HIGHLIGHTS OF FY 2003 PERFORMANCE

New Treasury

Enactment of Public Law (P.L.) 107-296 resulted in the divestiture of the majority of Treasury's law enforcement bureaus and functions in FY 2003. Effective March 1, 2003, Treasury transferred the United States Customs Service (USCS), the Federal Law Enforcement Training Center (FLETC), the United States Secret Service (USSS), and certain Enforcement related functions in the Departmental Offices to the newly created Department of Homeland Security. Effective January 24, 2003, P.L. 107-296 also directed Treasury to establish a new bureau, the Alcohol and Tobacco Tax and Trade Bureau (TTB), to administer alcohol and tobacco laws and implementing regulations previously administered by Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF). TTB also will administer the federal excise tax for firearms and ammunition. The remaining part of ATF has been transferred to the Department of Justice as the Bureau of Alcohol, Tobacco, Firearms and Explosives. In addition, Treasury established a new Executive Office of Terrorist Financing and Financial Crimes to oversee Treasury programs and policies that combat terrorist financing or target financial crimes.

New Strategic Goals and Strategic Objectives in our FY 2004 through FY 2008 Strategic Plan

Mission Focus	*Strategic Goals*	*Strategic Objectives*
Economic (E)	Promote prosperous U.S. and World economies (E1)	Stimulate Economic Growth and Job Creation (E1A) Provide a Flexible Legal and Regulatory Framework (E1B) Improve and Simplify the Tax Code (E1C)
	Promote stable U.S. and World economies (E2)	Increase Citizens Economic Security (E2A) Improve the Stability of the International Financial System (E2B)
Financial (F)	Preserve the Integrity of Financial Systems (F3)	Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Support Networks (F3A) Execute the Nation's Financial Sanctions Policies (F3B) Increase the Reliability of the U.S. Financial System (F3C)
	Manage the Government's Finances Effectively (F4)	Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law (F4A) Manage Federal Debt Effectively and Efficiently (F4B) Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms (F4C) Optimize Cash Management and Effectively Administer the Government's Financial Systems (F4D)

Management (M)	Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury (M5)	Protect the Integrity of the Department of the Treasury (M5A) Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service (M5B)

Despite this historic transfer of responsibilities and transfer of resources, Treasury made significant progress toward attaining our performance goals presented in Treasury's FY 2003 Annual Performance Plan. Treasury continues to work toward achieving its strategic goals and improving service to the American public.

The following summarizes Treasury's efforts in accomplishing its FY 2003 performance objectives by mission focus. More detailed information can be found in Treasury's 2003 Performance and Accountability Report.

Economic Focus: ***Promote Prosperous and Stable American and World Economies***

The Secretary of the Treasury, as principal economic advisor to the President, formulates and recommends domestic and international economic, financial and tax policies.

Stimulating Economic Growth. In the area of domestic economic policies, Treasury played a key role in analyzing the macroeconomic effects of a series of policy proposals that led ultimately to the passage in May of the *Jobs and Growth Tax Relief Reconciliation Act* (JGTRRA) *of 2003*. The Act helps households by accelerating previously passed tax relief, benefits businesses by increasing expensing, and improves efficiency in the allocation of capital by reducing the double-taxation of dividends. The effect of JGTRRA was almost immediate, with both consumption and investment appearing to strengthen markedly in the third quarter.

Reform of the International Financial Institutions and Agenda for Growth. The World Bank initiated a U.S.-led incentive program. Performance of the program resulted in an increase in U.S. contributions to the International Development Association of $100 million. The completion of an Action Plan to improve stability in April 2003 helped establish clearer limits on funds from the International Monetary Fund and created more rigorous methods of debt analysis. In addition, the completion of a milestone agreement in September 2003, called the G-7 Agenda for Growth, calls on the G-7 countries to adopt pro-growth policies and create supply side benchmarking systems to monitor results. Finally, many countries took important steps to increase flexibility, raise productivity, and create jobs, including tax rate reduction in the U.S., higher money growth in Japan, and labor market and pension reform in Europe.

Reconstruction (Iraq and Afghanistan). The goal of helping to raise standards of living through establishment of a free market economy was perhaps nowhere more evident than in Treasury's work in Iraq and Afghanistan. In Iraq, Treasury saw success in several critical initiatives including facilitating payments to Iraqi workers and pensioners, introducing a stable national currency, restoring and revitalizing the banking sector, developing a strategy for dealing with international debt, assessing reconstruction costs and supporting international fundraising efforts, and establishing a Trade Bank in order to facilitate imports and exports. In Afghanistan, Treasury efforts focused on rebuilding basic infrastructures, strengthening the central government and its budget processes, and laying the foundations for strong private sector growth. Among other achievements, the government approved a new investment law, cut export taxes to zero, and developed a "one-stop shopping" process for foreign investment.

Economic Growth in Industrialized Countries. The U.S. led a global recovery with trade and industrial production picking up across the world. The Calendar Year (CY) 2003 annual growth rate is expected to reach 3.2 percent on a global basis, up from 3.0 percent in CY 2002. While economic stability improved despite the uncertainty related to terrorism, there continue to be significant barriers to growth and stability in Europe, Asia, Latin America, and Africa as well as in international trade and financial systems. Treasury will continue its domestic and international efforts to remove rigidities and barriers that limit U.S. and global economic growth.

Developing and Transitional Economies. Current estimates for developing economies, indicate a composite annual growth of 5.0 percent in CY 2003, compared to a 4.6 percent growth rate in CY 2002. Similarly, growth rates overall for transition economies should reach 4.9 percent in CY 2003, compared to 4.2 percent growth rate in CY 2002.

Pension Reform. The Administration made strengthening the health of the defined benefit pension system and improving the retirement security of its participants a priority for FY 2003. Treasury Departmental Offices provided leadership in efforts to enact a suitable replacement for the interest rate on the 30-year Treasury bond as the discount rate for computing pension liabilities. Treasury's proposal of a yield curve based on high-grade corporate bonds – now adopted as the Administration proposal – will make measured pension liabilities more reflective of the timing of future benefit payments.

Financial Focus: *Manage the Government's Finances*

As the primary fiscal agent for the Federal Government, Treasury manages the nation's finances through collecting money due to the U.S., making its payments, managing its borrowings, performing central accounting functions, and producing coins and currency sufficient to meet demand. The bulk of Treasury's resources are devoted to collecting taxes. Treasury collects approximately 95 percent of total federal receipts.

Tax Collection. The following summarizes Internal Revenue Service's (IRS) FY 2003 performance for its pre-filing and filing tax programs:

- ***Pre-Filing Programs.*** The cumulative FY 2003 Assistor Level of Service increased to 80 percent, up nearly 12 percent over FY 2002. Strategies and initiatives implemented in FY 2003 resulted in more callers receiving properly trained assistance more quickly, as evidenced by lower transfer rates, faster average speed of answer, and lower abandon rates. In addition, the IRS and Financial Management Service (FMS) successfully implemented the advanced payment of the child tax credit, which required the issuance of Advanced Child Tax Credit payments and associated notices to more than 23.7 million taxpayers who claimed a child tax credit on their 2002 income tax return. The IRS also coordinated with the Armed Forces Tax Council and individual armed service branches to disseminate timely information regarding the impact of the Earned Income Tax Credit (EITC) law change on military personnel and their families. Approximately 400 thousand additional enlisted military personnel became potentially eligible for claiming EITC.

- ***Filing Programs*.** Taxpayers continue to shift from paper to electronic filing of their individual tax returns. In FY 2003, e-filed returns increased nearly 13 percent, to approximately 53 million while paper returns decreased roughly 7 percent, to approximately 78 million. Nearly 12 million taxpayers filed returns by home computer, an increase of nearly 27 percent from the prior year, including 2.78 million returns filed through Free File Alliance members. Approximately 44 million individual refunds were paid via direct deposit, 11.5 percent more than in 2002, resulting in quicker refunds to taxpayers and reduced postage and processing costs.
- ***Post-Filing Programs*.** The IRS increased emphasis on abusive tax avoidance transactions by examining more returns involving abusive corporate tax shelters, targeting promoters of abusive tax avoidance strategies, and reaching settlement with taxpayers on substantial tax shelter cases. Over $75 million dollars in taxes were reported through Offshore Voluntary Compliance Initiative; approximately $55 million has been collected; and over 400 promoters were identified. IRS achieved approximately 16 percent above its year-end plan for total investigations completed. Compliance exceeded the FY 2003 discretionary correspondence exam closure target of 246,000, a 48 percent increase over FY 2002. Field Examination closures for individual returns greater than $100,000 exceeded the FY 2003 plan by more than 8 percent due to increased focus on high-income taxpayers and an increase in Direct Compliance Time. The Automated Collection System (ACS) closed more than 1.1 million Taxpayer Delinquent Accounts (TDAs), a 22 percent increase over FY 2002; increased dollars collected by 28 percent, reaching almost $1 billion by September 30, 2003; and improved productivity by 20 percent. As of September 30, 2003, Field Collection closed 880,939 TDA modules, exceeding FY 2002 closures and FY 2003 target of 714,256. Earned Income Tax Credit dollars recommended for proposed deficiencies increased by 20 percent from FY 2002, amounting to $541.6 million.

Issuing Payments. As an essential part of the U.S. economy, FMS issued over 920 million payments with a dollar value of approximately $1.2 trillion to more than 100 million individuals and businesses. Making payments to American citizens accurately and on time is of considerable financial importance. FMS continues to expand the use of electronic media to deliver Federal payments in order to improve service to payment recipients and reduce federal program costs.

Government's Cash Management and Financial Reporting. Managing the Federal Government's cash flow with the most up-to-date and accurate information benefits the taxpayer by enabling Treasury to maximize investment earnings and minimize borrowing costs within established policy objectives. In FY 2003, Treasury reported the Federal Government's cash position, budget surplus, and deficit information on schedule and accurately in key Treasury publications, and issued *The Financial Report of the U.S. Government*, including the Federal Government's consolidated financial statements on time. In addition, Treasury worked to identify and institutionalize processes for developing effective forecasts in times of stability or situations involving policy change or economic uncertainty. Improvements to the accuracy, timeliness, and usefulness of the tax receipts forecasts enable Treasury to estimate daily tax receipts more precisely and minimize borrowing costs.

Government's Debt Management. Treasury strives to minimize the government's borrowing costs over time. Treasury aims to obtain low cost financing with a strategy that minimizes investor uncertainty associated with debt issuance by issuing debt in a regular pattern and in predictable quantities and by auctioning securities quickly and reliably. As the financing situation developed through FY 2003, Treasury successfully prepared the market for the additional debt issuance that we ultimately concluded would be needed. This new issuance included quarterly issuance of three-year notes, monthly issuance of five-year notes, and twice-quarterly issuance of ten-year notes. In addition, Treasury successfully educated investors about the importance of inflation-protection. Greater demand for inflation-protected securities reflected this success and allowed Treasury to increase issuance of inflation-indexed securities in FY 2003. Also, in FY 2003, Treasury reduced the time between auction closing and releasing auction results to two minutes, further reducing uncertainty that investors face when participating in Treasury auctions.

Law Enforcement Focus: ***Safeguard Our Financial Systems***

Treasury plays a critical role in federal law enforcement efforts, helping foster a safer nation by combating terrorism, suppressing counterfeiting, fighting money laundering, and preventing financial crimes.

Reducing the Threat of Terrorism and Combating Financial Crimes. The Administration made the war on terrorist financing one of its key priorities for FY 2003. As a result of September 11th, the President issued Executive Order 13224, "Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism." This Order directed the Secretary of Treasury, in consultation with the Departments of State, Justice, and Homeland Security, to implement the President's authority to systematically and strategically attack terrorists, terrorist organizations, and terrorist support networks.

Treasury developed a seven-part strategy to attack terrorist networks and prevent both the short and long-term effects of terrorist financing. The strategy focuses on: (1) targeted intelligence gathering, (2) freezing of terrorist-related assets, (3) law enforcement actions, (4) diplomatic efforts and outreach, (5) improved regulatory scrutiny and International Standard Setting, (6) outreach to the private sector, and (7) capacity building for other governments and the financial sector. Treasury made great strides in all seven areas to combat terrorist financing.

Through work in the Financial Action Task Force (FATF), Treasury plays a leading role in establishing strong international standards in the area of terrorist financing and money laundering, and ensuring the implementation of those standards worldwide. In addition, FATF continues its efforts to identify and take action against countries that are non-cooperative in the fight against money laundering, and launched a new initiative to work with donor countries to ensure that appropriate terrorist financing technical assistance flows to priority countries.

In the area of targeting and law enforcement actions, IRS Special Agents, along with other federal law enforcement agencies, executed search warrants on individuals charged with sending millions of dollars to Iraq for criminal purposes. In addition, the IRS and the Federal Bureau of Investigation (FBI) formed a partnership with the Saudi Arabian government and established a task force in Riyadh to investigate individuals suspected of funneling money to terrorist organizations. With the cooperation of the Saudis, the task force analyzed bank accounts and other financial data already seized by the Saudis from prior investigations of terrorist incidents focusing on the financial aspects, especially those transactions that may involve charitable organizations. This agreement between the Departments of Treasury and Justice and the Saudi government is a historic and groundbreaking development in our governments' global efforts to track terrorist activity.

Economic Sanctions. Economic sanctions have been an effective weapon in depriving terrorists of access to the U.S. financial system and to advance other U.S. national security and foreign policy objectives. The Office of Foreign Assets Control (OFAC) currently administers and enforces 26 economic sanctions programs. Active enforcement of these programs is a crucial element in preserving and advancing U.S. foreign policy and national security. In addition, OFAC worked with the Department of Defense and the regional Commands to focus on the key nodes, or operational centers, of terrorist groups, in regional areas, and cripple entire organizations.

Expanding Regulatory Framework. Since passage of the USA PATRIOT Act in 2001, Treasury, the Financial Crimes Enforcement Network (FinCEN), the Department of Justice and the financial regulators have worked together to draft and issue extensive regulations that implement the Act's provisions. Among these regulations are rules to expand the universe of financial institutions required to report potentially suspicious activities to FinCEN, expand the basic money laundering framework to include a wide range of financial services providers outside of depository institutions, and close off U.S. borders to foreign shell banks.

Management Enabling Goal: ***Continue to Build a Strong Institution***

Effectively meeting Treasury's programmatic goals requires strong and efficient management processes and administrative support. In addition, a focus on customer and employee satisfaction is key to implementing a balanced approach to our operations.

Performance Highlights. Treasury established 208 performance targets in FY 2003, of which 27 were either baseline targets or had no data available. Of the remaining 181 measures, Treasury achieved 132 of its targets, or 63.5 percent, and improved performance over FY 2002 for 39 measures.

Ensure Strong Financial Management of Treasury's Accounts. Treasury received an unqualified audit opinion on its FY 2003 financial statements, its third consecutive unqualified opinion. Equally significant, Treasury issued its FY 2003 Performance and Accountability Report on November 14, 2003, two and one-half months ahead of the Office of Management and Budget's deadline. Treasury attributes this success to several factors. During FY 2003, Treasury continued to refine its initiative to close the financial books within three days following the close of each month. This initiative provides strong support for the accelerated annual financial statement preparation and audit process, the preparation of quarterly financial statements and, more importantly, helps provide timely, accurate financial information for internal management.

Make Wise Capital Investments and Effectively Manage Treasury's Assets. Treasury's capital investment portfolio of over $5.0 billion includes both bureau and Department-wide major projects. During FY 2003, Treasury continued and enhanced its standardized review and monitoring process for all major projects. Treasury emphasized the following activities: making well-developed business cases (OMB Budget Exhibits 300); monitoring investments during the "control phase"; and demonstrating an improvement in the capital investment process.

Ensure Continuity of Treasury Operations. During FY 2003, Treasury made great strides in developing and implementing its Headquarters' Continuity of Operations (COOP) capabilities. Treasury developed, vetted, and finalized the COOP and assisted Headquarters in the development of their individual COOP office. In addition, Treasury assisted each of its bureaus in the development and finalization of their COOP. In accordance with Federal Preparedness Circular 65 (FPC-65), *Federal Executive Branch Continuity of Operations,* Treasury developed and vetted the *essential functions* that must be performed by Treasury in the event of a national security emergency and identified Treasury personnel from Headquarters who will perform these *essential functions.* Those personnel make up the Treasury Headquarters COOP Team.

Treasury's essential functions include protecting U.S. financial resources, preserving public and private financial institutions, maintaining an accounting and financial report system, and developing a plan for restoration of the economy. In accordance with Executive Order 12656, Treasury established a viable emergency management center as well as a secure facility outside the DC Metropolitan Area to ensure continuation of essential operations. In FY 2003, Treasury instituted a personal Safety and Health training and drill program, which included town hall meetings to discuss emergency preparedness for both work and home as well as Shelter-in-Place and Evacuation drills for employees.