Financial Institution Hotline Tip is to facilitate the transmission of potential terrorism-related activity to law enforcement in a more expeditious manner than through the normal manual or electronic filing of a Suspicious Activity Report. The median time taken to transmit the information from a Financial Institution Hotline Tip SAR will be computed using the Julian date of the Hotline Tip receipt and the transmittal date. Statistical data for fiscal year 2003 and fiscal year 2004 is not available as the Julian dates found on SARs was not tracked and converted to calendar dates for comparison with referral dates in the current management information system.

Indicator Type: Measure

Data Capture and Source: Date of receipt of Hotline Tip and the date of referral in an analytical product, as recorded in the FinCEN Database. Manual records, spreadsheets and/or Access databases will be maintained to record the dates for all Hotline Tips referred.

Data Verification and Validation: Verification of receipt and report dates and medians can be accomplished using the FinCEN Database, paper and/or other electronic records developed to record dates.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN surpassed its target of 16 days with a median time of 3 days. To continue achieving this target in the future, FinCEN will continue to process Hotline Tips in an expeditious manner.

Measure: Percentage of Complex Analytic Work Completed by FinCEN Analysts (Ot)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	0	38	38	39
Actual			33	27	
Target met?	N/A	N/A	N	N	

Definition: Comparison of total number of work products generated versus those products that required complex analysis, graphical display of data relationships, analytical findings, comments and recommendations. "Complex" as used in this measure refers to the application of analytic resources to assist law enforcement clients in perfecting investigations that they consider significant due to geographic scope, large data sets, and use of multiple or little understood money laundering methodologies or involving financial relationships, products or systems not adequately understood by investigators.

Indicator Type: Measure

Data Capture and Source: The FinCEN database currently tracks assignments and includes a complexity ranking on each assignment. Management reports can be generated outlining the number of such projects and the number of reports prepared and distributed on an annual basis.

Data Verification and Validation: Production levels can be verified by a review of the paper or electronic file copies of analytical reports generated.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2008, the percentage of complex analytical products completed was 27 percent. FinCEN did not meet its target of 38 percent of complex work completed by FinCEN analysts. In fiscal year 2008 there was an increase in the number of non-discretionary, non-complex products. To increase the percentage of complex products completed in the future, FinCEN will continue efforts to reduce the number of discretionary non-complex projects undertaken and increase the number of complex products produced for foreign FIUs.

Measure: The Percent of Countries/Jurisdictions Connected to the Egmont Secure Web with in One Year of Egmont Membership (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	98	98	98	98
Actual	99	97	98	98	
Target met?	Y	N	Y	Y	

Definition: The percent of Egmont Financial Intelligence Unit members connected to the Egmont Secure Web. The goal is to maintain a 98% percent user rate. As new members are admitted to Egmont, we will work to connect them to the Egmont Secure Web.

Indicator Type: Measure

Data Capture and Source: Egmont Member data base and Egmont Secure Web User database.

Data Verification and Validation: Compare the list of Egmont Secure Web Users to the list of Egmont members.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN met its target of 98 percent of countries/jurisdictions connected to the Egmont Secure Web. To continue to meet this target in the future, FinCEN will work to ensure continued connectivity for countries that have access to the Egmont Secure Web and will connect new Egmont Group members as soon after admission as possible.

Measure: Percentage of Domestic Law Enforcement and Foreign Financial Intelligence Units Finding FinCEN's Analytical Reports Highly Valuable					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	78	79	80
Actual		77	82	83	
Target met?	N/A	Y	Y	Y	

Definition: The percentage of customers (domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable. This is composite measure compiled from survey results. The survey looks at the impact of FinCEN's analysis products, such as whether the product was used to open a new investigation, whether it generated new leads, or whether it provided information previously unknown.

Indicator Type: Measure

Data Capture and Source: Annual Surveys

Data Verification and Validation: The vendor survey team developed questionnaires for customers, with FinCEN input. They conducted e-mail and/or telephone surveys of FinCEN's customers in the investigative/intelligence community, financial community and in-house customers. A comprehensive report and presentation was provided at the conclusion of the survey.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FinCEN exceeded its target of 79 percent with 83 percent of its customers finding the analytical reports highly valuable. To continue to meet targets in the next fiscal year, FinCEN will continue its efforts to solicit input from its customers on types of products they would like to see produced and possible ways to improve the structure of its reports.

Measure: Percentage of Private Industry or Financial Institution Customers Finding FinCEN's Suspicious Activity Report (SAR) Products Highly Valuable (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	72	74	76
Actual		70	71	75	
Target met?	N/A	Y	N	Y	

Definition: This measure tracks the percentage of customers that find FinCEN's SAR activity review products useful. The measure is a composite measure compiled from survey results. The surveys look at whether regulated industries find the products useful to improving their BSA/anti-money laundering programs and whether the products provide useful guidance on filing requirements.

Indicator Type: Measure

Data Capture and Source: Annual Surveys

Data Verification and Validation: The vendor survey team developed questionnaires for customers, with FinCEN input. They conducted e-mail and/or telephone surveys of FinCEN's customers in the investigative/intelligence community, financial community and in-house customers. A comprehensive report and presentation was provided at the conclusion of the survey.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: FinCEN surpassed its target with 75 percent of private industry or financial institution customers finding FinCEN's Suspicious Activity Review (SAR) products valuable. FinCEN will continue seeking feedback from shareholders and will consider requests for specific analytic studies to continue improving customer satisfaction.

Measure: Cost Per BSA form E-Filed (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	.19	.15	.15	.15
Actual	.32	.22	.14	.13	
Target met?	Y	N	Y	Y	

Definition: This measure tracks the government reoccurring operations and maintenance costs associated with E-Filing against the number of BSA forms E-Filed. As more financial institutions E-File, it is anticipated that the cost per BSA form E-Filed will decrease.

Indicator Type: Measure

Data Capture and Source: E-Filing cost records and BSA Direct E-Filing Records.

Data Verification and Validation: Results can be verified against E-Filing operations and maintenance cost records and BSA Direct E-Filing records.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN surpassed its target of .15 with .13 for cost per BSA form E-Filed. To meet this target next fiscal year, FinCEN will continue to balance operational costs with the filing volume.

Measure: Number of Largest BSA Report Filers Using E-Filing (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	Baseline	342	302	374	454
Actual		383	297	386	
Target met?	N/A	Y	N	Y	

Definition: FinCEN has identified the 650 largest filers of Bank Secrecy Act reports and has established the goal of assisting and encouraging members of this group who are not already using the BSA Direct E-filing system to begin E-filing reports. E-filing by this group is seen as a means of achieving FinCEN's long-term goal.

Indicator Type: Measure

Data Capture and Source: A list compiled and maintained in the Office of BSA Data Services.

Data Verification and Validation: Magnitude of report filing and method of filing can be checked against records at he IRS Detroit Computing Center and automated records from the BSA Direct E-Filing system.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN surpassed its target of 374 with 386 largest BSA report filers using E-Filing. To increase the number of largest BSA report filers using E-filing, FinCEN plans to conduct additional, targeted outreach using possible methods such as User IT Forums.

Measure: Number of Users Directly Accessing BSA Data (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	3000	4000	6000	8000	10000
Actual	3941	4683	8402	9649	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: The list can be checked through the Profile function at the Detroit Computing Center

Data Verification and Validation: The system generates a list of users.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN surpassed its target of 8,000 with 9,649 users directly accessing BSA data. FinCEN will continue its efforts to continue expanding law enforcement's direct access to BSA data, including a concerted effort to sign additional Memoranda of Understanding.

Measure: Percentage of Customers Satisfied with the BSA E-Filing (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		Baseline	90	90	90
Actual		92	94	93	
Target met?	N/A	Y	Y	Y	

Definition: This measure assesses the customer satisfaction with BSA E-Filling. Feedback will be used to improve the system and customize it for user populations. The measure is meaningful because it tracks the satisfaction with technology used to facilitate analysis of BSA information.

Indicator Type: Measure

Data Capture and Source: Active status user survey

Data Verification and Validation: Survey information is captured in a database.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: The fiscal year 2008 target was to maintain at least a 90 percent satisfaction level, and FinCEN surpassed its target with 93%. In order to meet targets in the next fiscal year, FinCEN will continue outreach to E-Filers and ensure the technology supports the user demand.

Measure: Percentage of Customers Satisfied with WebCBRS and Secure Outreach (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	81
Actual				81	
Target met?	N/A	N/A	N/A	Y	

Definition: This measure tracks FinCEN's progress toward serving the number of law enforcement and regulatory agency users accessing BSA information. These technologies (WebCBRS and Outreach Secure) allow authorized persons to more readily access BSA information and better enable them to conduct investigations more efficiently and effectively.

Indicator Type: Measure

Data Capture and Source: Data are captured via a survey.

Data Verification and Validation: Raw data are received from the survey vendor and results are calculated and verified.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN established a baseline of 81 percent of customers satisfied with the WEBCBRS and secure outreach. Going forward, FinCEN will continue to provide timely and effective support to users of WEBCBRS and secure outreach to help ensure increasing customer satisfaction.

Measure: Share of Bank Secrecy Act Filings Submitted Electronically (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	40	60	58	63	67
Actual	29	48	59	71	
Target met?	N	N	Y	Y	

Definition: The number of Bank Secrecy Act filings submitted via the web-based system, as a percent of the total filings.

Indicator Type: Measure

Data Capture and Source: Reports are generated weekly by the PACS contractor based on automated tracking

Data Verification and Validation: Checked against reports from the Detroit Computing Center

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN surpassed its target of 63 percent with 71 percent of BSA filings E-Filed. FinCEN will retire Magnetic Media by the end of the 2008 calendar year in order to meet future targets for BSA E-filing submissions.

Measure: Percentage of Federal and State Regulatory Agencies with Memoranda of Understanding/Information Sharing Agreements (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	45
Actual				41	
Target met?	N/A	N/A	N/A	Y	

Definition: This measure tracks the percentage of the examining universe that FinCEN supports and oversees. Oversight is established pursuant to Memoranda of Understanding Agreements established with federal and state regulators. The examining universe is the number of federal and state regulators with constituents subject to BSA rules. This measure is meaningful because it tracks our progress toward improving our ability to consistently examine industry compliance.

Indicator Type: Measure

Data Capture and Source: The Office of Compliance maintained list of Memoranda of Understanding agreements with targeted regulators and the list of the examining universe.

Data Verification and Validation: List can be checked against signed Memoranda of Understanding agreements in files.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In 2008, FinCEN executed three additional such agreements and surpassed its fiscal year 2008 target of 40 percent with 41 percent of federal/state regulatory agencies with MOUs. These MOUs help ensure effective application of the BSA regulations across all regulated financial service industries by providing vital compliance data. FinCEN will continue collaborating with state insurance agencies and other regulatory agencies to sign additional agreements.

Measure: Percentage of FinCEN's Compliance MOU Holders Finding FinCEN's Information Exchange Valuable to Improve the BSA Consistency and Compliance of the Financial System (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target				Baseline	66
Actual				64	
Target met?	N/A	N/A	N/A	Y	

Definition: This is a composite measure that examines the survey responses of compliance MOU holders. The questions and measure were designed to track the outcome of improved BSA consistency and compliance of the financial system and address the PART recommendation.

Indicator Type: Measure

Data Capture and Source: Data are captured via survey.

Data Verification and Validation: Raw data are received from the survey vendor and results are calculated and verified.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: In fiscal year 2008, FinCEN surveyed its compliance MOU holders to determine the impact of the information exchange to improve the BSA consistency and compliance of the financial system, and established a 64 percent baseline of respondents rating the information exchange valuable to improving BSA consistency and compliance. To achieve future targets, FinCEN will continue to facilitate routine discussions with the MOU holders.

Measure: Number of Federal and State Regulatory Agencies with which FinCEN has Conducted Memoranda of Understanding/ Information Sharing Agreements (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target		45	50	Discontinued	Discontinued
Actual	41	48	50		
Target met?	Y	Y	Y	N/A	

Definition: This measure tracks the number of Memoranda of Understanding agreements the Office of Compliance concludes with other regulators of targeted jurisdictions. This measure is meaningful because it tracks our progress in sharing information on Bank Secrecy Act compliance with the regulatory agencies that either have delegated authority to examine for Bank Secrecy Act compliance or are expending resources to review for Bank Secrecy Act compliance under other authorities (for example, many states have Bank Secrecy Act-style laws/regulations or have laws that require compliance with all applicable laws and regulations). Some states must pass legislation to permit information sharing with the Financial Crimes Enforcement Network. Ultimately, information derived from these agreements will allow us to meet the intermediate outcome measure of improving our ability to monitor industry compliance.

Indicator Type: Measure

Data Capture and Source: Office of Compliance-maintained list of Memorandum of Understanding agreements with targeted regulators.

Data Verification and Validation: List can be checked against signed Memorandum of Understanding agreements in files. A monthly list is prepared for the regulators.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: This measure was discontinued in fiscal year 2008, and was replaced due to a change in methodology to measure the percentage of federal and state regulatory agencies with memoranda of understanding/information sharing agreements. The replacement measure is "Percentage of federal and state regulatory agencies with memoranda of understanding/ information sharing agreements."

STRATEGIC GOAL:
Management and Organizational Excellence

STRATEGIC OBJECTIVE: Enabled and Effective Treasury Department

OUTCOME: A Citizen-Centered, Results-Oriented and Strategically Aligned Organization

Departmental Offices

Measure: Percent of Complainants Informally Contacting EEO (for the Purposes of Seeking Counseling or Filing a Complaint) Who Participate in the ADR Process (%) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	25	25	30	30	30
Actual	25	25	29	45	
Target met?	Y	Y	N	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: Treasury's automated Complaint Tracking System.

Data Verification and Validation: Data is periodically reviewed to ensure accuracy.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Treasury will provide training on dispute prevention centered around Alternative Dispute Resolution (ADR) and measure bureau's ADR participation rate on a quarterly basis.

Measure: Complete Investigations of EEO Complaints within 180 days (%) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	50	50	50	50	50
Actual	36	20	51.6	56	
Target met?	N	N	Y	Y	

Definition: The average time it takes to complete investigations of Equal Employment Opportunity (EEO) complaints.

Indicator Type: Measure

Data Capture and Source: The Annual Federal EEO Statistical Report of Discrimination Complaints and the Department's Complaint Tracking System are the primary sources of data.

Data Verification and Validation: Data is reviewed quarterly to ensure accuracy.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Treasury will hold the Treasury Complaint Center (TCC) accountable to service level standards, which will be reviewed quarterly. In addition, TCC will contract a portion of complaint investigations to ensure they are expeditiously completed.

Measure: Injury and Illness Rate Treasurywide-including DO (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	3	2.8	2.6	1.4	1.4
Actual	2.8	1	1	1.29*	
Target met?	Y	Y	Y	Y	

Definition: The number of reported work-related injuries and illnesses Treasury-wide.

Indicator Type: Measure

Data Capture and Source: Safety and Health Information Management System

Data Verification and Validation: Data are collected from the Safety and Health Information Management system

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Final numbers are not yet available from the Department of Labor. In fiscal year 2009, we plan to meet our future goals by continuing to pursue activities that have led to reductions in occupational injuries and illnesses at Treasury. We continue to emphasize the approach of proactive hazard identification and elimination within our bureaus. This past year, Departmental Offices jointly conducted safety audits with two of our bureaus that had collateral duty safety officers. We plan to expand that cooperation in the coming year. We will also continue utilizing the Safety and Health Information Management System, or SHIMS, to record and trend injuries to determine appropriate interventions for preventing injuries. Training, awareness, and removal or minimizing of hazards is key to meeting our future goals.

Measure: Management Cost Per Treasury Employee ($) (E) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	0	40.27	38.21	Discontinued	Discontinued
Actual	39.33	40.59	29.64		
Target met?	N	N	Y	N/A	

Definition: Total amount obligated for Treasury's strategic objective, M5B, divided by total amount of Treasury FTEs (excluding IRS employees).

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: Treasury's Office of Performance Budgeting staff carefully checks and verifies data.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Discontinued in fiscal year 2008.

Treasury Franchise Fund

Measure: Customer Satisfaction Index - Financial Mgmt Admin Support Services (%) (Oe)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	0	71	74	80	74
Actual	71	75	0	97	
Target met?	Y	Y	N	Y	

Definition: Shared service customers satisfaction level with service offerings, service level competence and responsiveness and overall value.

Indicator Type: Measure

Data Capture and Source: Results are submitted by the management of each franchise business and are obtained from internal or external customer satisfaction reviews.

Data Verification and Validation: Customer satisfaction processes and results for the Franchise businesses are reviewed by the Fund's management to ensure objectivity.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: ARC continues to improve their customer satisfaction assessment methodology. In fiscal year 2009, they plan to review their measurement processes to ensure that the service line owners receive feedback at a level that can lead to improvements in their customer service experience.

Measure: Operating Expenses as a Percentage of Revenue—Financial Management Administrative Support (%) (E)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	11	12	12	12	12
Actual	9	17	15.1	3.6	
Target met?	Y	N	N	Y	

Definition: The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: External auditors perform routine audits of financial statements. Operating Expenses are part of the financial statements.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: ARC continues to monitor and take steps to ensure that operating costs remain low. In fiscal year 2008, they worked to properly classify operating costs and indirect costs for each of their service lines, resulting in a decreased operating cost percentage. In fiscal year 2009, ARC plans to continue assessing areas where operating costs can be contained to ensure maximum value for their customers.

Measure: Operating Expenses as a Percentage of Revenue—Consolidated/Integrated Administrative Management (%)(E) [DISCONTINUED FY 2009]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	4	12	12	12	Discontinued
Actual	4	4	4.3	17.7	
Target met?	Y	Y	Y	N	

Definition: The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: External auditors perform routine audits of financial statements. Operating Expenses are part of the financial statements.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Discontinued in fiscal year 2009 due to business exiting the Franchise Fund.

Measure: Operating Expenses as a Percentage of Revenue—Financial Systems, Consulting and Training (%) (E) [DISCONTINUED FY 2009]

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	12	12	12	12	Discontinued
Actual	11	10	6.7	6.5	
Target met?	Y	Y	Y	Y	

Definition: The Franchise Fund will either maintain or decrease their operating (administrative) expenses as a percentage of revenue year to year.

Indicator Type: Measure

Data Capture and Source: 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.

Data Verification and Validation: External auditors perform routine audits of financial statements. Operating Expenses are part of the financial statements.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: Discontinued in fiscal year 2009 due to businesses exiting the Franchise Fund.

Measure: Customer Satisfaction Index - Consolidated/Integrated Administrative Management (%)(Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	0	71	74	Discontinued	Discontinued
Actual	71	51	0		
Target met?	Y	N	N	N/A	

Definition: Shared service customers satisfaction level with service offerings, service level competence and responsiveness and overall value.

Indicator Type: Measure

Data Capture and Source: Results are submitted by the management of each franchise business and are obtained from internal or external customer satisfaction reviews.

Data Verification and Validation: Customer satisfaction processes and results for the Franchise businesses are reviewed by the Fund's management to ensure objectivity.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Discontinue in fiscal year 2008. Not cost effective due to business exiting the Franchise Fund.

Measure: Customer Satisfaction Index - Financial System, Consulting & Training (Oe) [DISCONTINUED FY 2008]					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	0	71	74	Discontinued	Discontinued
Actual	71	81	0		
Target met?	Y	Y	N	N/A	

Definition: Shared service customers satisfaction level with service offerings, service level competence and responsiveness and overall value.

Indicator Type: Measure

Data Capture and Source: Results are submitted by the management of each franchise business and are obtained from internal or external customer satisfaction reviews.

Data Verification and Validation: Customer satisfaction processes and results for the Franchise businesses are reviewed by the Fund's management to ensure objectivity.

Data Accuracy: Reasonable

Data Frequency: Annually

Future Plans/Explanation for Shortfall: Discontinued in fiscal year 2008. Not cost effective due to businesses exiting the Franchise Fund.

OUTCOME: Exceptional Accountability and Transparency

Departmental Offices

Measure: Number of Material Weaknesses (Significant Management Problems Identified by GAO, the IGs and/or the Bureaus) Closed (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	4	2	1	3	0
Actual	7	1	0	2	
Target met?	Y	N	N	N	

Definition: Treasury seeks 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 internal controls, systems' reliability, controls on waste, fraud or abuse, mission performance, and compliance with laws and regulations.

Indicator Type: Measure

Data Capture and Source: Identified by the Government Accountability Office, Treasury's Inspectors General, and/or Treasury bureaus.

Data Verification and Validation: Certification statement issued by head of bureau. Independent review to validate material weaknesses has been corrected.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: GAO determined that IRS needed to further demonstrate the ability to implement modernized systems on time and within budget, so the Modernization Management Controls material weakness could not be closed in fiscal year 2008. Due to the complexity of the remaining material weaknesses, the next closure is scheduled for fiscal year 2010.

Office of the Inspector General

Measure: Number of Completed Audit Products (Ot)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	53	56	56	56	60
Actual	54	57	64	64	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: OIG audits, attestation engagements, and evaluations result in sequentially numbered written products.

Data Verification and Validation: Official audit files support the performance data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OIG will continue to strive to meet or exceed the performance target, although the increasing number of financial institution failures requiring material loss reviews may tax OIG's resources.

Measure: Number of Investigations Referred for Criminal Prosecution, Civil Litigation or Corrective Administrative Action. (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	72	85	105	105	105
Actual	85	144	188	93	
Target met?	Y	Y	Y	N	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: This data will be retrieved from the Investigations case management system.

Data Verification and Validation: All case files from fiscal year 2003 and fiscal year 2009 will be reviewed to ensure that the case data is correct and supported by documentation.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: A void in senior leadership and a new emphasis on closing older cases accounted for the small shortfall in reaching the fiscal year 2008 target. Revised measures for fiscal year 2009 and beyond will provide a more reliable indication of the quality of OIG investigative work.

Measure: Percent of Statutory Audits Completed by the Required Date (E)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	100	100	100	100	100
Actual	100	100	100	100	
Target met?	Y	Y	Y	Y	

Definition: 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.

Indicator Type: Measure

Data Capture and Source: The date OIG issues an audit, attestation engagement, or evaluation report is printed on the cover. The required dates may vary each year and are specified in different legislation.

Data Verification and Validation: Official audit files and the dates on the reports themselves support the performance data.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: OIG will continue to complete statutory audits by the mandatory completion dates as has occurred over the past four fiscal years.

Treasury Inspector General for Tax Administration

Measure: Percentage of Audit Products Delivered when Promised to Stakeholders (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			Baseline	60	65
Actual			68	65	
Target met?	N/A	N/A	Y	Y	

Definition: The likelihood that our products will be used is enhanced if they are delivered when needed to support Congressional and Internal Revenue Service (IRS) decision making. To determine whether our products are timely, we track the percentage of our products that are delivered on or before the day we committed to (Contract date) because it is critical that our work be done on time for it to be used by the IRS or the Congress.

Indicator Type: Measure

Data Capture and Source: Information regarding Contract dates and actual delivery dates for audits is maintained on the TCMIS. MIS Coordinators in the Office of Audit's Operating/Business Units monitor overall data accuracy and maintain secure controls over key milestone and "Contract" data entries.

Data Verification and Validation: Summary data used for purposes of reporting on this measure are extracted, from the Office of Audit's TeamCentral Management Information System (TCMIS), analyzed and summarized by personnel in our Office of Management and Policy. A qualified staff member independent of the process validates the progress related statistics. TCMIS data are reviewed and validated monthly by MIS Coordinators, Audit Managers and Directors.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For Fiscal Year 2009, TIGTA OA will continue to monitor the execution of its audit programs to ensure its timeliness goals are met. TIGTA OA uses a management information system to monitor actual dates against estimated completion dates and makes adjustments, as needed. In addition, OA management supervises the work of auditors to ensure that audit objectives and procedures are met, IRS management is informed of audit results, and that draft and final audit reports summarizing results are prepared in a timely manner. TIGTA OA believes the combination of its management information system and its management controls provides adequate assurance that its Fiscal Year 2009 stakeholder timeliness goal will be met.

Measure: Percentage of Recommendations Made that Have Been Implemented (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target			Baseline	80	83
Actual			90	85	
Target met?	N/A	N/A	Y	Y	

Definition: The Office of Audit (OA) makes recommendations designed to improve administration of the Federal tax system. The Internal Revenue Service (IRS) must implement these recommendations in order for our work to produce financial or non-financial benefits. This measure assesses our effect on improving the IRS' accountability, operations, and services. Since the IRS needs time to act on recommendations, we track the percentage of recommendations that we made four (4) years ago that have since been implemented, rather than the results of our activities, during the fiscal year in which the recommendations are made. This timeframe is used because four (4) years is the point at which TIGTA-OA believes that if a recommendation has not been implemented, it is not likely to be.

Indicator Type: Measure

Data Capture and Source: The IRS records recommendations in the Department's JAMES as they are issued. Summary data regarding the status of the IRS's corrective actions taken in response to our recommendations are provided to the Office of Audit via JAMES reports. Our Office of Management and Policy monitors implementation of recommendations as the IRS submits updated information to the JAMES.

Data Verification and Validation: Through a formal process, each audit team identifies the number of recommendations included in each report and the IRS enters the findings and corresponding recommendations into the Department of the Treasury's (the Department) Joint Audit Management Enterprise System (JAMES). The database is updated frequently. Our Office of Management and Policy receives summary data and monitors the data regularly to make sure the recommendations reported as implemented have been accurately recorded, as well as to accumulate data in regard to progress in meeting this measure. A qualified staff member independent of the process validates the progress related statistics.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: For Fiscal Year 2009, TIGTA OA will continue to monitor the execution of its audit programs to ensure its timeliness goals are met. The OA uses a management information system to monitor actual dates against estimated completion dates and makes adjustments, as needed. In addition, OA management supervises the work of auditors to ensure that audit objectives and procedures are met, IRS management is informed of audit results, and that draft and final audit reports summarizing results are prepared in a timely manner. TIGTA OA believes the combination of its management information system and its management controls provides adequate assurance that its Fiscal Year 2009 stakeholder timeliness goal will be met.

Measure: Percentage of Results from Investigative Activities (Oe)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Target	67	70	73	76	78
Actual	82	79	81	78	
Target met?	Y	Y	Y	Y	

Definition: Investigative reports resulting in Criminal, Civil or Administrative adjudication or the identification of matters of security or investigative interest.

Indicator Type: Measure

Data Capture and Source: 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).

Data Verification and Validation: Reports of Investigation and PARIS are reviewed for consistency by Special Agents in Charge prior to closing the investigation. Additionally, independent reviews are conducted periodically of each field office where a sample of closed investigations are quality reviewed by the Operations Division Inspection Team to ensure accuracy of the PARIS data. Periodic tests of PARIS data are also conducted to ensure accuracy.

Data Accuracy: Reasonable

Data Frequency: Quarterly

Future Plans/Explanation for Shortfall: At the end of the 4th quarter, the results are 2 percentage points above the goal. TIGTA OI will continue to measure performance consistent with fiscal year 2008 criteria. TIGTA OI will monitor and evaluate fiscal year 2009 performance and may make adjustments if deemed appropriate. The fiscal year 2010 target will be determined based on evaluation of the fiscal year 2009 performance results.

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APPENDIX F: GLOSSARY OF ACRONYMS

Glossary of Acronyms	
ADR	Alternative Dispute Resolution
AML	Anti-Money Laundering
AMS	Accounts Management Services
APR	Annual Performance Report
ASM/CFO	Assistant Secretary for Management & Chief Financial Officer
AUR	Automated UnderReporter
BEA	Bank Enterprise Award
BEN	Bureau of Engraving and Printing Enterprise System
BEP	Bureau of Engraving and Printing
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
BSM	Business Systems Modernization
CADE	Customer Account Data Engine
CAMELS	Capital adequacy, Asset quality, Management Earnings, Liquidity, and Sensitivity
CAP	Competitiveness Assessment Process
CBRS	Currency and Banking Retrieval System
CDE	Community Development Entities
CDFI	Community Development Financial Institutions
CDDB	Custodial Detail Database
CFT	Counter-Terrorist Financing
CFIUS	Committee on Foreign Investment in the United States
CFTC	Commodities Futures Trading Commission
COLA	Certificate of Label Approval
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSR	Customer Service Representative
DASHR/CHCO	Office of Deputy Assistant Secretary of Human Resources/Chief Human Capital Officer
ECP	Electronic Check Processing
EEO	Equal Employment Opportunity
EESA	Emergency Economic Stabilization Act of 2008
E-File	Electronic Filing
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
EITC	Earned Income Tax Credit
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation

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Glossary of Acronyms	
FFMIA	Federal Financial Management Improvement Act
FHA	Federal Housing Administration
FHCS	Federal Human Capital Survey
FHFA	Federal Housing Finance Agency
FinCEN	Financial Crimes Enforcement Network
FIRST	Financial Information and Reporting Standardization
FISMA	Federal Information Security Management Act
FIU	Financial Intelligence Unit
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
Freddie Mac	Federal Home Loan Mortgage Corporation
FSF	Financial Stability Forum
FTA	Free Trade Agreement
FY	Fiscal Year
G-7	Group of Seven
G-20	Group of Twenty
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GAPP	Generally Accepted Principles and Practices
GDP	Gross Domestic Product
GSE	Government-Sponsored Enterprises
HUD	Department of Housing and Urban Development
IMF	International Monetary Fund
IRISL	Islamic Republic of Iran Shipping Lines
IRS	Internal Revenue Service
IT	Informational Technology
MBS	Mortgage Backed Securities
MeF	Modernized electronic Filing
MLR	Material Loss Reviews
MODAFL	Ministry of Defense and Armed Forces Logistics
MOU	Memorandum of Understanding
NMTC	New Markets Tax Credit
NRC	National Revenue Center
NSC	National Security Council
OFAC	Office of Foreign Assets Control
OCC	Office of the Comptroller of the Currency
OCIO	Office of the Chief Information Officer
OCIP	Office of Critical Infrastructure and Compliance Policy
OCRD	Office of Civil Rights and Diversity
OFIP	Office of Financial Institutions Policy

(continued)

Glossary of Acronyms	
OFM	Office of Financial Markets
OFS	Office of Financial Stability
OIA	Office of Intelligence and Analysis
OMB	Office of Management and Budget
OTA	Office of Technical Assistance
OTS	Office of Thrift Supervision
OFS	Office of Financial Stability
NMTC	New Market Tax Credit
PAM	Payments Modernization
PCC OTC	Payment Check Conversion Over the Counter
PMA	President's Management Agenda
PTR	Office of Privacy and Treasury Records
PWG	President's Working Group on Financial Markets
RACS	Revenue Accounting Control System
Repo	Treasury Reverse Repurchase Agreement
SAR	Suspicious Activity Report
SEC	Securities and Exchange Commission
SVC	Stored Value Card
U.S.-China SED	U.S.-China Strategic Economic Dialogue
TARP	Troubled Asset Relief Program
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Terrorism and Financial Intelligence
TIO	Term Investment Option
TRS	Transaction Reporting System
TTB	Alcohol and Tobacco Tax and Trade Bureau
TT&L	Treasury Tax and Loan
WMD	Weapons of Mass Destruction

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WEBSITE INFORMATION

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

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