The United States
Department of the Treasury

Our Mission
Maintain a strong economy and create economic and job opportunities by promoting conditions that:

- enable economic growth and stability at home and abroad,
- strengthen national security by combating threats and protecting the integrity of the financial system, and
- manage the U.S. Government’s finances and resources.

Strategic Goals

**Goal 1**
Repair and reform the financial system and support the recovery of the housing market

**Goal 2**
Enhance U.S. competitiveness and promote international financial stability and balanced global growth

**Goal 3**
Protect our national security through targeted financial actions

**Goal 4**
Pursue comprehensive tax and fiscal reform

**Goal 5**
Manage the government’s finances in a fiscally responsible manner

Priority Goals

Increase voluntary tax compliance

Increase electronic transactions with the public to improve service, prevent fraud, and reduce costs
THE DEPARTMENT OF THE TREASURY

Agency Financial Report

Fiscal Year 2012
For the online version of this report, please see:

http://www.treasury.gov

and search for “2012 AFR”
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MESSAGE FROM THE SECRETARY OF THE TREASURY

Over the past four years, our main focus has been on helping to pull the U.S. economy out of the depths of the worst financial crisis since the Great Depression and to strengthen and sustain the economic recovery. While we’ve seen significant progress – including 32 straight months of job growth, increased access to credit, an improved housing market, and expanded opportunities for America’s workers and businesses – we still face serious challenges. Americans continue to live with the scars caused by the crisis. The unemployment rate is still too high, and our fiscal deficits are unsustainable. President Obama has proposed additional measures to accelerate economic growth and job creation and get our fiscal house in order. He has put forward a plan that will maintain tax cuts for middle class families, encourage manufacturing in the United States, increase domestic energy production, and reduce the deficit in a balanced way so that we can preserve room to make investments in infrastructure and education.

In addition to these challenges, we will continue to put in place financial reforms and consumer protections. We will move ahead with steps to further strengthen the housing market. The Treasury Department will also continue to work closely with our international partners, as well as the IMF and other international financial institutions, to support a strong and comprehensive response to Europe’s financial crisis and to continue expanding export markets for our workers and businesses. We will continue to lead the global effort to impose tough sanctions on Iran, Syria, and terrorist organizations that pose a threat to our security, and we will collaborate internationally and domestically to protect financial systems around the globe from abuse. And the Treasury Department will continue to play an important role as key provisions of the Affordable Care Act are implemented and more Americans get access to health care.

The Treasury Department again received an unqualified opinion on its consolidated financial statements, and we also received another unqualified opinion on the financial statements of the Office of Financial Stability/Troubled Asset Relief Program. Rather than providing a single Performance and Accountability Report for fiscal year 2012, we are producing separate financial and performance reports. The Annual Performance Report will be included in the Congressional Budget Justification in February 2013.

We have validated the accuracy, completeness, and reliability of the financial and performance data in this report. Maintaining our commitment to continuous program and operational improvement, the Department also made progress in reducing management control weaknesses and in efforts to achieve federal financial systems and control objectives.

Timothy F. Geithner
November 15, 2012
PART 1:
Management’s Discussion and Analysis

(UNAUDITED)
EXECUTIVE SUMMARY

In fiscal year 2012, the Department of the Treasury undertook a multitude of actions that helped strengthen the U.S. economy, increase job opportunities, and improve the housing market by taking important steps to restore confidence in the financial system while reinforcing U.S. international competitiveness. The Department continued to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); took aggressive actions in the fight against financial crimes, money laundering, and threats to national security; continued its pursuit of comprehensive tax and fiscal reform; and strengthened efforts to improve stewardship over the U.S. Government’s financial resources. Treasury worked to encourage lending to small businesses, promote economic prosperity, and monitor risk in the financial system. Treasury has also driven a departmental management agenda focused on governing strategically, working smarter, and leveraging advances in technology to gain greater cost savings for the American public, increase productivity, modernize operations, and support the Administration’s management agenda.

This Agency Financial Report documents Treasury’s operational and financial performance during fiscal year 2012, including Treasury’s steady progress on its five Strategic Goals and two Agency Priority Goals (APGs), with positive results in support of the Department’s 2012 - 2015 Strategic Plan.

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 the Departmental Offices, eight operating bureaus, and three inspectors general. 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. The staffs of the Financial Stability Oversight Council, Office of Financial Research (OFR) and the Federal Insurance Office (FIO), created under the Dodd-Frank Act, reside within Domestic Finance, as does the Office of Financial Stability (OFS), which is responsible for overseeing the Troubled Asset Relief Program (TARP). The Office of Financial Institutions oversees the Community Development Financial Institutions (CDFI) Fund, the Small Business Lending Fund (SBLF), and the State Small Business Credit Initiative (SSBCCI) within Domestic Finance.

International Affairs protects and supports U.S. economic prosperity by working bilaterally and multilaterally to foster strong and balanced global growth; to promote stable international financial markets, high-quality financial regulatory standards, and a level playing field for U.S. businesses and financial institutions internationally; to encourage foreign investment in the U.S. while protecting national security; and to enhance U.S. competitiveness and job creation.

Terrorism and Financial Intelligence (TFI) marshals the Department’s intelligence, enforcement, and economic sanction functions with the twin aims of safeguarding the financial system against illicit use and combating rogue regimes, terrorist facilitators, weapons of mass destruction (WMD) proliferators, money launderers, drug kingpins, and other national security and foreign policy 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 and the tariff laws, 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** has direct oversight
over the United States Mint and the Bureau of Engraving and
Printing, and is a key liaison with the Federal Reserve. In
addition, the Treasurer serves as a senior advisor to the
Secretary in the areas of community development and public
engagement.

**Other Offices**

Internally, Treasury’s Departmental Offices are responsible
for overall management of the Department. The Office of
Management and the Chief Financial Officer is responsible
for managing the Department’s financial resources and
oversees Treasury-wide programs, including human capital,
information technology (IT), and minority and women
inclusion.

Other support offices include General Counsel, Legislative
Affairs, and Public Affairs. Also, three inspectors general—
the Office of the Inspector General (OIG), the Treasury
Inspector General for Tax Administration (TIGTA), and the
Special Inspector General for the Troubled Asset Relief
Program (SIGTARP) — provide independent audits,
investigations, and oversight of the Department of the
Treasury and its programs. While SIGTARP is
organizationally placed in Treasury, it is not under the
general supervision of the Secretary.

**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 federal excise taxes on alcohol, tobacco,
firearms, and ammunition, and assures compliance with
tobacco permitting and alcohol permitting, labeling, and
marketing requirements to protect consumers.

**The Bureau of Engraving and Printing (BEP)** develops and produces U.S. currency notes that are trusted
worldwide.

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

**The Financial Management Service (FMS)** provides
central payment services to federal program agencies,
operates the U.S. 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.

Effective October 2012, the BPD and FMS operating bureaus
consolidated to form the Bureau of the Fiscal Service. The
Department anticipates Congress to enact legislation to fund
the new bureau’s salaries and expenses through a single
appropriation.

**The Financial Crimes Enforcement Network (FinCEN)** enhances the integrity of the financial system by
facilitating the detection and deterrence of financial crime.

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

**The United States Mint** designs, mints, and issues
numismatic and bullion coins, prepares and distributes
numismatic coins and other items, and strikes Congressional
Gold Medals and other medals of national significance. The
United States Mint maintains physical custody and
protection of most of the nation’s gold and all of its silver
reserves.

**The Office of the Comptroller of the Currency (OCC)** charters, regulates, and supervises all national banks
and federal savings associations to help ensure that they
operate in a safe and sound manner and in compliance with
laws requiring fair treatment of their customers and fair
access to credit and financial products.
Effective October 2012, the BPD and FMS operating bureaus consolidated to form the Bureau of the Fiscal Service operating entity. The Department anticipates Congress to enact legislation to fund the new bureau’s salaries and expenses through a single appropriation.
# Treasury’s Fiscal Years 2012-2015 Strategic Framework

The Treasury’s Strategic Framework is a summary of the department’s goals and objectives. This framework provides the basis for performance planning and continuous improvement.

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<td>Effectively manage and exit emergency programs</td>
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<td>Help prevent avoidable foreclosures and support the availability of affordable mortgage credit</td>
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<td>Shape policy, laws, and regulations to safeguard the U.S. and international financial systems</td>
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<td>Coordinate with partners, both at home and abroad, including the foreign policy, law enforcement, and intelligence communities, to combat illicit finance</td>
<td>Ability to effectively collect, disseminate, and analyze financial intelligence</td>
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<td>Assist partner countries in developing and implementing anti-money laundering and counter terrorist financing regimes compliant with international standards</td>
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<td><strong>Goal 4</strong></td>
<td>Develop comprehensive proposals to reform and simplify the tax code</td>
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<td>Pursue Comprehensive Tax and Fiscal Reform</td>
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<td>Number of tax proposals partially or completely enacted into law</td>
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**TREASURY’S FISCAL YEAR 2012 PERFORMANCE BY STRATEGIC GOAL**

**GOAL #1: REPAIR AND REFORM THE FINANCIAL SYSTEM AND SUPPORT THE RECOVERY OF THE HOUSING MARKET**

In late 2008 and early 2009, the Department of the Treasury put in place a set of emergency programs to help break the back of a historic financial crisis, restore confidence, and restart economic growth.

In 2010, Congress passed and the President signed into law comprehensive financial regulatory reform: The Dodd-Frank Act. Those reforms led by Treasury are helping to make future financial shocks less likely and less damaging by addressing key gaps and weaknesses in the pre-crisis financial system and helping to better protect consumers against fraud and abuse.

Treasury also worked to support the process of repair and recovery of the housing market. The Department has worked with the White House and the Department of Housing and Urban Development (HUD) on the development of loan modification and refinancing programs designed to help prevent avoidable foreclosures and reduce mortgage costs for responsible homeowners as well as on reforms to help transition to a housing market where the private sector is the predominant source of mortgage credit.

**DODD-FRANK ACT**

During fiscal year 2012, Treasury continued to focus on building a more efficient, transparent, and stable financial system that contributes to the nation’s economic strength and enhances its resiliency. The Dodd-Frank Act addressed key gaps and weaknesses in the financial regulatory structure that contributed to the onset and severity of the financial crisis.

These reforms were designed to help better protect taxpayers, businesses, and American families by:

- Constraining excessive risk taking to prevent financial instability from threatening the health of the economy as a whole
- Restoring investor confidence in the American financial system so that it can support savings and investment
- Leveling the playing field in the U.S. to permit community banks to compete fairly with the nation’s largest financial firms
- Promoting and strengthening complementary financial regulatory policies with G-20 member countries to support the resilience of the international financial system, enhance U.S. competitiveness and level the playing field internationally
- Educating and protecting consumers, through authority granted to Treasury and to the new Consumer Financial Protection Bureau (whose mission is to implement and enforce federal consumer financial laws, including the prohibition against unfair, deceptive, or abusive practices relating to consumer financial products and services)

**FINANCIAL STABILITY OVERSIGHT COUNCIL**

The Dodd-Frank Act established the Financial Stability Oversight Council (Council), comprised of federal financial regulators, state regulators, and other financial experts, to identify risks to the financial stability of the United States, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system. The Council, chaired by the Secretary of the Treasury, monitors threats to financial stability and facilitates coordination across the financial regulatory community. To that end, the Department of the Treasury has played an important role in a number of Dodd-Frank Act rulemakings.

The Secretary of the Treasury, as Chairperson of the Council, is coordinating the federal regulators’ risk retention rulemaking process. This rule will help align interests among mortgage originators, securitizers (i.e. firms that create and sell groups of mortgage loans as securities), and other investors that participate in the housing finance market. The Secretary is also coordinating the rulemaking to implement the Volcker Rule, which prohibits banking entities from...
engaging in certain proprietary trading activities and limits hedge fund and private equity fund investments. The Council has been actively engaged in activities to identify risks, promote market discipline, and respond to emerging threats to U.S. financial stability. It released its second annual report on financial market and regulatory developments and potential emerging threats to financial stability in July 2012, and made progress on two of its direct responsibilities under the Dodd-Frank Act – designating certain financial market utilities (FMUs) as systematically important and publishing a final rule and interpretive guidance on the designation of nonbank financial companies for Federal Reserve Board supervision and enhanced prudential standards. In April 2012, the Council issued a final rule and interpretive guidance describing quantitative and qualitative criteria and procedures for designations of nonbank financial companies.

In July 2012, the Council unanimously voted to designate eight FMUs as systemically important. The Council has been working to apply the process described in the rule and guidance, and in September 2012 voted to advance an initial set of nonbank financial companies to stage three of the process, which involves an analysis of quantitative and qualitative information collected directly from the nonbank financial company in addition to the information considered during stages one and two.

The Council also actively facilitated information-sharing and coordination among its members regarding rulemakings, examinations, reporting requirements, and enforcement actions. Through meetings among its principals, as well as among the deputies and staffs of the Council members and their agencies, the Council has served as an important forum for increasing coordination among the member agencies.

**OFFICE OF FINANCIAL RESEARCH**

The Dodd-Frank Act established the Office of Financial Research (OFR) within the Treasury Department to serve the Council, its member agencies, and the public by improving the quality, transparency, and accessibility of financial data and information, conducting and sponsoring research related to financial stability, and promoting best practices in risk management. The OFR has established five strategic goals as part of its Fiscal Year 2012-2014 Strategic Plan:

- Support the Council through the secure provision of high-quality financial data and analysis needed to monitor threats to financial stability
- Develop and promote data-related standards and best practices
- Establish a center of excellence for research on financial stability and promote best practices for financial risk management
- Provide the public with key data and analysis while protecting sensitive information
- Establish the OFR as an efficient organization and world-class workplace

The OFR also defined more specific priorities focused on establishing mechanisms to support transparency and accountability; investing in core analytic, information security, and data management infrastructures; reinforcing protocols for efficient and secure collaboration and data-sharing; and deepening and expanding its research and data related outputs.

In fiscal year 2012, the OFR has made significant and accelerating progress in meeting its goals and priorities.

**Council Support:** The OFR is providing data for use by the Council for its Annual Report, as well as data and analysis relating to the designation of nonbank financial companies for supervision by the Federal Reserve Board and enhanced prudential standards. The OFR is also continuing to enhance its Financial Stability Monitor—a dashboard of financial stability metrics and indicators—in collaboration with staff from Council members and their agencies. Consistent with its objectives to avoid duplicating existing efforts and to create new efficiencies, the OFR has completed the first two phases of an initial inventory of metadata among Council member agencies, and a third phase is underway. The OFR has established data sharing agreements with a number of Council member agencies and is working on new ones, where needed. It is also supporting the Council’s Data Committee, which supports data collection and information sharing.
**Standards:** The OFR has played a central role in the international initiative to establish a global Legal Entity Identifier (LEI), a code that uniquely identifies parties to financial transactions, with a planned launch of the global system in March 2013.

**Center of Excellence for Research:** In July 2012, the OFR issued its first Annual Report assessing the state of the U.S. financial system, the status of the efforts by the OFR to meet its mission, and key findings of the OFR’s research and analysis. In addition, during fiscal year 2012, the new office launched a Research Seminar Series, initiated a Working Paper Series, co-sponsored with the Council a December 2011 conference, “The Macroprudential Toolkit: Measurement and Analysis,” and hosted an August 2012 workshop on stress-testing. The Financial Research Advisory Committee is being established to provide advice, recommendations, analysis, and information to the OFR, with a first meeting scheduled for December 2012.

**Public Information:** To support transparent, accountable operations, the OFR has published key information on its website, including its inaugural Annual Report, its Strategic Framework, two working papers, and broader information about its core outputs and operations.

**Building the Institution:** The OFR has made substantial progress in its hiring (with 120 staff by the end of fiscal year 2012), building its institutional framework, establishing secure IT and business systems needed to carry out its mandate, and putting in place policies and procedures to support sound and efficient operations. As part of these efforts, the OFR has established, and is continuing to enhance, a comprehensive strategic planning and performance management system, with a foundational set of performance measures to be published as part of the President’s fiscal year 2014 Budget.

**Federal Insurance Office**

Treasury’s Federal Insurance Office (FIO), also established by the Dodd-Frank Act, is monitoring all aspects of the insurance industry, identifying issues or gaps in regulation that could contribute to a systemic crisis in the insurance industry or financial system. It is also monitoring the accessibility and affordability of non-health insurance products to traditionally underserved communities; coordinating and developing federal policy on prudential aspects of international insurance matters; and contributing expertise to the Council.

Until the establishment of FIO, the United States was not represented by a single, unified federal voice in the development of international insurance supervisory standards. FIO now provides important leadership in developing international insurance policy. In fiscal year 2012, FIO assumed a seat on the executive committee of the International Association of Insurance Supervisors (IAIS). The IAIS, in cooperation with the Financial Stability Board (FSB), is developing the methodology and indicators to identify global systemically important insurers. FIO is actively engaged in that process. Additionally, FIO established and has provided necessary leadership in the European Union-U.S. insurance dialogue regarding such matters as group supervision, capital requirements, reinsurance, and financial reporting. FIO has and will continue to work closely and consult with state insurance regulators and other federal agencies in its work.

**Housing Finance, Government Sponsored Enterprises (GSEs)**

Treasury is committed to strengthening the economy, including its work with the broader administration on housing finance reform to:

- Ensure access to credit
- Strengthen consumer protection
- Increase transparency for investors
- Improve underwriting standards
- Strengthen taxpayer protections

These reforms will help repair fundamental flaws in the mortgage market and provide support to creditworthy but underserved families who want to own or rent their own homes.

Capital support for the GSEs while those firms are in conservatorship has played an important role in preserving access to mortgage credit for American families in the wake of the financial crisis. However, Treasury also believes it is important to responsibly shrink the government’s role in housing finance over time. The Administration is committed
to working with Congress to foster the return of private capital to the housing market, subject to stronger oversight and standards for consumer and investor protection. Treasury has sold its Fannie Mae and Freddie Mac Mortgage Backed Securities (MBS) commensurate with improved mortgage availability and recovery in the housing market. During fiscal year 2012 the Treasury restructured its Senior Preferred Stock Purchase Agreements (SPSPAs) to accomplish faster wind-down and better protect taxpayer interests in the GSEs. Treasury also believes that a reformed housing finance market should maintain targeted, transparent support for creditworthy lower-income families who are underserved by the private market, as well as a range of options for the one-third of Americans who are renters.

Treasury is committed to working with Congress to help ensure that all communities and families – including those in rural and economically-distressed areas, and those with low or moderate incomes – have access to sustainable mortgage credit and adequate rental options.

Troubled Asset Relief Program

The actions taken under TARP, along with other emergency measures put in place by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) helped prevent the collapse of the U.S. financial system and stabilize the broader economy. TARP’s direct fiscal cost is also expected to be much lower than many had anticipated during the financial crisis. TARP’s authority to purchase troubled assets or make new commitments expired on October 3, 2010. Today, Treasury is focused on winding down TARP by exiting the remaining TARP investments as soon as practicable in a manner consistent with the duty to promote financial stability and protect taxpayers’ interests. Treasury is also continuing to implement the various housing programs under TARP to support the housing market and prevent avoidable foreclosures.

Taxpayers have already realized a significant positive return on TARP’s investments in banks. As of September 2012, taxpayers have recovered more than $267 billion in repayments and other income - more than $21.5 billion above the total funds that were invested under TARP’s bank programs. The number of institutions that are remaining as part of the Capital Purchase Program (the largest bank program) has been reduced substantially through repayments, restructuring transactions, and sales.

Working with the Federal Reserve Bank of New York (FRBNY), Treasury made substantial progress winding down the investments in American International Group, Inc. (AIG). AIG drew a total of $160.2 billion in Federal assistance and has fully repaid the FRBNY with proceeds in excess of cost of $17.7 billion. In addition, Treasury has sold a total of 1.4 billion AIG shares resulting in proceeds in excess of costs for non-TARP shares of $15.0 billion and proceeds less cost of $11.8 billion for TARP shares and still holds 15.9 percent of AIG’s outstanding common stock of which OFS holds 10.5 percent.

Treasury reduced the overall amount that remains outstanding in TARP’s credit market programs by closing the SBA 7(a) Securities Purchase Program and making further progress winding down both the Term Asset Backed Securities Loan Facility (TALF) and the Public-Private Investment Program (PPIP). Additionally, OFS continued to manage the remaining investments in the Automotive Industry Financing Program (AIFP). Finally, using authority granted under the Emergency Economic Stabilization Act (EESA), Treasury established two central housing programs under TARP.

- The Making Home Affordable (MHA) program, which includes the Home Affordable Modification Program (HAMP) and several additional programs to help homeowners facing foreclosure
- The Hardest Hit Fund (HHF) which provides funds to the 18 hardest hit states, plus the District of Columbia, to develop locally-tailored programs to assist struggling homeowners in their communities

In addition, Treasury provided support for the Federal Housing Administration’s (FHA) Short Refinance Program that assists borrowers who are current on their mortgage (or complete a trial payment plan) but owe more than their home is worth, to refinance into an FHA-insured loan.

While the housing market remains fragile, there have been more than 1.2 million homeowner assistance actions taken through MHA to assist struggling homeowners. In addition, TARP’s housing programs have helped transform the
mortgage servicing industry by changing industry standards and practices and have helped to make mortgage modifications become more sustainable and affordable.

OFS committed $45.6 billion to fund Treasury’s housing programs under TARP. From inception through September 30, 2012, $5.5 billion has been disbursed under these programs. Based only on MHA permanent modifications in place as of September 30, 2012, OFS estimates that $10.5 billion in incentive fees out of the $29.9 billion originally committed to the program will ultimately be disbursed if all active modifications were to remain current and receive incentives for five years. More funds will be spent as additional homeowners enter into new modifications through December 31, 2013, the termination date of the program. The Hardest Hit Fund has disbursed $1.5 billion out of $7.6 billion as of September 31, 2012, and is expected to continue to disburse funds until December 31, 2017.

As of September 30, 2012, TARP investment programs (including additional Treasury AIG shares) taken as a whole—including financial support for banks, the domestic auto industry, the targeted initiatives to restart the credit markets, and the investments in AIG—are expected to result in a positive lifetime return of $3.5 billion excluding the cost related to housing programs. As of September 30, 2012, TARP investment programs are expected to cost $14.1 billion excluding the cost related to housing programs. Additional proceeds from non-TARP Treasury AIG shares are expected to more than offset TARP investment programs costs as they are projected to total $17.6 billion of which $15.0 billion has already been collected. The lifetime cost inclusive of TARP housing programs and Treasury AIG shares is estimated to be $42.1 billion.

**Small Business Lending Fund**

Established by the Small Business Jobs Act of 2010, the SBLF is a dedicated fund designed to provide capital to qualified community banks (banks, thrifts, and bank and thrift holding companies with consolidated assets of less than $10 billion) and community development loan funds in order to encourage small business lending. The purpose of the SBLF is to encourage Main Street banks and small businesses to work together, help create jobs, and promote economic growth in communities across the nation.

Since capital was disbursed to banks in October 2011, Treasury reports in the October 2012 SBLF “Use of Funds Report” that institutions participating in SBLF have made important progress in increasing their small business lending, helping to support small businesses and local economies across the nation. As of June 30, 2012,

- In total, SBLF participants have increased their small business lending by $6.7 billion over a $36.0 billion baseline
- Increases in small business lending are widespread across SBLF participants, with 89 percent of participants having increased their small business lending over baseline levels
- A substantial majority of SBLF participants – more than 76 percent – have increased their small business lending by 10 percent or more
- SBLF banks have increased business lending by substantially greater amounts than the comparison group of non-SBLF banks across median measures of size, geography, and loan type

Investments made through the SBLF program are presently expected to cost less than the originally projected cost of $1.3 billion. In addition, Treasury is currently projected to incur $23.6 million in fiscal year 2012 operating expenses for the SBLF program, $2 million less than the fiscal year 2012 operating expense estimate of $25.6 million included in the President’s Budget for fiscal year 2013.

**State Small Business Credit Initiative**

The Small Business Jobs Act of 2010 also created the SSBCI, which was funded with $1.5 billion to strengthen State programs that support lending and investing to small businesses and small manufacturers. The SSBCI Program is expected to help spur up to $15 billion in new lending to and investment in small businesses. The SSBCI program builds on new and existing models for state small business programs, including Capital Access Programs (CAPs), loan participation programs, loan guarantee programs, collateral support programs, and state-run venture capital programs.
GOAL #2: ENHANCE U.S. COMPETITIVENESS AND PROMOTE INTERNATIONAL FINANCIAL STABILITY AND BALANCED GLOBAL GROWTH

ENABLING DOMESTIC ECONOMIC GROWTH

Supporting Distressed Communities

In fiscal year 2012, the Community Development Financial Institutions Fund’s core program (the CDFI Program) awarded $175.3 million in funding to 177 CDFIs to provide loans, investments, financial services, and technical assistance to underserved populations and low-income communities (LICs), including $23.1 million to 12 Healthy Food Financing Initiative awardees and $3 million to 33 technical assistance awardees. CDFI Program awardees reported originating 17,547 loans or investments totaling nearly $1.3 billion, based on their portfolio of activities in 2011. In addition, the Native American CDFI Assistance (NACA) Program awarded $11.4 million in financial and technical assistance to 33 Native CDFIs and other Native entities seeking to become or create Native CDFIs. Native CDFIs originated 1,170 loans or investments totaling $21,701,092 based on their portfolio of activities in 2011. The Bank Enterprise Award (BEA) Program, which provides monetary awards to CDFIs and banks for increasing their investments in LICs, received 71 eligible applications requesting a total of approximately $88.5 million.

The fiscal year 2012 performance information provided above pertains to each awardee’s performance results for program year 2011. It should also be noted that the lag in performance reporting reflects the time it takes to deploy funds and make investments for which actual and projected results can be estimated and are based on information reported by CDFI Program awardees.

The New Markets Tax Credit (NMTC) Program, which provides tax credit allocation authority to Community Development Entities (CDEs) for targeted investments in LICs, competitively awarded $3.623 billion based on 2011 tax credit allocation authority.

INTERNATIONAL STABILITY AND GLOBAL GROWTH

The Office of International Affairs maintains close communications with its bilateral and multilateral counterparts to monitor and respond to evolving risks in the global economic and financial systems to prevent financial instability abroad from spreading to the U.S. economy. To this end, Treasury engaged bilaterally with its counterparts in ministries of finance and through such forums as the U.S.-China Strategic & Economic Dialogue (S&ED) and the U.S. India Economic and Financial Partnership, and multilaterally through such forums as the G-7, the G-20, the FSB, the Basel Committee on Banking Supervision, and international financial institutions such as the International Monetary Fund (IMF) and the World Bank.

Continued concerns in fiscal year 2012 about financial stability in Europe posed a particular risk to the strength of the U.S. and global recoveries. Drawing on lessons learned from the U.S. response to the global financial crisis in 2008 and 2009, Treasury continued to assist and encourage its European counterparts to put in place a robust policy framework with sufficient firepower to stem the contagion to the larger economies in Europe and to restore confidence in the European banking system. By fall of 2012, Europe moved forward on establishing a stronger and larger firewall that supports sovereign access to sustainable market financing.
The Europeans also made progress on outlining a road map toward banking union and Spain took important steps on banking system repair.

Going forward, Treasury will continue to engage bilaterally and multilaterally to address problems that pose a risk to the U.S. economy and its continued growth, wherever and whenever they arise.

To support robust global growth, the countries of the G-20 need to implement economic policies that are consistent with the overarching goal of strong, sustainable, and balanced global growth. Treasury continues to encourage proactive near-term support for stability, growth, and jobs for economies with sufficient fiscal space to support the global recovery. Treasury also continues to work through the G-20 to encourage countries with external surpluses to implement policies that boost domestic demand. These actions should be reinforced by G-20 countries’ commitments to move more rapidly toward market-determined exchange rates that better reflect underlying economic fundamentals, to avoid persistent exchange rate misalignments, to refrain from competitive devaluation of currencies, and to refrain from excessive foreign reserves accumulation.

These matters are of particular concern in Asia, where imbalances are most acute. Through the S&ED and related forums, including the Joint Economic Committee, the Investment Forum, and the U.S.-China Initiative on City-Level Economic Cooperation, we will continue to encourage China to move from an economy based on exports to one driven to a greater degree by domestic demand, and to provide a more level playing field for U.S. workers and firms. By September 2012, the renminbi had appreciated on real bilateral basis over 11 percent against the U.S. dollar since June, 2010. Through the S&ED, we secured new financial sector commitments to reduce market access barriers, boost consumption, reduce the unfair competitive advantage of state-owned enterprises, and began to loosen the chokehold that state-owned banks have on China’s financial sector.

More broadly, Treasury seeks to promote sound economic policies among our trading partners. As chair of the G-7/G-8, Treasury led the multilateral Deauville Partnership for Arab Countries in Transition to help transitioning countries in the Middle East and North Africa maintain economic and financial stability, and promote more inclusive economic growth—especially for young people and women. We led the successful effort to provide Tunisia with a U.S. Government loan guarantee and conceived of and launched a Transition Fund to provide financing for transformational reforms in economic governance in transitioning countries in the Middle East and North Africa region. By supporting these political and economic transitions in the region, Treasury can support U.S. national security goals and boost global growth.

**PROMOTING STABLE INTERNATIONAL FINANCIAL MARKETS**

The United States is best served by the adoption and enforcement of high-quality financial standards that protect and strengthen our financial system and set an example for other nations. We actively engage and take a leading role in international discussions and forums, such as the G-20 and the FSB, and in negotiations with other major and emerging financial centers. Our objectives continue to be to lead a “race to the top” in the area of financial regulation that must be coordinated globally and to achieve consensus on strong and sensible reforms while protecting the competitiveness of U.S. firms.

Treasury’s international financial regulatory agenda continues to focus on:

- Assuring international implementation of a global capital and liquidity standard that requires banks to maintain robust balance sheets that will withstand future financial shocks without government assistance

- Working with finance ministries and foreign regulators from key jurisdictions, as well as through the FSB, to enforce higher prudential standards, including additional internationally consistent capital requirements for Global Systemically Important Financial Institutions (G-SIFIs)

- Working with other countries so that they adopt strong national resolution authorities for G-SIFIs, as well as establishing a set of principles to develop an effective cross-border resolution system
- Establishing international convergence across derivatives markets to prevent risk in these markets from moving to jurisdictions with lower standards
- Establishing a global LEI system to uniquely identify counterparties to financial transactions in order to increase transparency and facilitate the cross-border assessment of risk

**Encouraging Foreign Investment in the U.S. Economy**

Foreign investment in the U.S. economy is vital to economic growth, job creation, and productivity. Treasury is strongly committed to an open investment policy with our counterparts around the world. Our objective is for the United States to continue to be the most attractive place for businesses to locate, invest, grow, and create jobs. At the same time, Treasury works to ensure that foreign investments in U.S. businesses do not compromise national security through our lead role on the CFIUS. We are committed to maintaining a CFIUS review process that is timely and efficient.

**Pursuing Free Trade and Open Markets**

Treasury continues to work with the U.S. Trade Representative and other U.S. Government agencies to pursue a strong international trade and investment agenda to help the economy grow, increase U.S. exports, and support job creation.

In fiscal year 2012, the President signed legislation implementing the bilateral trade agreements with Korea, Colombia, and Panama, and Congress renewed a strong and robust Trade Adjustment Assistance program for American workers displaced by trade. The Administration also created a new Interagency Trade Enforcement Center to coordinate enforcement and focus tirelessly on challenging unfair trade practices around the world. This step will open up new opportunities for U.S. businesses to compete in the global marketplace.

Our current priorities include pursuing normal trade relations with Russia as it joins the World Trade Organization, continuing to negotiate a high-standard 21st century Trans-Pacific Partnership trade agreement, and continuing to support the President’s National Export Initiative to double exports over five years. In the last year alone, exports have reached historic highs and represent an increase of nearly 36 percent over the 2009 levels. We also will continue efforts to pursue a level playing field with China, including a focus on aligning export credit practices with international best practices standards, and will work to ensure that U.S. trade agreements and trade laws are enforced rigorously.

**Entering into Bilateral and Multilateral Tax Agreements**

Treasury also negotiated international tax agreements that promote cross-border trade and investment. Income tax treaties and tax information exchange agreements (TIEAs) eliminate tax barriers to cross-border trade and investment by providing greater certainty to taxpayers regarding foreign tax liabilities, and by reducing the risk of double taxation. The Department will strengthen its network of tax treaties and TIEAs by modernizing existing agreements and by negotiating agreements with new treaty partners that will foster cross-border trade and investment and facilitate enforcement of U.S. tax laws.

**Use Leadership Positions in the Multilateral Development Banks and the IMF to Advance U.S. National Security and Economic Interests**

In fiscal year 2012, the United States contributed to general capital increases at the multilateral development banks (MDBs), which were necessitated by the landmark actions taken by the MDBs to help stabilize the global economy during the recent economic crisis. These resources reached countries representing 31 percent of U.S. export markets. The United States continues to use its leadership position in the MDBs to: (1) mitigate emerging threats to the U.S. and global economies, support trade and investment, and open new opportunities for American firms, thus helping to promote job creation in the United States; (2) further reinforce our national security interests in fragile and war-torn countries, reducing the dangers inherent in economic instability; and (3) advocate for MDB assistance in countries that are undergoing profound economic and political transitions, such as those in the Middle East and North Africa, in order to foster freedom, opportunity, and greater
economic growth, thus fighting global poverty and providing critical support.

We have placed a special focus on addressing the global challenges of food security and environmental concerns. Treasury plays an important role in addressing food insecurity through its leadership in the Global Agriculture and Food Security Program (GAFSP), an innovative multi-donor food trust fund called for by G-20 leaders. In fiscal year 2012, we successfully brought three new donor countries into GAFSP and contributed to GAFSP’s new private sector lending window.

In fiscal year 2012, Treasury also held the first annual Development Impact Honors competition to recognize and promote excellence and effectiveness at the MDBs.

The United States continues to use its leadership position in the IMF to promote global economic and financial stability, which supports U.S. economic growth and job creation. The IMF’s crisis-response efforts continue to be critical for promoting the global and domestic economic recoveries. The United States will use its leadership position in the IMF to promote consistent IMF surveillance over its members’ exchange rate policies and to support our G-20 objectives of encouraging flexible, market-determined exchange rates, and achieving strong, sustainable, and balanced global growth. Fiscal year 2012 saw advancements in the IMF’s score surveillance function through the establishment of a new Integrated Surveillance Decision.

**DIRECT ASSISTANCE TO DEVELOPING COUNTRIES**

The Department of the Treasury’s Technical Assistance program (OTA) continues to provide direct assistance to developing countries that have demonstrated strong commitments to reforming their financial systems or public financial management. This work encourages prosperity and stability in other parts of the world and supports broader U.S. Government international objectives — such as increasing transparency and accountability, reducing corruption, and strengthening the development of market-based policies and practice — while helping to create more stable international markets for U.S. exports.

In fiscal year 2012, Treasury made special investments through technical assistance in Administration priority programs such as the Partnership for Growth countries of Philippines, El Salvador, and Tanzania, and strengthened its engagement with countries in transition in the Middle East and North Africa.

**GOAL #3: PROTECT OUR NATIONAL SECURITY THROUGH TARGETED FINANCIAL ACTIONS**

Treasury is devoted to deploying its full range of financial authorities to track, degrade, and disrupt threats to national security from state and non-state actors, including terrorists, Weapons of Mass Destruction (WMD) proliferators, drug traffickers, rogue regimes, and transnational criminal organizations.

As the Department works to enhance the accessibility of the financial system to legitimate users, it also works to prevent its exploitation by illicit actors. Financial and other forms of intelligence information, whether from the U.S. Government, law enforcement, administrative, regulatory, or proprietary sources, has been critical to Treasury efforts to stem the flow of funding to terrorist groups and disrupt weapons proliferation and other illicit networks around the world. Money is the common denominator in these networks, and hence understanding how it moves and is used to support their endeavors creates new opportunities for Treasury action.

**NEW SECURITY COUNCIL RESOLUTIONS AND EXECUTIVE ORDERS**

Through the Executive Order on Assignment of National Security and Emergency Preparedness Communications Functions, the U.S. Government must be able to communicate domestically and internationally, at all times and under all circumstances, to implement critical and time sensitive missions. An Executive Committee was established to:

- Advise and make policy recommendations to the President to enhance the survivability, resilience, and future architecture of national security and emergency preparedness (NS/EP) communications
- Develop a long-term strategic vision for NS/EP communications and propose funding requirements
and plans to the President and the Director of the Office of Management and Budget (OMB)

- Coordinate the planning for, and provision of, NS/EP communications for the U.S. Government under all hazards

**EFFORTS TO COMBAT MORTGAGE FRAUD**

FinCEN continues its work to combat mortgage fraud. FinCEN closed a gap in the regulatory sector by issuing a final rule that made non-bank regulatory mortgage lenders and originators (RMLOs) subject to FinCEN’s reporting and recordkeeping regulations. As of August 13, 2012, RMLOs must comply with FinCEN’s final rule requiring the establishment of anti-money laundering programs and the filing of suspicious activity reports (SARs). To help RMLOs identify and report suspicious activity related to potential mortgage fraud, FinCEN issued an advisory on red flags that may signal mortgage fraud, and has updated its website with numerous resources for the industry. The new requirements for RMLOs will augment the information available to law enforcement about suspicious activity in this sector.

FinCEN also continues to work with its law enforcement partners to combat mortgage fraud. Law enforcement authorities used FinCEN reports extensively in an investigation that involved a large-scale mortgage fraud scheme resulting in major financial losses and numerous foreclosures. Investigators queried FinCEN data and found multiple SARs, which assisted in obtaining search warrants and led to multiple interviews with borrowers. Federal and local authorities arrested more than a dozen individuals linked to mortgage fraud schemes that involved the filing of fraudulent loan applications with several banks and other lenders, generated millions of dollars in loan fees and real estate commissions, and caused millions of dollars in losses when homes went into foreclosure.

As a participant in the federal loan modification and foreclosure rescue fraud initiative, FinCEN has supported more than 150 mortgage fraud cases with more than 1,200 subjects and has disseminated more than 190 analytical reports since April 2009.

**E-FILING**

FinCEN enhanced data quality and significantly reduced costs for the U.S. Government, financial institutions, and U.S. taxpayers by requiring mandatory electronic filing of most FinCEN forms. This new requirement became effective on July 1, 2012. Mandatory E-Filing has enhanced the quality of FinCEN’s electronic data, improved its analytical capabilities, and ultimately made it quicker and easier for law enforcement to track criminal money.

Several years ago, FinCEN started encouraging financial institutions to use its free, Web-based system known as the Bank Secrecy Act Electronic Filing System (BSA E-Filing) in an attempt to cut down on paper reports. FinCEN is no longer accepting most paper filings and has considered extensions and exemptions only in certain circumstances. Over the past 20 years, banks, casinos, brokerages, and many other financial businesses have filed millions of paper forms with FinCEN. Last year alone, financial institutions and individuals filed more than 17 million separate reports with FinCEN and more than 2 million of those were on paper.

FinCEN reports create a financial trail that law enforcement and intelligence agencies use to track criminal and terrorist networks and their activities and assets. These reports help detect and deter illicit activity, including money laundering, the financing of terrorist activity, and many other types of fraud.

Mandatory E-Filing supports Treasury’s flagship initiative of moving toward a paperless Treasury. It also allows for greater data security and privacy compared with paper forms, ensures compatibility with future versions of FinCEN reports, and allows quicker access to investigators. E-Filing is positively impacting the public by reducing government and industry costs and the environmental waste of paper forms, potentially saving the U.S. Government millions of dollars per year through the reduction of expenditures associated with paper processing, in particular the physical intake and sorting of incoming reports and the manual keying of reported information into FinCEN’s database.

**EFFORTS TO COMBAT HEALTH CARE FRAUD**

Continuing its successful collaboration with the Department of Health & Human Services, Office of Inspector General, and
the Department of Justice, FinCEN provided support to the Health Care Fraud Prevention and Enforcement Action Team (HEAT) Task Force. The Task Force was formed in 2009 to combat health care fraud abuse in the Medicare and Medicaid programs.

FinCEN researched and analyzed data collected under the provisions of the Bank Secrecy Act (BSA) pertaining to subjects identified by the Task Force as suspects in health care fraud schemes. These schemes have been defrauding the U.S. Government of an estimated $98 billion dollars per year.

FinCEN has provided analytical support to more than 200 cases and continues to develop intelligence to further disrupt and dismantle major health care fraud networks in cities such as Miami, Tampa, Brooklyn, Los Angeles, Houston, Detroit, and Atlanta. By identifying commonalities and shared entities in these cases, FinCEN, the Department of Justice’s Asset Forfeiture and Money Laundering Section, and the Federal Bureau of Investigation initiated a project to identify third party money launderers who service the perpetrators of health care fraud and other crimes. Through this initiative, FinCEN will be able to provide the investigators with an overall assessment of the targeted jurisdictions, individuals, and sophisticated and complex organizations that are suspected of being engaged in health care fraud schemes.

**Treasury Executive Office for Asset Forfeiture**

TEOAf manages the Treasury Forfeiture Fund (TFF). The mission of the TFF is to promote the strategic use of asset forfeiture in order to disrupt and dismantle criminal enterprises. TEOAf and its member agencies focus on investigations that result in high impact forfeitures, leading to the greatest disruption to criminal organizations that engage in money laundering, financial fraud and a myriad of other illegal acts. Accordingly, through its efforts to protect the integrity of the U.S. financial system, the TFF supports Treasury’s goal to protect U.S. national security through targeted financial actions.

**Financial Sanctions (Iran and Syria)**

Treasury exercises a broad range of intelligence, regulatory, policy, and enforcement authorities to track and disrupt illicit finance networks. Treasury also implements economic sanctions against various foreign threats to protect U.S. national security and foreign policy interests. Through these means, Treasury seeks to degrade the financial and other support networks of terrorists, weapons proliferators, drug traffickers, rogue regimes, and other illicit actors. The Treasury Department’s identification of these networks reinforces foreign or domestic efforts against these targets.

The Department of the Treasury administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals through the Office of Foreign Assets Control (OFAC).

The United States is imposing additional sanctions and publicly exposing numerous Iranian front companies, in order to convince Iran to address the international community’s concerns about its nuclear program and to prevent the circumvention of international sanctions on Iran. Continuing to target Iran’s nuclear and missile proliferation activities, the Treasury Department has issued successive rounds of aggressive designations under Executive Order 13382, with significant impact on proliferation networks. Treasury is leading efforts to bring an end in Syria to the Assad regime’s abhorrent campaign of violence against the Syrian people by working to apply sanctions on those involved in human rights abuses. Treasury hosted the Friends of the Syrian People International Working Group on Sanctions, a working session in which countries strove to harmonize restrictive measures against the Syrian regime. The Treasury.gov website is the main source providing the OFAC sanctions information to banks, financial institutions, and the public. This information is the most commonly sought content on Treasury.gov according to data from ForeSee and Google Analytics measured from April through September 2012:

- 28 percent of all visits to the Treasury.gov website went to sanctions pages
- 20 percent of customer satisfaction survey respondents specifically cite the purpose of their visit was to find content related to OFAC/Sanctions/Specially Designated Nationals
GOAL #4: PURSUE COMPREHENSIVE TAX AND FISCAL REFORM

The Treasury Department leads the Administration’s efforts to create a tax system that is simpler, fairer, and more fiscally responsible. Treasury is committed to comprehensive reform of the tax laws that lowers rates while broadening the base, makes the system fairer, improves incentives for investment and production in the United States, and helps contribute to a balanced deficit reduction plan over the medium-term.

Addressing the nation’s fiscal challenges requires reforms and fiscal policies that go beyond streamlining the tax code. The Administration has committed to pursuing a balanced approach to deficit reduction that strengthens the fiscal position of the United States, and helps ensure that there is room to invest in education, infrastructure, and other areas critical to long term economic growth.

TAX REFORM EFFORTS

Treasury, in conjunction with the White House, has developed a framework for business tax reform that reduces the statutory tax rate, eliminates provisions that are inefficient, increases the incentives for job creation and retention in the United States, simplifies the tax system, and does this in a fiscally responsible manner. Treasury is also committed to utilizing traditional and innovative ways to improve communication with policymakers, interested parties, and the public about matters related to tax policy.

INCREASE VOLUNTARY TAX COMPLIANCE

The tax gap is the difference between taxes paid and taxes owed in any given year. Reliance on a voluntary compliance tax system requires effective taxpayer services to enable taxpayers to understand and meet their tax obligations as well as effective enforcement to ensure that all businesses and individuals pay the tax they owe. Improvement of both service and enforcement, along with reforms to simplify the tax law, are essential to ensure that the U.S. tax system remains the most effective and fairest voluntary compliance system in the world. This goal is one of Treasury’s two APGs and is discussed more thoroughly later in this report.

To encourage voluntary compliance with the tax laws, Treasury has sought to reduce the burden of compliance by reducing record keeping requirements and expanding the use of simplified “safe harbor” rules that eliminate liability for unintentional tax underpayment. Treasury has also published administrative guidance that clearly explains the tax law and illustrates its application to common situations.

NEW COLLABORATIONS WITH INTERNATIONAL PARTNERS

The Treasury Department has jointly issued statements with Japan, Switzerland, the United Kingdom, France, Spain, Italy, and Germany expressing mutual intent to pursue a framework for intergovernmental cooperation to facilitate the implementation of the Foreign Account Tax Compliance Act (FATCA) and to improve international tax compliance. The Treasury and the United Kingdom have already signed a bilateral agreement and the Treasury will continue to work with other governments to conclude bilateral agreements. FATCA is an important part of the U.S. Government’s effort to improve tax compliance. The Treasury and the IRS continue to move forward with joint efforts to combat offshore tax evasion and make our tax systems more efficient and fair by implementing FATCA in a way that is targeted and effective.

GOAL 5: MANAGE THE GOVERNMENT’S FINANCES IN A FISCALLY RESPONSIBLE MANNER

The Treasury Department is responsible for managing the finances of the U.S. Government and strives to maintain public trust and confidence in U.S. and international economic and financial systems. The Department’s ability to be efficient, effective, accountable, and transparent enables the smooth, continuous operation of essential governmental services and meeting the U.S. Government’s financial obligations. To that end—and while supporting and maintaining governmental operations—during fiscal year 2012, the Department has focused on achieving greater cost savings for the American public, increasing productivity, modernizing operations, and supporting the Administration’s management agenda. It has done this by developing systems, tools, and a culture of governing strategically, working smarter, and leveraging technologies.
GOVERNING STRATEGICALLY

Treasury has employed a robust suite of tools and processes to perform data-driven, performance-focused, and outcome-based strategic oversight and management of all its component organizations. These continually evolving processes are embedded in the way the Department does its business and within its corporate culture. They serve as the foundation for Treasury’s leadership and stewardship agenda.

Treasury’s Quarterly Performance Reviews

Treasury’s management and performance agenda are set by the Deputy Secretary serving as the Chief Operating Officer who, with the Assistant Secretary for Management and Performance Improvement Officer, conducts quarterly performance reviews of each bureau. These quarterly reviews were recognized by OMB as a best practice and codified in law as part of the Government Performance Results Act Modernization Act.

These sessions bring key Treasury leaders together for regular, formal discussions with the Deputy Secretary to focus on management challenges and priority projects. These meetings drive accountability to make and sustain improvements, align expectations and priorities across Treasury bureaus and offices, and encourage data-driven decision-making. The Department has strengthened its partnership with OMB and the federal Performance Improvement Council through open dialogue and consultative problem-solving on numerous government performance matters, including Treasury’s two APGs: (1) increasing voluntary tax compliance, and (2) increasing electronic transactions with the public to improve services, prevent fraud, and reduce costs.

An example of a positive outcome from these reviews is that Treasury earned an A+ rating from the Small Business Administration (SBA) for small business contracting achievement in fiscal year 2011. Treasury was the only federal agency to achieve and substantially exceed all five statutory small business goals—Small Business, Women Owned Small Business, Small Disadvantaged Business, Service Disabled Veteran Owned Small Business, and Historically Underutilized Business (HUB) Zones. By all indications, Treasury has exceeded these small business goals again in fiscal year 2012, demonstrating the continuing success of the quarterly performance reviews.

Shared Services Council

In addition to the quarterly performance reviews, Treasury’s “shared services first” approach to managing across organizational boundaries has resulted in increased transparency, cost savings, and improved operational effectiveness as management support services are provided by those with demonstrated expertise and Treasury bureaus focus on mission accomplishment. The Treasury Shared Services Council (SSC) provides a portfolio-wide approach to shared services across the Department, optimizing capability stewardship and services delivery and driving accountability for performance and risk management.

In addition to providing additional accountability for cost and performance issues, the SSC provides a common governance structure for Treasury’s multiple shared services programs and advocates for and promotes the value of shared services. This group has tackled numerous issues, including discussing how to reduce Treasury’s office space footprint as well as providing insight into the strategic direction of Treasury’s various shared services providers—notably the Bureau of Public Debt’s Administrative Resource Center (ARC) and HR Connect (both government-wide shared service providers).

Cost Savings Guidance

Treasury’s Office of Financial Innovation and Transformation (OFIT) aims to achieve government-wide financial management savings by leveraging new technologies and the shared service provider model. For example, the Centralized Receivables Service (CRS), an end-to-end billing and collections capability for federal agency receivables in the pre-delinquency stage (e.g., fees and penalties due to an agency) allows agencies to focus on their core mission by outsourcing certain receivables collection activities. Once fully implemented, CRS will deliver an estimated $350 million in annual cost savings government-wide from increased collections and reduced financial systems costs.

WORKING SMARTER

Treasury is reducing spending and improving the way business is conducted at all levels—from reduction of the
Department’s real estate footprint to improving how information is being managed; and from the employment of Treasury’s Procurement Savings Program and strategic sourcing efforts, to taking the lead role in implementing the President’s initiative to reduce improper payments through the Do Not Pay Business Center.

**Improper Payments**

Following the President’s June 2010 memorandum directing agencies to improve payment accuracy by using a “Do Not Pay List,” the Department of the Treasury established the Do Not Pay Business Center for all federal agencies to prevent ineligible recipients from receiving federal payments or awards. Do Not Pay uses key data sources to review eligibility, including data to verify that the beneficiary is not deceased or debarred and meets employment/income requirements and provides trend analysis and fraud alert capabilities. In the short time since the Do Not Pay Business Center was launched in fiscal year 2012, significant progress has been made towards providing agencies with a one-stop-shop to verify eligibility prior to issuing a payment. To date, all 24 CFO Act agencies have finalized and submitted plans to Treasury and OMB specifically describing how they will use Do Not Pay to prevent payments from being made to dead people, debarred contractors, or incarcerated individuals.

In its ongoing efforts to combat tax refund fraud, the IRS is using data analytics to help identify tax preparers who submit incorrect or fraudulent tax returns. This year, the IRS conducted a pilot which identified tax preparers from the previous year that were associated with the most erroneous tax returns claiming refundable credits.

**Procurement**

The Department has launched multiple initiatives to broaden efficiency within its procurement operations. In fiscal year 2011, Treasury established an enterprise-wide strategic sourcing program governed by a Quad Council comprised of Department-wide representatives from procurement, IT, human resources, and financial organizations and chaired by the Assistant Secretary for Management. In fiscal year 2012, the Department brought all procurement spend under management by designated category leaders. Procurement obligations are analyzed, opportunities for consolidation and leveraging of the Department’s buying power are identified, and targeted contract actions are directed to the most appropriate strategic sourcing methodology. Approximately 16 procurement spending categories were targeted for improvement and $80 million in savings were achieved through the Department’s strategic sourcing efforts.

Treasury Procurement exceeded its fiscal year 2011 OMB-mandated goals for acquisition-related savings and reduction of high-risk contracting obligations. The Department achieved $326 million in acquisition savings versus its goal of $319 million and decreased high risk contracting by 21 percent, well above the targeted 10 percent reduction. In fiscal year 2012, Treasury elected to continue both the acquisition savings and high risk contracting reduction initiatives in the absence of a continuing OMB mandate. The Department exceeded its internal savings goal of $92 million by achieving over $240 million in acquisition-related savings (including strategic sourcing savings).

Treasury made significant advancement against its internal goal of ten percent reduction in high risk contracting obligations. The Department achieved a ten percent or greater reduction in two of four high risk categories. Based on cumulative achievements in fiscal year 2011-2012, the average annual reduction in high risk contracting exceeded ten percent.

In fiscal year 2012, Treasury launched a strategic initiative for a single Department-wide contract writing system and enhanced communication between contract and financial systems. The effort will be developed and implemented through a multi-year phased approach as funding becomes available.

**Leveraging Technology**

Treasury has a long history of identifying and leveraging commodity IT opportunities. In 1996, the Administrative Resource Center (ARC) began operation, offering commodity business services across organizations. Since that time, Treasury has launched several enterprise initiatives, including: (1) HR Connect, a government HR Line of Business; (2) Treasury Enterprise Identity Credential and Access Management (TEICAM), which has expanded to other departments including Homeland Security; and (3) Enterprise Content Management, which has already garnered
interest from other departments. Other commodity IT initiatives are ongoing such as developing an Invoice Processing Platform (IPP), formerly known as Internet Payment Platform and a Do Not Pay platform as a government-wide shared services.

**Information Technology**

Implementation of Mobile Treasury, Treasury’s technology modernization campaign, has been the key enabler for transforming Treasury’s business and services delivery systems, resulting in streamlined business processes, costs savings, and employee empowerment. Through a combination of governance and management oversight initiatives, the Department has developed innovative E-Government enterprise architecture for bridging the gap between business processes and their supporting IT. As a result, numerous opportunities for performance improvement and business transformation have been identified, including the elimination of redundant and duplicative IT investments. This has focused Treasury’s lines of businesses to facilitate better business alignment and cross-bureau collaboration in investments.

Treasury’s investment in leading and planning these efforts has already yielded results, both in terms of financial savings and operational efficiencies, allowing the Department to further leverage other opportunities for improvement. For example, the Department’s footprint reduction efforts have led to business process redesign, which is leading to installation of collaborative office spaces and even greater ability to leverage the federal telework program. TTB has established one of the most robust telework programs at the Department. TTB’s workforce is widely dispersed, with many personnel working from home full time and over 80 percent of the workforce regularly teleworking. Advancements in TTB’s IT network completed in 2012 have both furthered the effectiveness of its telework program and contributed to the Administration’s goals under the “Bring Your Own Device” (BYOD) initiative of improving mobile work capabilities and reducing IT costs across government.

TTB achieved significant savings by reducing the cost of refreshing employee IT hardware, such as PCs and laptops. Replacing desktop and laptop computers every 3 to 4 years costs TTB about $2 million and disrupts the IT program and business users for several months.

TTB determined that the best solution was to create a “virtual desktop” by centralizing all computing power, applications, user data, and user settings and allow access to TTB resources by thin client computing devices. A thin client is a computing device or program that relies on another device for computational power. Currently about 70 percent of TTB personnel use thin client devices to access all TTB applications and data.

In August, TTB’s virtual desktop implementation was cited by the White House as a case study for the federal BYOD initiative. TTB’s virtual desktop solution is a major achievement that resulted in $1.2 million in IT savings, as well as additional savings in phone and fax lines and potential reductions to dedicated office space. Additional benefits include enhanced IT security, as the virtual desktop/thin client infrastructure eliminates the need to have information stored locally on a user’s machine, and reduced data loss, as the virtual desktop provides for the centralization of information.
TREASURY’S FISCAL YEAR 2012-2013 AGENCY PRIORITY GOALS AND STATUS

The Treasury Department established two APGs to support improvements in near-term outcomes related to the Strategic Plan.

INCREASE VOLUNTARY TAX COMPLIANCE

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. Therefore, the IRS is committed to making tax law easier to access and understand. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement programs.

The IRS continued to increase the amount of tax information and services available to taxpayers online and through social media. IRS.gov provides alternative online and self-help service options. Through September 30, 2012, taxpayers viewed IRS.gov web pages more than 1.7 billion times as they used the website to:

- Get forms and publications. Beginning in fiscal year 2011, the IRS reduced the number of forms and publications that were mailed to taxpayers. For this reason, during the fiscal year 2012 filing season, more than 347 million tax products were downloaded, an increase of 51 percent from fiscal year 2011
- Link to the Electronic Federal Tax Payment System (EFTPS). EFTPS processed more than 132.4 million electronic tax payments totaling $2.1 trillion
- Get answers. More than 1.1 million visits to the Interactive Tax Assistant introduction page where taxpayers can receive answers to tax law questions
- Use “Where’s My Refund?” Taxpayers used “Where’s My Refund?” more than 132.3 million times to check on the status of their tax refunds

The IRS is increasing communications with taxpayers who may not get their information from traditional sources, such as newspapers and broadcast cable news. By employing social and new media, such as YouTube, Twitter, and iTunes, the IRS can reach these taxpayers and provide important service and compliance messages. In February 2012, the IRS released a new version of IRS2Go, a Smartphone application that lets taxpayers check on the status of their tax refund and obtain tax information including requesting their tax return or account transcripts. Since its February 2012 release, the new features helped attract more than 6.2 million application launches from IRS2GO.

In October 2011, the IRS began a pilot of Virtual Service Delivery (VSD) to test a new means of service delivery in Taxpayer Assistance Centers (TACs) and partner sites. VSD provided face-to-face contact with more than 16,000 taxpayers at 15 IRS locations using video communication technology. Preliminary participant feedback from the survey through December 31, 2011 indicated they were very satisfied with VSD technology and 92 percent reported they would be willing to use video assistance again during a future visit.

During the 2012 filing season, through September 30, 2012, the IRS received more than 147.6 million individual returns (113.8 million electronically filed) and issued more than 121.6 million refunds totaling $333 billion.

In fiscal year 2012, the IRS continued to implement its Return Preparer Initiative, the foundation of which is mandatory registration for all paid tax return preparers. Through September 2012, more than 860,000 preparers requested Preparer Tax Identification numbers (PTINs) using the online registration system. The process gives the IRS an important and improved view of the return preparer community from which the IRS can leverage information to improve communications, analyze trends, spot anomalies, and detect potential fraud. The IRS also leveraged real time data during the 2012 filing season to improve the compliance of more than 1,400 preparers with high numbers of Earned Income Tax Credit (EITC) errors.

The IRS also launched the Registered Tax Return Preparer (RTRP) competency test in November 2011 for all paid tax return preparers except attorneys, certified public accountants, and enrolled agents. More than 31,000 tests were conducted, and applications from approximately 570
continuing education providers were approved. All RTRPs are also required to complete 15 hours of Continuing Education (CE) courses annually beginning in 2012. To address this requirement, the IRS deployed a registration system for CE providers, issued Revenue Procedures outlining the IRS standards for CE accreditors and providers, and launched a webpage for CE accreditors, providers, and preparers.

In January 2012, the IRS announced a third Offshore Voluntary Disclosure Program due to continued interest from taxpayers after the closure of the 2011 and 2009 programs. As part of an overall strategy to improve offshore compliance, taxpayers who voluntarily come forward and file all original and amended tax returns and pay taxes, interest, and accuracy-related and/or delinquency penalties, can avoid criminal prosecution. The offshore voluntary disclosure programs have resulted in over 38,000 disclosures and the collection of more than $5.5 billion in back taxes, interest, and penalties.

The IRS modernization efforts focus on building and deploying advanced IT systems, processes, and tools to improve efficiency and productivity. In 2012, the IRS delivered the most significant update to its core tax processing system in decades with the deployment of the initial phase of the Customer Account Data Engine 2 (CADE 2), modernizing tax processing. After more than 50 years of posting returns and transactions on a weekly batch cycle, in January 2012, CADE 2 moved the IRS to a daily cycle for tax processing of individual taxpayer accounts. For the first time, the IRS processing systems are accepting all 1040-related schedules and forms electronically through a modernized e-filing capability, which will feed into a single consolidated taxpayer account database, and reduce the handling/mailing of voluminous paper returns. In the coming years CADE 2 will provide the IRS with significantly expanded service and enforcement capabilities that will drive additional voluntary compliance.

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**INCREASE ELECTRONIC TRANSACTIONS WITH THE PUBLIC TO IMPROVE SERVICE, PREVENT FRAUD, AND REDUCE COSTS**

The safety, security, efficiency, and reliability of Treasury transactions are paramount to maintaining public trust. Billions of transactions, including payments to federal benefits recipients, savings bonds purchases, and tax collections, are executed by Treasury each year. The paper processes associated with these transactions can be slow, unsecure, inaccurate, and wasteful. In an effort to improve customer service, decrease the public’s vulnerability to fraud, and efficiently manage resources, the Secretary of the Treasury approved several initiatives to move towards electronic transactions, including discontinuing the sale of paper savings bonds, increasing electronic benefit payments, and increasing electronic tax collection. Treasury has already discontinued the issuance of paper savings bonds through traditional employer-sponsored payroll savings plans, and the sale of over-the-counter paper savings bonds ended on December 31, 2011. Treasury will continue to make progress toward a fully paperless set of processes by paying benefits electronically and encouraging businesses to pay taxes electronically rather than by paper coupon. This priority goal is related to the strategic goal of “Manage the Government’s Finances in a Fiscally Responsible Manner.”

**PAYMENTS**

In support of the goal to increase electronic payments government-wide, the FMS has a number of efforts underway. In December 2010, Treasury announced a final rule to extend the safety and convenience of electronic payments to all Americans receiving federal benefit and non-tax payments. Anyone who applied for benefits on or after May 1, 2011, was required to begin receiving their payments electronically, while those who were already receiving paper checks need to switch to direct deposit by March 1, 2013. This important change will provide significant savings to American taxpayers who will no longer incur the price tag associated with paper checks.

As a result of the final rule, the Go Direct® campaign shifted from a marketing focus to a national public education effort
building on previous successes to provide federal benefit recipients with the tools and resources they need to transition to Electronic Funds Transfer payments. The campaign reaches current check recipients as well as people who will apply for federal benefits soon. Benefit checks have declined from 10.3 million per month in January 2011 to 5.5 million as of August 2012, saving millions of dollars for the United States Treasury and taxpayers in the years to come.

A big part of the success of the All-Electronic Treasury is the Direct Express® card. The Direct Express® card offers the convenience and security of receiving benefit payments electronically for those who prefer a debit card or do not have a bank account. Instead of receiving a paper check, the benefit payment is automatically deposited into the recipient’s card account on the payment date. It is currently available to Social Security, Supplemental Security Income, Veterans, and other federal benefit types. To date, more than 3.8 million benefit recipients have signed up for the Direct Express® card.

The U.S. Debit Card Program has expanded to 36 separate and distinct uses by federal agencies, including uses in criminal investigations, Native American trust disbursements, and international student per diem reimbursements, since program inception in 2000. At present, the program that has delivered the largest savings to the taxpayer has been the Department of Transportation’s TRANServe debit card for the disbursement of federal transit subsidies encouraging federal workers to utilize public transportation. Since Program inception (July 2011) TRANServe has deployed 60,000 cards and has recouped $11.9 million in unspent funds.

The Stored Value Card (SVC) Program is a joint program by the Departments of Treasury and Defense with major goals to enhance security, improve processing of financial transactions, and reduce the float loss associated with the coin and currency in circulation at military bases in the U.S. and overseas, on ships at sea, and at other "closed" Government locations around the world. SVCs reduce the high costs of securing, transporting, and accounting for cash. Through fiscal year 2012, SVCs have replaced more than $6 billion in cash or other paper payment mechanisms used in military environments. Additionally, SVCs streamline and help automate the otherwise manually intensive back end operations that were necessary to support cash and cash equivalents. The SVC Program has saved the Government more than $48 million in operating costs.

Treasury is also exploring the feasibility of extending E-Wallet and mobile payment technology to our payments area. As payment technology advances, Treasury is looking to meet the expectations of citizens in how they wish to interact with the U.S. Government.

Also in support of President Obama’s “Campaign to Cut Waste” across the U.S. Government, Treasury has mandated the IPP for all Treasury offices and bureaus. IPP will reduce Treasury’s invoice processing costs by 50 percent, saving approximately $7 million annually. Implementation by all Treasury bureaus will be complete by November 2012. OFIT estimates that adopting electronic invoicing across the U.S. Government will reduce the cost of entering invoices and responding to invoice inquiries by $450 million annually. In addition to Treasury, IPP currently supports 45 agencies, with eight additional agencies beginning implementation. The program continues to advocate its cloud-based shared service government-wide to improve government efficiency and cut costs for taxpayers.

**Collections**

As part of this effort to increase electronic collections, FMS has undertaken the Non-Tax Paperless Initiative (NTPI), aimed at moving all collections and remittances processed by FMS to electronic means, resulting in greater efficiencies for FMS and its agency partners and greater convenience for the public. Working with the Federal Reserve Banks and a consultant, cash flows (including both collections and remittances, processes, and remitter databases) will be analyzed to develop a transition strategy. Best practices in government and the private sector and emerging payment technologies (online banking, mobile payments, E-Wallets) will be investigated as part of the project. NTPI also will include a high-level communications strategy.

**Debt Collections**

FMS collects delinquent Government and child support debt by providing centralized debt collection, oversight, and operational services to Federal Program Agencies (FPAs) and states pursuant to the Debt Collection Improvement Act of

In fiscal year 2012, FMS increased debt collections by (1) repurposing the Austin Payment Center as a debt collection center, (2) undertaking three management and administrative reforms, which include improving the offset match process, improving analytic tools, and expanding Administrative Wage Garnishment, (3) enhancing the FedDebt system, and (4) expanding offset services by increasing debt referral, adding new debt types such as unemployment insurance compensation debts and expanding the usage to federal agencies and states.

Finally, FMS, in partnership with OFIT, is developing a CRS Pilot. Treasury's long-term vision is to provide a centralized receivables service to federal agencies that will increase collections on current receivables and delinquent debt.

**Government-wide Accounting (GWA) and Reporting**

The GWA Program supports the FMS's strategic goal to produce timely and accurate financial information that contributes to the improved quality of financial decision making by operating and overseeing the Government’s central accounting and reporting system. The GWA Program also works with FPAs to adopt uniform accounting and reporting standards and systems. It provides support, guidance, and training to assist FPAs in improving their Government-wide accounting and reporting responsibilities. The FMS collects, analyzes, and publishes Government-wide financial information, which is used by the U.S. Government to establish fiscal and debt management policies and by the public and private sectors to monitor the Government’s financial status. Publications include the Daily Treasury Statement, the Monthly Treasury Statement, the Treasury Bulletin, the Combined Statement of the United States Government, and the Financial Report of the U.S. Government.
**DEPARTMENT’S KEY PERFORMANCE MEASURES FOR 2012**

The following table contains key performance metrics providing a representative overview of the department’s performance for 2012. Discussion of the factors contributing to each measure’s performance results, and plans to improve the measure’s results in future years, follows the table.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Percentage Collected Electronically of Total Dollar Amount of Federal Government Receipts (%)</td>
<td>FMS</td>
<td>79.0</td>
<td>80.0</td>
<td>80.0</td>
<td>84.0</td>
<td>80.0</td>
<td>85.0</td>
<td>82.0</td>
<td>96.0</td>
<td>96</td>
<td>97</td>
</tr>
<tr>
<td>Percentage of Treasury Payments and Associated Information Made Electronically (%)</td>
<td>FMS</td>
<td>79.0</td>
<td>79.0</td>
<td>80.0</td>
<td>81.0</td>
<td>81.0</td>
<td>82.0</td>
<td>83.0</td>
<td>84.0</td>
<td>85</td>
<td>88</td>
</tr>
<tr>
<td>Amount of Delinquent Debt Collected Through All Available Tools</td>
<td>FMS</td>
<td>3.4</td>
<td>4.41</td>
<td>3.9</td>
<td>5.03</td>
<td>4.65</td>
<td>5.45</td>
<td>4.84</td>
<td>6.17</td>
<td>6.67</td>
<td>6.17</td>
</tr>
<tr>
<td>Customer Service Representative (CSR) Level of Service (%)</td>
<td>IRS</td>
<td>82.0</td>
<td>52.8</td>
<td>70.0</td>
<td>70.0</td>
<td>71.0</td>
<td>74.0</td>
<td>71.0</td>
<td>70.1</td>
<td>61.0</td>
<td>67.6</td>
</tr>
<tr>
<td>Taxpayer Self-Assistance Rate</td>
<td>IRS</td>
<td>51.5</td>
<td>66.8</td>
<td>64.7</td>
<td>69.3</td>
<td>61.3</td>
<td>64.4</td>
<td>68.7</td>
<td>70.1</td>
<td>72.2</td>
<td>78.5</td>
</tr>
<tr>
<td>Percentage of Business Returns Processed Electronically (%)</td>
<td>IRS</td>
<td>20.8</td>
<td>19.4</td>
<td>21.6</td>
<td>22.8</td>
<td>24.3</td>
<td>25.5</td>
<td>27.0</td>
<td>31.8</td>
<td>32.0</td>
<td>36.7</td>
</tr>
<tr>
<td>Percentage of Individual Returns Processed Electronically (%)</td>
<td>IRS</td>
<td>61.8</td>
<td>57.6</td>
<td>64.0</td>
<td>65.9</td>
<td>70.2</td>
<td>69.3</td>
<td>74.0</td>
<td>76.9</td>
<td>79.0</td>
<td>80.5</td>
</tr>
<tr>
<td>Affordable Housing Units Created by CDFI Fund Programs (data starting 2011)</td>
<td>CDFI Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Baseline</td>
<td>19,083</td>
<td>16,419</td>
<td>27,433</td>
</tr>
<tr>
<td>OTA Scope and Intensity of Engagement (Traction)</td>
<td>DO</td>
<td>Baseline</td>
<td>3.6</td>
<td>3.6</td>
<td>3.7</td>
<td>3.6</td>
<td>3.5</td>
<td>3.6</td>
<td>3.7</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Impact of TFI Programs and Activities</td>
<td>DO</td>
<td>-</td>
<td>-</td>
<td>Baseline</td>
<td>7.81</td>
<td>7.4</td>
<td>7.4</td>
<td>7.6</td>
<td>8.4</td>
<td>7.8</td>
<td>8.1*</td>
</tr>
</tbody>
</table>

Note: Performance measures were not audited.

*Estimated value.
On December 7, 2010, Treasury published a regulation that required businesses with an annual tax liability of at least $10,000 to pay their taxes electronically. The new requirement, combined with FMS’s efforts to transition taxpayers to electronic payments, resulted in FMS processing over 132.5 million payments electronically during fiscal year 2012. Accordingly, Treasury significantly exceeded its performance target on the measure: “Percentage collected electronically of total dollar amount of federal government receipts.” With continued emphasis on the All Electronic Treasury initiative, FMS has undertaken the NTPI, aimed at moving all collections and remittances processed by FMS to electronic means, resulting in greater efficiencies for FMS and its agency partners and greater convenience for the public.

In support of the All Electronic Treasury initiative, FMS also continued to expand and market the use of electronic funds transfer to deliver federal payments, improve service to payment recipients, and reduce government program costs. In fiscal year 2012, FMS made 88 percent of payments electronically, exceeding its performance goal of 85 percent. FMS attributes the performance outcome to considerable success in implementing its nationwide Go Direct® campaign to encourage current check recipients to switch to direct deposit. As a result, benefit checks have declined from 10.3 million per month in January 2011 to 5.5 million as of August 2012, saving millions of dollars for the United States Treasury and the taxpayers in the years to come.

In fiscal year 2012, the IRS achieved a 67.6 percent - “Customer Service Representative Level of Service,” exceeding its performance target of 61 percent. The IRS answered more than 30 million assistor calls and 59.2 million automated calls, with an accuracy rate of 93.2 percent of tax law and 95.6 percent of account questions received via the telephone. Moving forward, the IRS will staff telephone service as effectively as possible to meet anticipated telephone demand.

The IRS exceeded its performance target and achieved a 78.5 percent “Taxpayer Self Assistance Rate,” as a result of the increased popularity of IRS web-based applications. The self-assistance rate is expected to increase in future years as more taxpayers choose automated customer service methods over more traditional methods such as telephone and paper correspondence.

The IRS achieved an electronic-filing rate of 36.7 percent for business returns, exceeding its performance target by more than four percentage points. The IRS also exceeded the target on its electronic filing metric, “Percentage of Individual Returns Processed Electronically.” Performance in this area continues to be driven by increased demand for the overall benefits of e-file, such as its accuracy; quick acknowledgement of receipt; the ability to file amended, and/or prior year returns.

The CDFI Fund programs developed or produced 27,433 housing units across all programs, reflecting the impact of Recovery Act investments in 2012. Targets will be adjusted upward for fiscal year 2014 based on the increase in housing portfolio loans to reflect the results of new awardee reporting.

OTA developed its Traction goal based on project evaluations to measure the degree to which financial technical assistance programs bring about changes in behavior of counterpart countries. In fiscal year 2011, OTA slightly exceeded its target. The nature of the OTA program is such that country projects that reach performance goals and objectives are concluded and new projects are begun where the challenges are significant. The effect of this dynamic keeps the target goal always challenging but reachable if performance remains high across all teams and projects.

TFI created a composite measure that consists of three overall program office focus areas related to its mission and strategic goals. TFI estimated that it exceeded its performance target of 7.81 on its composite measure, “Impact of TFI Programs and Activities.” Note that the fiscal year 2012 outcome is an estimate as of the publication of this report because a customer service survey that contributes to the composite score has not been fully completed.
HIGHLIGHTS OF MANAGEMENT AND PERFORMANCE CHALLENGES

Annually, in accordance with the Reports Consolidation Act of 2000, OIG and TIGTA identify the most significant management and performance challenges facing the Department. These challenges do not necessarily indicate deficiencies in performance; rather, some represent inherent risks that must be monitored continuously. Treasury made much progress on these issues in fiscal year 2012, and will continue to focus on resolving them during fiscal year 2013 and beyond. Refer to Section C of Part 3, Other Accompanying Information, for a detailed discussion of these challenges, listed below.

Note: SIGTARP does not provide the Secretary with an annual report on management and performance challenges.

TREASURY-WIDE MANAGEMENT CHALLENGES – AS IDENTIFIED BY OIG

- Transformation of Financial Regulation
- Management of Treasury’s Authorities Intended to Support and Improve the Economy
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Gulf Coast Restoration Trust Fund Administration (new)

IRS MANAGEMENT CHALLENGES – AS IDENTIFIED BY TIGTA

- Security for Taxpayer Data and Employees
- Tax Compliance Initiatives
- Modernization
- Implementing the Affordable Care Act and Other Tax Law Changes
- Fraudulent Claims and Improper Payments
- Providing Quality Taxpayer Service Operations
- Human Capital
- Globalization
- Taxpayer Protection and Rights
- Achieving Program Efficiencies and Cost Savings
FINANCIAL HIGHLIGHTS

**Total Treasury Assets (In Billions)**
(Excludes receivable to pay Federal Debt)

- FY 2008: $8,817.8
- FY 2009: $8,846.4
- FY 2010: $45,590.9
- FY 2011: $18,390.6
- FY 2012: $17,031.0

**Total Treasury Liabilities (In Billions)**
(Includes liability for Federal Debt and Interest Payable)

- FY 2008: $16,827.3
- FY 2009: $22,488.5
- FY 2010: $3,448.3
- FY 2011: $8,520.4
- FY 2012: $7,535.0

**Total Net Position (In Billions)**

- FY 2008: $3,000.7
- FY 2009: $4,428.1
- FY 2010: $161.1
- FY 2011: $860.1
- FY 2012: $3,860.4

**Net Cost of Treasury Operations (In Billions)**

- FY 2008: $570
- FY 2009: $600
- FY 2010: $312.2
- FY 2011: $422
- FY 2012: $322

**Net Federal Debt Interest Costs (In Billions)**

- FY 2008: $4,409.9
- FY 2009: $3,962.2
- FY 2010: $190.6
- FY 2011: $426.7
- FY 2012: $399.3

**Total Budgetary Resources (In Billions)**

- FY 2008: $772.2
- FY 2009: $6,833.0
- FY 2010: $4,405.4
- FY 2011: $1,050.0
- FY 2012: $816.1

**Net Outlays (In Billions)**

- FY 2008: $8462.9
- FY 2009: $8,922.3
- FY 2010: $8,345.5
- FY 2011: $3,154
- FY 2012: $2,413

**Net Cash Revenue Received (In Billions)**

- FY 2008: $8,366.5
- FY 2009: $4,963.7
- FY 2010: $1,976.4
- FY 2011: $2,105.3
- FY 2012: $3,556.2
The financial highlights below are an analysis of the information included in the Department’s consolidated financial statements which appear within the “Annual Financial Report” section of this report. The Department’s principal financial statements have been prepared to report the agency’s financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). While these financial statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the consolidated 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. The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2012 compared to September 30, 2011.

<table>
<thead>
<tr>
<th>Summary Financial Information (dollars in billions)</th>
<th>2012</th>
<th>2011</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Treasury Assets</td>
<td>$17,921.9</td>
<td>$16,590.2</td>
<td>$1,331.7</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total Treasury Liabilities</td>
<td>$17,532.5</td>
<td>$16,510.1</td>
<td>$1,022.4</td>
<td>6.2%</td>
</tr>
<tr>
<td>Net Position</td>
<td>$389.4</td>
<td>$80.1</td>
<td>$309.3</td>
<td>386.1%</td>
</tr>
<tr>
<td>Net Cost of (Revenue From) Treasury Operations</td>
<td>$(275.2)</td>
<td>$4.2</td>
<td>$(279.4)</td>
<td>6652.4%</td>
</tr>
<tr>
<td>Net Federal Debt Interest Costs</td>
<td>$399.3</td>
<td>$426.7</td>
<td>$(27.4)</td>
<td>(6.4)%</td>
</tr>
<tr>
<td>Total Budgetary Resources</td>
<td>$816.1</td>
<td>$1,089.0</td>
<td>$(272.9)</td>
<td>(25.1)%</td>
</tr>
<tr>
<td>Net Agency Outlays</td>
<td>$241.3</td>
<td>$313.4</td>
<td>$(72.1)</td>
<td>(23.0)%</td>
</tr>
<tr>
<td>Net Revenue Received (Custodial)</td>
<td>$2,256.2</td>
<td>$2,105.3</td>
<td>$150.9</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

Financial Overview. The Department’s financial performance as of and for the fiscal year ended September 30, 2012 reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $1.3 trillion to finance the U.S. Government’s budget deficits.

Additionally, the Department amended its Senior Preferred Stock Purchase Agreements (SPSPAs) with the two GSEs in 2012 which, among other things, changes the basis by which quarterly dividends are paid by the GSEs to the U.S. Government commencing with the quarter ending March 31, 2013. This amendment impacted the end-of-year valuation of the Department’s senior preferred stock investment and contingent liability associated with the GSE program. At the end of 2012, the Department reduced its estimated future liability to the GSEs over the life of the SPSPA program by $307.2 billion, and reduced the fair value of its GSE senior preferred stock and other related investment holdings by $42.2 billion. This compares to the $22.9 billion reduction in the estimated liability and $3.1 billion increase in the fair value of the GSE investment holdings recorded at the end of 2011. The declines in both the asset and liability at the end of 2012 were primarily due to lower anticipated future quarterly dividend payments by the GSEs to the Department, as a result of the SPSPA amendment, which are expected to drive downward the amount of future draws needed by the GSEs.

The Department’s 2012 financial performance also reflects the ongoing wind-down of both the GSE MBS and TARP credit programs, principally through sales of securities and principal repayments of loans made under these programs. In fiscal year 2012, the Department completed the sale of its entire MBS portfolio; these sales commenced in mid-2011. TARP’s wind-down activity included, among other things, continued sales of its AIG common stock held. The wind-down of the GSE MBS and TARP programs drove significant fluctuations in the subsidy costs associated with these programs during both fiscal years 2012 and 2011 caused by program modifications and end-of-year reestimates. Subsidy costs recorded in connection with each credit program represent the difference between the projected costs of the program and the future cash flows anticipated to be received from the program. Reestimates may occur due to changes in a program’s estimated future cash flows caused by changes in market conditions and actual program performance, thereby resulting in an upward or downward reestimate in the credit program receivable to reflect an increase or decrease, respectively, in the estimated total cost of the program.
Total Treasury Assets of $17.9 trillion at September 30, 2012 consist of a receivable due from the General Fund of the U.S. Government of $16.2 trillion, intra-governmental loans and interest receivable of $914.3 billion, and fund balance and various other assets which totaled $805.4 billion (Figure 9). The $1.3 trillion (or 8.0 percent) increase in total assets at the end of fiscal year 2012 over the prior year is primarily due to a $1.3 trillion rise in the federal debt and related interest payable, which caused a corresponding rise in the “Due from the General Fund of the U.S. Government” account. 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.

Intra-governmental loans and interest receivable represent loans issued primarily by the BPD to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew by $185.7 billion (or 25.5 percent) to $914.3 billion at the end of fiscal year 2012 due to increased borrowings by various federal agencies – such as the Departments of Education, Agriculture, and Energy – to fund their existing programs.

Other assets include, among other things, TARP and non-TARP credit program receivables due from, and other investments in, certain financial institutions for which the Department provided financial assistance in an effort to stabilize financial markets. Other assets decreased by almost $153.5 billion primarily due to the ongoing wind-down of these programs through sales of securities or principal repayments of loans made under these programs, as well as from declines in the fair value of the GSE preferred stock investments held principally due to the SPSPA amendment.

Total Treasury Liabilities of $17.5 trillion at September 30, 2012 principally consist of the federal debt held by the public, including interest, of $11.3 trillion which were mainly issued as Treasury Notes and Bills (Figure 10). Liabilities also include intra-governmental liabilities totaling $6.1 trillion (of which $4.9 trillion represent principal and interest of federal debt in the form of Treasury securities held by federal agencies), and various other liabilities totaling $98.4 billion. The $1.0 trillion (or 6.2 percent) increase in total liabilities at the end of fiscal year 2012 over the prior year is attributable to a $1.3 trillion increase in federal debt, including interest, held by the public and federal agencies that was needed to finance the U.S. Government’s budget deficits. This was partially offset by a $307.2 billion decrease in the estimated future liability to the GSEs.

Net Position of $389.4 billion at September 30, 2012 represents the combined total of the Department’s cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $309.3 billion increase in the net position at the end of fiscal year 2012 was principally attributable to a $279.4 billion increase in net revenue from Treasury operations, combined with a $27.4 billion decrease in net federal debt interest costs, as discussed below.

Net Revenue From Treasury Operations, as presented on the Department’s Consolidated Statements of Net Cost, represents the Department’s gross and net costs by strategic program. There are three main categories of strategic programs: financial, economic, and security. The Department generated $275.2 billion in total net revenue from its operations for 2012 compared to a net cost of $4.2
billion in the prior year, primarily due to increased net revenue associated with the Department’s economic programs, and lower net costs from its financial programs.

Economic programs generated net revenue of $288.8 billion in 2012 compared to $9.9 billion in fiscal year 2011 (Figure 11). The $278.9 billion increase in economic program net revenue in fiscal year 2012 is primarily due to a $307.2 billion reduction in the Department’s estimated future liability to the GSEs in 2012, via a reduction in expense, as a result of the SPSPA amendment, as compared to a $22.9 billion reduction in this liability in 2011. Fiscal year 2012 net revenue was also favorably impacted by changes in subsidy costs associated with the ongoing wind-down of both the GSE MBS and TARP programs, offset by increased foreign currency exchange losses incurred by ESF due to the strengthening of the U.S. dollar in the world market.

The net cost of financial programs was $11.8 billion, down $1.8 billion from fiscal year 2011. Fiscal year 2012 reflects increased interest earnings on higher levels of intra-governmental loans issued to other federal agencies, as discussed under the section “Total Treasury Assets” above.

Total Budgetary Resources of $816.1 billion were lower in fiscal year 2012 by $272.9 billion (or 25.1 percent) primarily due to decreases in both borrowing authority and appropriations. Borrowing authority resources decreased $146.0 billion principally related to the IMF and TARP programs. IMF established two new credit reform programs in fiscal year 2011 for which it received $107.5 billion in borrowing authority in that year when compared to fiscal year 2012. Additionally, TARP’s borrowing authority requirement fell by $32.9 billion for fiscal year 2012 due to a reduction in downward reestimates of credit reform subsidies associated with certain of its programs. Total budgetary resources also reflect reduced appropriations of $66.7 billion primarily due to less funding needed in fiscal year 2012 to service the federal debt.

Net Agency Outlays of $241.3 billion were lower in fiscal year 2012 by $72.0 billion (or 23.0 percent) primarily due to fewer program disbursements associated with the TARP, GSE MBS, and SBLF programs due to the wind-down of certain of these programs.

Net Revenue Received (Custodial), representing net revenue collected by Treasury on behalf of the U.S. Government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue. Over 90 percent of these revenues are related to income and social security taxes. Net revenue received was $2.3 trillion for fiscal year 2012, an increase of $150.9 billion (or 7.2 percent) over the prior fiscal year. This increase is attributed mainly to an overall improvement in individual and corporate income tax collections, coupled with a reduction in tax refunds.
MANAGEMENT ASSURANCES

The Secretary’s Assurance Statement

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, Treasury considered results of extensive testing and assessment across the Department and independent audits.

Treasury provides assurance that the objectives of Section 2 of the FMFIA (Financial Reporting and Operations) have been achieved, except for the material weaknesses noted below. Treasury is in substantial conformance with Section 4 (Financial Management Systems) of the FMFIA. Also, in accordance with Office of Management and Budget Circular No. A-123, Management’s Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting, Treasury provides qualified assurance that internal control over financial reporting was operating effectively based on the results of the assessment as of June 30, 2012. Treasury’s financial management systems are not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) due to the Internal Revenue Service’s (IRS’s) material weaknesses related to unpaid tax assessments and information security.

As of September 30, 2012, Treasury had three FMFIA material weaknesses as follows (with origination/planned resolution timeframes indicated):

Operations:

- IRS – Computer Security (Fiscal Year 2001/2014)

Financial Reporting:

- IRS – Unpaid Tax Assessments (Fiscal Year 1995/2015)

Treasury management remains dedicated to the resolution of these weaknesses. Overall, Treasury continues to make progress in reducing internal control weaknesses and in meeting federal financial management systems requirements.

Timothy F. Geithner
Secretary of the Treasury
November 15, 2012
The management control objectives under FMFIA are to reasonably ensure that:

- Obligations and costs are in compliance with applicable law
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets

FMFIA requires agencies to evaluate and report on the effectiveness of controls over operations and financial reporting (FMFIA Section 2), and conformance with financial management systems requirements (FMFIA Section 4 and FFMIA) that protect the integrity of federal programs. Deficiencies that seriously affect an agency’s ability to meet these objectives are deemed “material weaknesses.”

In fiscal year 2012, Treasury continued to make progress on closing its three material weaknesses, as listed in the Secretary’s assurance statement. Treasury includes resolution of material weaknesses as a performance requirement for every executive, manager, and supervisor. Additional information on Treasury’s material weaknesses and progress can be found in Section F of Part 3, Other Accompanying Information.

**FFMIA and Financial Management Systems**

**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 (USSGL) at the transaction level.” FFMIA also requires the development of remediation plans by any entity unable to report substantial compliance with these requirements.

During fiscal year 2012, Treasury bureaus and offices used a risk-based approach to assess their financial management systems’ compliance with FFMIA, as required by OMB. The bureaus and offices conducted self-assessments to determine their risk levels. With the exception of the IRS, all Treasury bureau and office financial management systems are in compliance with FFMIA. As required, the IRS has a remediation plan in place to correct the identified deficiencies. The IRS management updates this plan quarterly and Treasury management reviews it. In addition, TIGTA audits the plan annually.

The IRS made significant progress in fiscal year 2012 toward attaining FFMIA compliance by implementing the splitting of individual unpaid assessment (UA) accounts to improve the financial classification. The IRS sub-ledger for UA (i.e., Custodial Detail Data Base (CDDDB)) is now capable of providing more granularity into Trust Fund Recovery Penalty (TFRP) multi-officer/multi-corporation accounts.

To address the Unpaid Tax Assessments material weakness, the IRS implemented programming changes in the CDDB in June 2012, to improve the financial classification in situations when there are: 1) unpaid tax assessments requiring amounts to be reported in more than one financial classification when the taxpayer agrees to a portion of the tax (taxes receivable) but does not agree to the remaining portion (compliance assessment), 2) unpaid tax assessments where a portion of the assessment has expired by statute, 3) TFRP assessments involving multiple companies and officers, and 4) payroll tax assessments where no officers will be assessed a TFRP. In addition, the IRS is making changes to the Automated Trust Fund Recovery system to increase the number of TFRP cases that can be completely worked without user intervention and eliminate errors inherent to these complex cases.

GAO reported a downgrade of the Computer Security material weakness to a significant deficiency during the fiscal year 2012 financial statement audit, based on the results of its audit of the IRS financial statements, which are presented in conformity with U.S. generally accepted accounting principles. The IRS will continue to track Information Security internally based on the results of its testing, and
recognizing the larger scope of the IRS’s work as a result of FMFIA requirements and management’s responsibility for the integrity of IRS internal controls. As such, IRS will continue conducting internal control testing to determine the ongoing status of its internal control over information security.

To address the Computer Security material weakness, the Computer Security Material Weakness Program Office developed continuous monitoring activities to identify risks and confirm compliance with policies and procedures over internal controls, and an executive governance process to provide sustained improvements during fiscal year 2012 toward downgrading this material weakness. The IRS also commissioned a cross-functional working group to test and validate corrective actions to ensure they fully address the weakness to prevent premature closure. The group also provided evidence and assurance of continuous monitoring and controls for IT systems owned or operated by external entities for risks to IRS financial systems or access to taxpayer or other sensitive information the IRS maintains.

**Financial Management Systems Framework**

The Department of the Treasury’s financial management systems framework consists of core 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 detailed financial transactions and submit summary-level data to FARS, which maintains the key financial data necessary for Treasury-wide consolidated financial reporting. This framework satisfies both the bureaus’ diverse financial operational and reporting needs, as well as the Department’s internal and external reporting requirements. It enables Treasury to receive an unqualified audit.

FARS consists of the following components:

- Treasury Information Executive Repository (TIER) – a financial data warehouse used to consolidate and validate bureau financial data
- CFO Vision (CFOV) – a tool used to produce monthly financial statements, notes, and other supporting reports, as well as perform financial analysis

**Goals and The Supporting Financial System Strategies**

Treasury’s financial system goals and supporting strategies focus on improving and streamlining the current FARS foundation so it will support new financial requirements and continue to provide management with accurate and timely financial information.

Throughout fiscal year 2012, Treasury updated TIER and CFOV to meet new and evolving reporting requirements. These include updates to TIER to comply with the data standard reflected in FMS’s planned Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS). In addition, Treasury enhanced TIER to improve the efficiency of financial reporting activities as well as internal control over financial management. Treasury also enhanced FARS in 2012, to take advantage of emerging technology and streamline processes by automating the process for tracking, managing, and establishing FARS user
accounts and access. The TIER Focus Group continued to meet to improve communication with the bureaus and coordinate changes impacting financial management systems and financial operations.

Treasury continued and nearly completed its adoption of FMS’s IPP in fiscal year 2012. IPP automates many manual activities related to receiving, verifying, approving, and paying invoices. Bureaus will benefit from efficiency improvements as more of their vendors participate in IPP and as they process more invoices through IPP.

In fiscal year 2013, Treasury plans to continue to upgrade its FARS applications to support new financial reporting requirements and improve the technology infrastructure. GTAS-related updates will continue throughout fiscal year 2013, with plans to make FARS fully GTAS-compliant by the first quarter of fiscal year 2013.

After over 50 years of weekly posting of returns, payments, and other types of transactions, on January 17, 2012, IRS delivered the first component of its CADE 2 program by moving the IRS to a daily cycle for tax processing and posting of individual taxpayer accounts and for feeding downstream systems. This means application programs that formerly took hours or days to complete now run in minutes or seconds. The new CADE 2 daily processing capability enhances IRS’s tax administration and improves service by enabling faster refunds for more taxpayers. Processing over 20 percent more refunds daily in 2012 than during 2011, CADE 2 continues to run without issue. It allows more timely account updates (taxpayer account updates to IRS customer service representatives within 48 hours versus an average of nine days in Filing Season 2011), and faster issuance of taxpayer notices (2.7 million notices sent to taxpayers with accounts processed daily versus 284,000 in Filing Season 2011).

The second key component of the CADE 2 program is the implementation of a modernized relational database. The relational database is a central source of trusted taxpayer data for the IRS’s 140 million individual taxpayers and over a billion tax modules. CADE 2 is scheduled to begin live data feeds directly from the fully loaded database to key downstream systems (Corporate Files On-Line, Individual Master File On-Line) in early November 2012. This new functionality supports the IRS customer service representatives with on-line viewing of taxpayer account data stored in the new CADE 2 modernized database.

In fiscal year 2012, BPD/ARC upgraded one instance of its core financial management system to meet compliance expectations, adopt the Common Government-wide Accounting Classification structure, and offer additional functionality. BPD/ARC also completed its implementation of IPP.

In fiscal years 2013 and 2014, the Department and BPD/ARC plan to complete the upgrade to the second instance of the core financial management system to meet compliance expectations, adopt the Common Government-wide Accounting Classification structure, and offer additional functionality. In addition, BPD/ARC will continue to expand its use of IPP.

BEP successfully completed the final phase in the replacement of its legacy mainframe-based manufacturing system. In 2012, BEP fully implemented a cloud-based, fully integrated enterprise resource planning system which included the conversion of supply chain management, manufacturing management, project accounting, and contract lifecycle management modules to the new system. BEP plans no major upgrades for fiscal year 2013.

The OCC expanded its management and accountability reporting application in fiscal year 2012, automating the calculation and recording of its semi-annual bank assessment. The OCC plans to continue to integrate its applications with its customers and to implement a system-based governance, risk, and compliance tool.