The following Scorecard indicates performance measures that have been selected to highlight in the detailed write-up of Treasury FY 2004 annual performance report section.

<table>
<thead>
<tr>
<th>Strategic Goal/Strategic Objective/Performance Measure</th>
<th>Target</th>
<th>Actual <em>(italics estimate)</em></th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Promote Prosperous U.S. and World Economies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stimulate Economic Growth and Job Creation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of full-time equivalent jobs created or maintained in underserved communities (CDFI)</td>
<td>5,852</td>
<td>7,179</td>
<td>263</td>
</tr>
<tr>
<td>Number of full-time equivalent jobs created or maintained in underserved communities (CDFI) (BEA only)</td>
<td>965</td>
<td>1,128</td>
<td>270</td>
</tr>
<tr>
<td>U.S. unemployment rate (DO)</td>
<td>5.6%</td>
<td>5.4%</td>
<td>276</td>
</tr>
<tr>
<td>U.S. GDP growth rate (DO)</td>
<td>3.5%</td>
<td>4.5%</td>
<td>278</td>
</tr>
<tr>
<td>Value of U.S. exports of cross border financial services, excluding insurance ($ in billion based on calendar year) (DO)</td>
<td>15.5B</td>
<td>21.3B</td>
<td>280</td>
</tr>
<tr>
<td><strong>Provide a Flexible Legal and Regulatory Framework</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of licensing applications and notices filed electronically (OCC)</td>
<td>15%</td>
<td>34%</td>
<td>282</td>
</tr>
<tr>
<td>Percent of applications processed within timeframes (OTS)</td>
<td>95%</td>
<td>97%</td>
<td>285</td>
</tr>
<tr>
<td><strong>Promote Stable U.S. and World Economies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase Citizens’ Economic Security</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. household net worth as percentage of disposable personal income (DO)</td>
<td>512%</td>
<td>537%</td>
<td>287</td>
</tr>
<tr>
<td>Improve the Stability of the International Financial System</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of crises in emerging markets as indicated by defaults (DO)</td>
<td>3</td>
<td>0</td>
<td>290</td>
</tr>
<tr>
<td>Number of crises in emerging markets as indicated by currency depreciations (DO)</td>
<td>6</td>
<td>4</td>
<td>290</td>
</tr>
<tr>
<td><strong>Preserve the Integrity of Financial Systems</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate Their Supportive Networks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of users directly accessing BSA data through FinCEN’s Gateway process (FinCEN)</td>
<td>1,700</td>
<td>2,181</td>
<td>295</td>
</tr>
<tr>
<td>Increase the Reliability of the U.S. Financial System</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of national banks with composite CAMELS rating 1 or 2 (OCC)</td>
<td>90%</td>
<td>94%</td>
<td>305</td>
</tr>
<tr>
<td>Percent of thrifts with composite CAMELS rating of 1 or 2 (OTS)</td>
<td>90%</td>
<td>93%</td>
<td>312</td>
</tr>
<tr>
<td><strong>Manage the U.S. Government’s Finances Effectively</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Individual Returns Filed Electronically (IRS)</td>
<td>45%</td>
<td>47%</td>
<td>328</td>
</tr>
<tr>
<td>Customer Service Representative (CSR) Level of Service (IRS)</td>
<td>83%</td>
<td>87%</td>
<td>329</td>
</tr>
<tr>
<td>Ratio of taxes collected vs. resources expended (TTB)</td>
<td>257:1</td>
<td>368:1</td>
<td>337</td>
</tr>
<tr>
<td>Manage Federal Debt Effectively and Efficiently</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of auction results released in two minutes + or - 30 seconds (BPD)</td>
<td>95%</td>
<td>99.53%</td>
<td>338</td>
</tr>
<tr>
<td>Strategic Goal/Strategic Objective/Performance Measure</td>
<td>Target</td>
<td>Actual (italics estimate)</td>
<td>Page</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
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</tr>
<tr>
<td>Manage the U.S. Government’s Finances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage collected electronically of total dollar amount of Federal government receipts (FMS)</td>
<td>81%</td>
<td>81%</td>
<td>341</td>
</tr>
<tr>
<td>The dollar amount of collections transacted through Pay.gov, a government-wide transaction portal (in Billions) (FMS)</td>
<td>10.00</td>
<td>4.04</td>
<td>342</td>
</tr>
<tr>
<td>Percentage reduction in rate of increase in transaction costs to collect Federal government receipts through Electronic Government Tax Payment System</td>
<td>70%</td>
<td>100%</td>
<td>344</td>
</tr>
<tr>
<td>Percentage of Treasury payments and associated information made electronically (FMS)</td>
<td>75%</td>
<td>75%</td>
<td>345</td>
</tr>
<tr>
<td>Optimize Cash Management and Effectively Administer the Government’s Financial Systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Government-wide accounting reports issued accurately (FMS)</td>
<td>100%</td>
<td>100%</td>
<td>348</td>
</tr>
<tr>
<td>Percentage of Government-wide accounting reports issued timely (FMS)</td>
<td>100%</td>
<td>100%</td>
<td>348</td>
</tr>
<tr>
<td>Ensure Professionalism, Excellence, Integrity, and Accountability In the Management and Conduct of the Department of the Treasury</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protect the Integrity of the Department of the Treasury</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of audits required by statute completed by the required date (OIG)</td>
<td>100%</td>
<td>100%</td>
<td>350</td>
</tr>
<tr>
<td>Percentage of IRS employees working during the year fiscal year who attend a TIGTA integrity briefing (TIGTA)</td>
<td>33%</td>
<td>43%</td>
<td>355</td>
</tr>
<tr>
<td>Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of all IT systems that are currently certified and accredited to operate (DO)</td>
<td>70%</td>
<td>86%</td>
<td>371</td>
</tr>
<tr>
<td>Complete investigations of EEO complaints within 180 days (DO)</td>
<td>40%</td>
<td>34%</td>
<td>372</td>
</tr>
<tr>
<td>Percent reduction in the injury and illness rate over FY 2003 baseline – Treasury-wide, including DO (DO)</td>
<td>20%</td>
<td>23%</td>
<td>375</td>
</tr>
</tbody>
</table>
Treasury Annual Performance Report Structure

The FY 2004 Treasury Annual Performance Report is structured in a three-tier fashion as shown below:

Focus Area

- **Focus Description** describes the main areas of focus for Treasury.
- **Strategic Goals** lists the strategic goals for each focus area.
- **Summary Data** includes charts for people, funding and performance targets at the Focus level.

Strategic Goal

- **Goal Description** - defines the strategic goal.
- **Strategic Objectives** defines the strategic objectives for each strategic goal.
- **Key Outcomes** lists important benefits or results gained from achieving the strategic objectives.
- **Public Benefit** translates benefits into value statements for the American public.
- **Key Partners** are other government agencies or organizations that work with Treasury to achieve our goals.
- **Select Performance Measures** lists a small set of indicators for measuring the strategic goal.
- **Performance Summary and Resources Invested** includes charts for people, funding and performance targets at the Strategic Goal level.

Strategic Objective

- **Strategic Objective and Key Outcome Overview** defines the strategic objective.
- **Performance Indicators and Resources Invested** includes charts for people, funding and performance targets at the Strategic Objective level.
- **Successes** lists Treasury accomplishments that support the strategic objective.
- **Challenges** identifies unmet performance target and corrective action.
- **Moving Forward** identifies important actions for FY 2005 and beyond that support achieving the strategic objective.

Each focus area is followed by its supporting strategic goals and objectives. The Economic Focus area is presented first, followed by the Financial Focus area, and then by the Management and Operations Focus.
Focus Description

The Secretary of the Treasury plays a critical role in policy making by bringing economic and government financial policy perspective to issues facing the U.S. government. Treasury has both a policy and operational role in promoting prosperous U.S. and world economies, raising standards of living and protecting prosperity through secure and stable economic systems.

Treasury serves as an advisor to the President on measures to promote domestic economic growth and prosperity, and on methods for executing elements of the President’s economic agenda. In the international arena, Treasury is the principal federal agency responsible for developing policies and guidance in areas of international monetary and financial affairs, trade in financial services, foreign direct investment in the U.S., international debt strategy and U.S. participation in international financial institutions. In addition, Treasury is a principal agency for developing policies in the areas of trade in goods and non-financial services and foreign investments abroad.

Strategic Goals

Treasury’s Economic Focus consists of two strategic goals:

E1 Promote Prosperous U.S. and World Economies
E2 Promote Stable U.S. and World Economies

Summary Data

The charts shown include resources (both staff and dollars) by strategic goal and the percentage of targets that were achieved for all performance measures in the Economic Focus area.
E1 Promote Prosperous U.S. and World Economies

Goal Description

The goal to Promote Prosperous U.S. and World Economies contains three important elements:

- Ensure that the United States and world economies perform at full economic potential.
- Allow businesses and individuals to grow and prosper without being limited by unnecessary or obsolete rules and regulations.
- Create conditions necessary for economic prosperity in the U.S and the world.

Strategic Objectives

E1A Stimulate Economic Growth and Job Creation. Treasury supports U.S. economic growth by developing and implementing policies for domestic economic development, tax programs, banking and financial institutions and other fiscal matters. Treasury also pays particular attention to improving the economies of distressed communities.

Treasury serves American interests by promoting prosperity and stability in the international community. Treasury is responsible for the participation of the United States in the international financial institutions (e.g. the World Bank and International Monetary Fund), leads U.S. efforts to liberalize the financial aspects of international trade and investment and offers technical assistance to many nations in need of capacity-building services.

E1B Provide a Flexible Legal and Regulatory Framework. To achieve its full potential, the U.S. financial sector must be guided by a flexible legal and regulatory framework that allows financial institutions to offer a full array of competitive services. The legal and regulatory framework must ensure a safe and sound national financial system and must promote the growth of financial services, fair access to financial services and fair treatment of banking and thrift customers.

E1C Improve and Simplify the Tax Code. Treasury is committed to improving and simplifying tax laws and administrative guidance in a manner consistent with important tax policy goals such as fairness, efficiency and effective enforcement. A fair tax code treats similarly situated taxpayers the same and provides an equitable distribution of the tax burden among taxpayers with different abilities to pay.

Public Benefit

The result of developing and implementing policies for economic development ultimately benefits the American public through the creation of good jobs. Job creation is an essential element in a balanced economic plan that will sustain and increase standards of living and improve the economic performance of our nation.

Promoting global prosperity benefits the U.S. economy because other nations have the ability to become consumers of U.S. goods and services, contributing to economic growth and job creation.

The U.S. benefits from a safe and sound national financial system. American citizens can be confident in placing their money and investments with these institutions, knowing that they have fair access to financial services and that they will be treated fairly. A flexible legal and regulatory framework is a key enabler in achieving this result.

A simple tax system not only improves compliance but also reduces the cost of tax compliance for businesses and individuals, and reduces the costs of tax administration. Additionally, an economically neutral and rational tax system allocates labor and capital to their most productive uses, reduces interference with
economic incentives, and is conducive to economic growth.

Key Outcomes

- Improved current and future U.S. economic performance (aligns with E1A).
- Increased number of emerging markets to ensure greater economic opportunities (aligns with E1A).
- Improved standard of living abroad (aligns with E1A).
- Increased amount of global trade which will promote prosperity and peace (aligns with E1A).
- A safe and sound national financial system that promotes the growth of financial services (aligns with E1B).
- Fair access to financial services (aligns with E1B).
- Fair treatment of banking and thrift customers (aligns with E1B).
- Perform tax enforcement with fairness, efficiency, and effectiveness (aligns with E1C).
- Similarly situated taxpayers are treated the same (aligns with E1C).
- The tax burden is distributed equitably among all taxpayers with different abilities to pay (aligns with E1C).

Select Performance Measures

The measures shown below are a subset of the total measure set for Promoting Prosperous U.S. and World Economies. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

- Number of full-time equivalent jobs created or maintained in underserved communities.
- U.S. Real Gross Domestic Product (GDP) growth rate.
- U.S. unemployment rate.
- Percentage of licensing applications and notices filed electronically.
- Percentage of applications processed within timeframes.

For a full description and results of these measures, see PART IV.

Key Partners in Achieving this Goal

On domestic economic issues Treasury works with the Departments of Agriculture, Commerce, Housing and Urban Development, Interior, Health and Human Services, Transportation, Veterans Affairs, the Small Business Administration, the Social Security Administration, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Securities and Exchange Commission, the Federal Financial Institutions Examination Council, State Tax Agencies, the U.S. Postal Service, the Pension Benefit Guaranty Corporation, the Commodity Futures Trading Commission, the White House, the Congress and various advisory committees.

On global economic issues, Treasury’s key partners include the Department of State, the Federal Reserve System, the Export-Import Bank, the Overseas Private Investment Corporation, the Office of the U.S. Trade Representative, the Organization for Economic Cooperation and Development, the Basel Committee on Banking Supervision, G7 partners, G8 partners, G10 partners, G20 partners, the International Monetary Fund, the World Bank and other multilateral development banks.

Performance Summary and Resources Invested

The charts shown reflect the resources Treasury devotes to the goal of “Promote Prosperous and U.S. and World Economies.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

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1 The complete list of measures supporting this objective can be found in PART IV
A description of each strategic objective and the results achieved for Promoting Prosperous U.S. and World Economies follows.

**E1 Promote Prosperous U.S. and World Economies**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of People</td>
<td>666</td>
<td>707</td>
<td>716</td>
</tr>
</tbody>
</table>

**Funding for this Goal**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Dollars in 000's</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$152,966</td>
<td>$183,460</td>
<td>$173,440</td>
</tr>
</tbody>
</table>

**Performance Target Summary**

- **Total Measures for E1**: 27%
- **Met**: 65%
- **Baseline**: 17%
- **Not Available**: 2%
- **Unmet**: 6%

**Performance Results - E1**

- Met: 40%
- 65%
Stimulate Economic Growth and Job Creation

Strategic Objective and Key Outcome Overview

Domestically, ongoing long-term initiatives include: pressing for tax changes, encouraging efficient savings and investment, designing policies that improve the efficiency and productivity of various sectors of the American economy and continuing to develop forecasting capabilities to project emerging trends and develop policies. Also, provide financing and technical assistance to financial institutions (e.g. community development banks, credit unions, etc.) that finance businesses and commercial real estate development in underserved communities, and tax credit authority to community development entities (CDEs) whose investments help create jobs and stimulate economic growth in low-income and underserved communities.

Internationally, Treasury’s initiatives include negotiating for more open trade and investment, promoting reconstruction and re-engagement in key post-crisis countries (e.g., Afghanistan), encouraging private-sector led growth in developing countries, and promoting responsible policy regarding international debt, finance, and economics.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Stimulate Economic Growth and Job Creation.” These resources include: people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

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2 The complete list of measures supporting this objective can be found in PART IV

Part II - Annual Performance Report

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Successes

Domestic Policy. Treasury developed the Administration’s Opportunity Zones initiative to provide tax benefits to areas hurt by poor economic conditions. To provide assistance to communities that have lost a significant portion of their job base and workforce in the past decade, Opportunity Zones encourage private and public investment in needy communities. In exchange for reducing local barriers to growth and development, these communities receive tax benefits to encourage businesses to locate, invest, and hire new workers. The plan includes incentives to spur development of residential construction. These areas will also receive priority consideration for Federal education, job training, and funding for housing.

Treasury developed and updated revenue proposals, and with OMB, prepared the Receipts and Tax Expenditures chapters for the FY 2005 Budget and released Treasury’s General Explanations of the Administration’s Fiscal Year 2005 Revenue Proposals. These proposals include initiatives to encourage savings, to invest in health care, strengthen education, increase housing opportunities, increase energy production and promote energy conservation. Treasury also prepared baseline forecasts of tax receipts and revenue estimates for the Administration’s tax proposals for the Mid-Session Review of the Federal Budget.

Treasury concluded revisions to a ground-breaking tax treaty with Japan which was approved by the Senate and implemented quickly. The new treaty reduces tax-related barriers to trade and investment between the United States and Japan, including a complete elimination of source-country withholding taxes on royalty income, interest income earned by financial institutions and dividend income paid by subsidiaries in one country to parent companies in the other. By reducing such barriers, the new treaty will foster closer economic ties between the United States and Japan, enhancing the competitiveness of business and creating new opportunities for trade, investment and jobs. In addition, a tax treaty with Sri Lanka, our first treaty with that country, was brought into force and protocols were negotiated amending treaties with the Netherlands and with Barbados to further facilitate cross-border investment and prevent abuse of the tax system. Treasury also negotiated the tax provisions of several new Free Trade Agreements (FTA), including the Australia FTA recently approved by the Congress.

Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 & the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. JGTRRA and EGTRRA unleashed the enormous economic potential of our free-market economy. Both were successful in revitalizing economic growth and turning labor markets around. The improvement of real growth subsequent to the passage of JGTRRA was impressive. Real GDP surged at a 7.4% annual rate in the third quarter of 2003, supported by a burst of personal consumption and business investment. Strength continued into 2004. Jobs began to grow by September of 2003, with 1.9 million employees added to nonfarm payrolls in the subsequent thirteen months. The unemployment rate declined by 0.9% from 6.3% in June 2003 to 5.4% in September 2004.

Treasury played a key role in the implementation of this legislation through policy formulation and analyzing the potential benefits, to the economy. Treasury prepared supporting materials for the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Act of 2003, including state-by-state estimates of the number of taxpayers affected by major provisions and examples of the impact on taxpayers, impacts on various demographic groups and marriage penalties. In addition, Treasury issued administrative guidance regarding this tax relief legislation to assist taxpayers in complying
Health Care. Currently, the U.S. devotes nearly 15% of its total economic output to health care. Since this is an issue of critical importance to the federal budget and the economy as a whole, Treasury is examining the causes of growing health care costs in order to develop and identify policies that could moderate this growth and improve health care quality over the long-term. The provisions of the Trade Act of 2002 chartered Treasury (through the IRS) with establishing and implementing a new health coverage tax credit program. This program provides a refundable tax credit to eligible individuals for the cost of qualified health insurance for both the individuals and qualifying family members.

Social Security. The Administration has highlighted Social Security reform as a priority. Treasury developed a comprehensive set of presentations on criteria and assumptions for use in analyzing Social Security reform proposals. Further analysis will be driven by the priority of the reform.

The Community Development Financial Institutions (CDFI) Fund. In FY 2004, the CDFI Fund continued to work to achieve Economic Growth in Underserved Communities. The CDFI Fund makes awards to CDFIs and allocates tax credits to Community Development Entities (CDEs). There is now a network of approximately 2,000 certified CDFIs and CDEs that are significant components in helping the nation deliver financing capital for stimulating economic growth in underserved communities, starting or expanding businesses, and promoting homeownership and wealth accumulation among low income and minority borrowers.

- In FY 2004, the CDFI Fund awarded $3.5 billion through the New Markets Tax Credit (NMTC) Program. The NMTC Program attracts private sector capital investment into urban and rural low-income areas to help finance community development projects, stimulate economic opportunity and create jobs. The NMTC Program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in CDEs.
- In FY 2004, the CDFI Fund awarded approximately $51.5 million in Financial Assistance and Technical Assistance awards through its CDFI Program. The projected impact of these FY 2004 awards include:
  - 7,500 jobs created or maintained.
  - 5,000 businesses financed.
  - 40,000 affordable housing units financed.
  - 7,500 home purchase mortgages provided.
  - 50 community facilities financed.
  - 45,000 new accounts opened at depository institutions.
  - 95,000 individuals and organizations provided with training or technical assistance, including consumer credit counseling, homebuyer counseling and business technical assistance.
• The CDFI Fund is already beginning to see the positive impact of its Native Initiatives efforts to increase the number and capacity of CDFIs that serve Native American communities. The number of certified CDFIs serving Native American communities increased from six in FY 1999 to 35 by the end of FY 2004.

• For FY 2004, the Fund received 66 applications requesting almost $25 million in awards, $34 million in increased financial assistance to CDFIs and $360 million in increased activities in distressed communities throughout the country. The Fund selected 49 FDIC-insured institutions to receive just over $17 million in awards. Awardees are headquartered in 20 states.

• The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending. Financial services in economically distressed community reinvestment leverages the Fund’s dollars and puts more capital to work in distressed communities throughout the nation.

International Policy. FY 2004 offered the United States a major opportunity to advance its international economic and financial policy agenda, through Chairmanship of the G-7 (U.S., Japan, Germany, France, the U.K., Italy, and Canada) Finance Ministers’ process. Key accomplishments included significant progress under the G-7 Agenda for Growth which focuses on boosting productivity and employment in the G-7 countries, creating an engine for worldwide growth. The U.S. also introduced “supply-side” surveillance into the G-7 process for the first time, a method for emphasizing the actions each country needed to take to enhance its potential for sustained and strong growth.

Afghanistan. Treasury actively engaged in post-conflict economic restructuring by providing assistance with the initiation of a streamlined government budget process, an improvement of the payment system for government salaries and the creation of a Debt Management Unit within the Ministry of Finance.

Bolivia and the Dominican Republic. Treasury helped both countries stay on track with their International Monetary Fund (IMF) macroeconomic stabilization programs, a key element of stability and solvency in these nations. In Bolivia, the resignation of President Sanchez de Lozada in October 2003 led to serious problems for government finances and the banking sector. Treasury secured rapid disbursement of loans from the World Bank and Inter-American Development Bank in December 2003 to pay public salaries and meet critical government obligations, and led the international community to commit $89 million to fill the country’s 2004

- In FY 2004, the CDFI Fund launched a new customer service tool called “myCDFIFund” to facilitate on-line electronic access to two of CDFI’s largest program applications, including the New Markets Tax Credit (NMTC) Program. This tool provides Fund customers with a variety of services from a single internet address to create and submit program electronic applications electronically, access historical data, update organizational information, and communicate with Fund staff. In addition, the CDFI Fund upgraded its electronic mapping system with new and improved mapping features and capabilities to enable applicants to determine the eligibility of census tracts and counties under the Fund’s various program criteria.

The following chart shows the full-time equivalent jobs created or maintained in underserved communities (BEA Budget Activity) from 2003 to 2005.
fiscal gap. In the Dominican Republic, Treasury strongly supported engagement and assistance by the international financial institutions to help the Dominican Republic confront the economic and financial challenges stemming from the consequences of a major banking fraud. Senior Treasury officials also engaged with Dominican Republic leaders at critical moments to facilitate the adoption of needed economic policies to slow inflation, and prevent further depreciation of the peso.

**China.** Treasury engaged China in an intensive economic dialogue, focusing on the need for China to move to a more flexible and market-based currency regime, increase access to its markets, and accelerate the opening of its capital account. Treasury launched a technical cooperation program, under the leadership of Secretary Snow and Chinese Central Bank Governor Zhou, to facilitate China’s capacity to make these changes, and actively assisted China in its financial reform efforts. In February, Treasury led an interagency mission to Beijing to discuss the supervising bank’s foreign exchange risk and developing foreign currency derivatives. In June, a group of Treasury banking advisors went to Beijing to conduct intensive training on banking supervision, corporate governance, accounting standards, credit analysis and resolution of non-performing loans with a large group of state bankers, regulators, and asset management companies.

**Haiti.** Treasury worked swiftly to address the economic consequences of the sudden resignation of President Aristide in February 2004. Treasury helped organize an international donors’ conference for Haiti in July 2004, where international donors committed more than $1 billion to fund reconstruction and development activities through 2006. Treasury also developed the proposal for the simultaneous private sector conference, which highlighted Haitian government reforms intended to make Haiti a more attractive destination for investment and commerce.

Treasury’s Office of Technical Assistance provided program teams that offer valuable assistance in a number of areas.

- Helped to organize a Haitian investigation into the conversion of assets by the prior government.
- Examined the Haitian tax and customs organizations to determine their capacity to benefit from technical assistance.
- Provided budget assistance on discretionary accounts, fraudulent employment claims, and budget shortfalls.

**Iraq.** The Treasury-led effort at the Coalition Provisional Authority (CPA) aided in the development of a central budget, revitalization of the banking system, introduction of sound management practices, transparency at the Central Bank and Ministry of Finance, the creation of a trade bank, and a strengthening of efforts aimed at combating financial crimes and terrorist financing. All of these efforts are crucial for Iraq to achieve some fiscal stability, attract foreign investment that will provide resources for economic growth, and in turn create opportunity and prosperity for Iraqi citizens.

In FY 2004, Treasury facilitated an agreement among Iraq’s official bilateral creditors on the need for substantial debt reduction and advanced the process for reaching a specific debt reduction agreement. Treasury pressed for prompt debt data collection by the Paris Club and the IMF, to facilitate timely debt reconciliation and urged the IMF to produce a thorough Debt Sustainability Analysis to serve as the basis for multilateral negotiations on a debt reduction agreement. At the Sea Island G-8 Summit in June 2004, leaders agreed that debt reduction for Iraq, sufficient to ensure sustainability and taking into account the IMF’s analysis, should be achieved before the end of calendar year 2004.

**Liberia.** Struggling after protracted violence and the resignation of its president, Liberia represents the single most intensive Treasury engagement in Sub-Sahara Africa. With a destroyed domestic economy and enormous debts and arrears, and largely isolated from the international community, Liberia’s transitional government requested U.S. assistance in opening up discussion of
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macroeconomic policy reforms and technical assistance, normalization of relations with international financial institutions, and identification of misappropriated assets.

Treasury named a Liberia Team Leader to coordinate U.S. Government, World Bank, IMF, and other international financial institutions efforts. Treasury staff participated in an interagency mission to Liberia to assess the forestry sector, with the goal of restructuring the industry to achieve revocation of United Nations (U.N.) sanctions on Liberian timber exports.

Treasury also provides technical assistance to the National Transition Government of Liberia. The overarching goal is to improve the government’s ability to generate revenue, to create a transparent and sound government budget, to document existing debt and establish sound strategies for working cooperatively with creditors, and to transform the banking sector into an efficient means of allocating financial resources into productive economic activities.

Middle East Region. Formally launched in September 2003, the Partnership for Financial Excellence aims to provide training, technical assistance and policy advice to help Middle East countries modernize their financial systems. These countries lack strong, well regulated, and efficient financial systems that can allocate resources to productive activities that could provide employment, goods and services for a rapidly-growing population. By developing the financial sector, Treasury is helping to create jobs and a more secure and prosperous Middle East.

Treasury enlisted the cooperation and support of numerous other agencies and institutions to design programs that meet the specific needs of developing financial sectors in the Middle East. During FY 2004, Treasury led the effort to design a training program on banking supervision, and will launch that program in the region in December 2004.

Promoting Private Sector Growth. The US-sponsored Small and Medium Enterprise (SME) Fund, established by Treasury in 2000, leverages European Bank for Reconstruction and Development (EBRD) on-lending funds to provide loans to SMEs through local banking systems in 12 countries in South East Europe and the former Soviet Union. As in the U.S., SMEs in these countries are the primary engines for growth and job creation.

- In FY 2004, the total loan volume more than doubled to reach $1.7 billion, from U.S. cumulative contributions of only $33 million.
- Every dollar of U.S. grant funding leveraged $51 in lending to small/medium enterprises.
- Treasury provided additional technical assistance funds to Tajikistan and Armenia for the first time.

Similarly, in the Western Hemisphere region, the U.S. secured an international agreement to increase credit to small businesses.

- The Inter-American Development Bank (IDB) will triple bank lending to small businesses generated by its programs by 2007.
- Lending is linked to new IDB training programs for the recipient banks on credit analysis and other techniques they need to increase their loan portfolio to small businesses.

These private businesses form a bulwark against political instability, which lessens the need for other kinds of U.S. assistance, and contributes to a countries’ self-reliance and economic sustainability.

Remittances. Remittances are funds earned by immigrant workers in one country and then sent to family or friends in the worker’s country of origin. The transmissions are legitimate monetary transfers, usually by wire services, but often happen in the informal sector where they can obscure other money flows that are illegitimate, like terrorist financing. Getting formal financial institutions, such as banks, to offer remittance services would help move remittance flows into the formal monetary sector, which would assist with the fight against terrorist financing by reducing traffic in the informal sector.

- During FY 2004, Treasury developed and led a global, multifaceted effort to address the economic and institutional barriers to the provision of cost-effective and accessible remittance services by formal financial institutions.
At the June 2004 G-7 Sea Island Summit, each G-7 country committed to launch bilateral partnerships with major remittance recipient economies, work toward enhancing the data on remittance flows, and call for the development of international guidance (or best practices) on the regulation of remittance service providers.

At the Special Summit of the Americas in January 2004, Western Hemisphere leaders committed to work together to halve the average cost of remittance transfers in the region by 2008. In addition to proposing this initiative, Treasury worked with other U.S. Government agencies and the Federal Reserve Bank of Atlanta to identify priority countries to focus the remittances work and to arrange a region-wide conference on cross-border payments systems, with the goal of increasing the speed and reducing the cost of such transfers.

In June 2004, the Asian Pacific Economic Cooperation (APEC) Remittance Services Working Group, led by Treasury, held a successful Remittances Symposium in Tokyo to highlight the challenges and opportunities of shifting the flow of remittances to formal financial channels.

Trade. Free Trade Agreements (FTA’s) between the United States and other nations effectively remove barriers to trade and investment, and directly benefit American workers by providing access to foreign markets for U.S. goods and services. In these negotiations, Treasury has the lead on financial services and foreign exchange debt issues and a lead supporting role on investment issues. By taking on high-level commitments in financial services (a core element of a country’s economic infrastructure), our partners in these FTA’s potentially can attain higher levels of sustained growth in the future, enhancing international stability and increasing U.S. exports even further. This year the U.S. completed negotiation of comprehensive FTA’s with five Central American countries, the Dominican Republic, Morocco, Bahrain, and Australia. The U.S. also began FTA negotiations with three Andean countries, Panama, and Thailand. Treasury also helped draft the text of a new model Bilateral Investment Treaty (BIT) to give U.S. investors (and their shareholders) legal rights in countries that are not ready to negotiate more comprehensive free trade agreements with the U.S.

The Committee on Foreign Investment in the United States (CFIUS), chaired at the staff level by Treasury, examines proposed foreign acquisitions of U.S. companies to protect U.S. national security and economic interests. In FY 2004, CFIUS undertook 45 national security reviews, and initiated one investigation that required a report and recommendation for the President's decision.

Aid. Bilateral economic aid takes two forms: tied or untied. Tied aid requires a recipient government use financing to purchase goods or services from the donor country’s firms (essentially a subsidy to donor country’s firms). International rules constrain the use of tied aid, and the U.S. seeks similar rules for untied aid. The current lack of rules for untied aid means that donors can simply re-label their tied aid as untied aid, and engage in the same practices prohibited by the tied aid rules. Congress recognized this problem and has provided Treasury with an official mandate to undertake international negotiations to discipline untied aid.

These actions create the same competitive pressures on U.S. employers and exporters and the same potential budgetary pressures on U.S. taxpayers as tied aid, endangering the successful use of tied aid rules. Treasury prepared and presented a series of proposals to its international counterparts on how to discipline the use of untied aid. Agreement on the issue will require consensus by all the nations involved, but in FY 2004, Treasury was successful in conveying the importance of the issue to senior Administration officials, who added it to the agenda of the U.S.-hosted G-7 Summit in 2004 in order to give it the highest level of political attention.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective E1A, “Stimulate Economic Growth and Job Creation.”
• Number of homebuyers in underserved markets that obtain purchase money mortgages or other home purchase financing.

• Number of accounts opened at insured depository institutions that are located in underserved communities.

• Level of MDB grant financing and satisfactory results measurements (African Development Bank/AFDF Grants).

• Level of MDB grant financing and satisfactory results measurements (Grants as a % of IDA FY Commitment).

E1A Challenge Summary. The performance targets in this objective were not achieved primarily due to unavailability of data. Some of these measures may be discontinued as better measures are developed that link more clearly to the strategic objective.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Economic Growth & Domestic Policy. Treasury will continue to study, recommend, and support Administration policy initiatives to strengthen the U.S. economy, create more American jobs, and enhance citizens’ economic security. For example, Treasury is actively engaged in work that will improve the U.S. pension system, reduce health care costs and permanently improve the federal income tax system. Treasury will also continue to assess and forecast economic conditions.

Community Development - Community Investment Impact System (CIIS). CIIS is a sophisticated web-based system that allows for the collection of institution and transaction-level data from Community Development Financial Institution (CDFI) and Community Development Entity (CDE) awardees. CIIS was implemented in June 2004 and was being used by 240 Community Development Financial Institutions and 16 Community Development Entities as of the end of the fiscal year. Information provided by CIIS includes information on each loan and investment a CDFI and CDE awardee makes, including the purpose of the loan or investment, borrower or project location, borrower socio-economic characteristics, loan and investment terms, repayment status, and community development impacts. Transaction level data provides the specific location and characteristics of each loan in a CDFI/CDE’s portfolio and will allow the CDFI Fund to measure impact at the census tract level. Transaction level data collected for the first time in FY 2004 compares CDFI/CDEs’ lending behavior and community development impact to that of traditional financial institutions.

Once CIIS is fully operational, information will be available to better enable the Fund to measure the impact of its programs and the extent to which the Funds’ revised goals are achieved. In FY 2005, the Fund will collect baseline data for these new measures. In FY 2006, the Fund will be able to measure its performance against its targets and demonstrate the extent of the Fund’s achievement of its goals. Accordingly, most of the current program performance measures will no longer be used once this information is available.

International Policy. In FY 2005, Treasury will continue work to stimulate economic growth and job creation overseas in both developed and developing countries. We plan to advance bilateral policy discussions to support higher rates of economic growth worldwide, and to encourage private-sector led growth by promoting the formation of public-private partnerships in developing countries. Treasury will also work with the World Bank Group's International Finance Corporation to launch a lending facility (and begin making loans) that support small-medium enterprise development in the Middle East and South Asia.

Treasury will continue encouraging countries with fixed or inflexible currency policies to move toward more flexible systems. We will provide assistance to those countries by working with them to liberalize capital controls, strengthen banking systems, and create institutions and financial products that support flexible exchange rates.
Treasury-International Affairs will continue its emphasis on promoting reconstruction and re-engagement in post-crisis countries with work in Liberia, Haiti, Iraq, and Afghanistan. The Liberia Team plans to continue assisting in the arrears clearance process, and to coordinate with the IMF on technical assistance support. The Western Hemisphere office will continue supporting international engagement and fundraising for Haiti. Treasury will place representatives in Baghdad and Kabul to assist with economic and financial reconstruction efforts. And efforts will continue in Washington to identify and respond to "hot-spots" more rapidly.
E1B Provide a Flexible Legal and Regulatory Framework

Strategic Objective and Key Outcome Overview

To achieve its full potential, the U.S. financial sector must be guided by a flexible legal and regulatory framework that allows financial institutions to offer a full array of competitive services. The legal and regulatory framework must ensure a safe and sound national financial system and must promote the growth of financial services, fair access to financial services and fair treatment of banking and thrift customers.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Provide a Flexible Legal and Regulatory Framework.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

Successes

Through its licensing and regulatory processes, the Office of the Comptroller of the Currency (OCC) supports national banks’ efforts to remain competitive and consistent with safety and soundness. The OCC works to streamline its licensing procedures and keep regulations current, clearly written, and supportive of an effective supervisory process. The OCC’s program of risk-based supervision focuses on banks’ abilities to properly manage and control risks and tailors an individual bank examination to the risk profile and condition of the institution. Federal-chartered banks operate under a set of uniform national standards.
The OCC experienced increases in both its licensing and regulatory work. The OCC completed 30% more corporate applications than anticipated. Both new national charters and the number and complexity of mergers, acquisitions, consolidations and restructuring of banks affected the licensing operations.

- Electronic filing of corporate applications grew at a faster rate than planned for the first full year of e-Corp. The OCC exceeded its targets for quality and timeliness in responding to the increased volume of applications.

- The OCC issued 29% more legal opinions than in FY 2003, while exceeding the target for timely issuances. The OCC’s prompt responses to legal opinions requested by the banks are critical to ensuring they remain competitive and consistent with safe and sound practices.

OTS’s application processing times have stayed within the projected targets as procedures are streamlined and delegated. OTS periodically reviews the outstanding delegation of applications to the regional offices to determine whether additional applications may be delegated.

The Office of Thrift Supervision (OTS) strives to reduce the regulatory burden on thrifts while maintaining effective supervision, improving the application process, limiting assessment rate increases, and reviewing statutes and regulations that may impose regulatory burdens on thrifts. It tailors examinations to the risk profile of the individual institutions, streamlines the examination procedures for small institutions, and conducts melded safety and soundness and compliance examinations. OTS ensures that the application process is responsive and streamlined, enabling the thrift industry to provide competitive financial services.
The OTS budgetary process strives to keep costs to regulatory entities as low as possible while ensuring that OTS has the necessary resources to effectively fulfill its supervisory responsibilities. The assessment rate increases for thrifts have remained below the inflation rate for the past two years. In May 2004, OTS replaced examination fees for savings and loan holding companies (SLHCs) with semi-annual assessments. The new system provides SLHCs with consistency and predictability regarding costs, allowing SLHCs to better plan for assessments related to supervisory work by eliminating annual fluctuation that occurred under the prior system. OTS ceased billing for regularly scheduled SLHC examinations and will phase in the new assessment system over the first year of its implementation.

**Challenges**

All performance targets were achieved for this strategic objective.

**Moving Forward**

In FY 2005, the OCC anticipates 35% of all corporate applications will be filed electronically through e-Corp, OCC's automated application system. The OCC will deploy electronic Part 24 CD-1 Community Development Investment application forms.

The OCC will issue a revised Bank Secrecy Act handbook. The OCC also will continue to work with other federal regulators on Basel II, to include a fourth quantitative impact study and a notice of proposed rulemaking on possible revisions to the agencies’ risk-based capital standards relating to the framework.

The federal financial regulatory agencies began a multi-year effort in FY 2003 to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. The interagency Economic Growth and Regulatory Paperwork Reduction Act project team reviews regulations for unnecessary burden. During FY 2005, OTS will continue working with the Senate Banking Committee and House Financial Services Committee staff to promote the OTS’ regulatory burden reduction initiatives.

Effective October 1, 2004, OTS reduced regulatory burden by modifying the existing “small institution” definition for thrifts under the Community Reinvestment Act (CRA). The new rule increased the “small institution” threshold for savings associations from $250 million to $1 billion and permits thrift institutions qualifying as small savings association to benefit from streamlined CRA examinations as well as reduced data collection and reporting burdens under the CRA. Approximately 190 institutions are affected by the rule change and are no longer required to report CRA data.
Strategic Objective and Key Outcome Overview

Treasury has primary responsibility for efforts to simplify and reform the tax code, to reduce the cost of compliance for businesses and individuals and drive economic growth. Treasury prepares draft tax reform legislation and works to secure its enactment, while developing the fact base (e.g. time and cost to file) that focuses and supports reform initiatives and helps measure the impact of tax code changes. In addition, Treasury works to simplify compliance through the administrative guidance process.

IRS will implement tax code reforms as the Congress passes corresponding legislation. IRS will also reduce the cost of compliance by simplifying tax forms, making electronic reporting seamless, and improving pre-filing guidance.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Improve and Simplifying the Tax Code.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

Successes

Improve Procedures for Taxpayers Seeking to Resolve Their Tax Liabilities. There are two proposals to improve procedures for taxpayers seeking to resolve their tax liabilities. The first proposal would permit the IRS to enter into installment agreements that do not guarantee full payment of a liability over the life of the agreement. This will permit the IRS to work with a broader range of taxpayers who desire to resolve their tax liabilities. The second proposal would make counsel reviews of accepted offers-in-compromise more efficient without diminishing oversight of the offers that are accepted.

The projected 10-year revenue effect of this proposal is $505 million.
Tax Simplification Proposals. The following proposals have been developed or are in development to simplify the tax code.

- **Reduce Burden on Single Parents.** Eliminate the household maintenance test and simply require that the taxpayer lives with their child.

- **Simplify the Earned Income Tax Credit (EITC).** Improve the administration of the EITC with respect to eligibility requirements for undocumented workers.

- **Consolidate and Simplify Higher Education Tax Benefits.** Simplify the choices students and parents face by consolidating the various provisions into two credits: the Hope credit and an expanded Lifetime Learning credit. The new Lifetime Learning credit would cover student interest (up to $2,500) and would apply on a per-student rather than a per-taxpayer basis. The phase out limits for both credits would be raised, and the dollar limits would be indexed. The definitions of “qualified higher education expense” and “qualified higher education institution” would be made uniform throughout the tax code. Other changes would be made to increase uniformity of definitions.

- **Make Computing the Child Tax Credit Easier.** Use the same income and residency tests for the refundable child tax credit and the EITC. It would also provide one computation to determine the credit amount.

- **Simplify the Taxation of Dependents.** Simplify and expand the standard deduction for dependents. It would tax young dependents based on only their income, and not on the income of their parents and siblings.

- **Simplify the Calculation of the Capital Gains Tax.** Eliminate the various special rates for particular assets. Instead, 50% of the gain on these assets would be taxed at ordinary income tax rates and the remainder at the standard capital gains rate. In addition, special treatment for certain newly-issued small business stock would be eliminated.

- **Ease Compliance Burden for Unemployment Insurance.** Allow household employers to annually report and pay a combined federal and state unemployment tax to the federal government. Unemployment insurance benefits for household employees would continue to be paid by the state and reimbursed by the federal government.

- **Make Uniform Various Definitions of a Qualifying Child.** Make the definition of a qualifying child the same for each of the five child-related tax benefits. In addition, the support test would be eliminated. Instead, taxpayers would be required to live with the child for over half the year, a much simpler test to apply. 10-year revenue effect of all simplification provisions: -$5.756 billion.

**Challenges**

The primary measure to assess our performance for this strategic objective is in development.

**Moving Forward**

A new measure will be implemented to report on the performance of this objective, “Average Tax Compliance Cost for Individuals and Small Businesses.” The new measure will give Treasury insight into the efficiency of tax simplification proposals.
E2 Promote Stable U.S. and World Economies

Goal Description

The goal of Promote Stable U.S. and World Economies contains three important elements:

- Promote stability in the world economic and financial systems to prevent financial crises.
- Ensure that the world economic system is used for legitimate purposes.
- Deny access to those who wish to commit financial crimes, such as money laundering and terrorist financing.

Strategic Objectives

E2A Increase Citizens’ Economic Security. Economic security includes: ensuring that Americans have adequate personal savings to support them in tough times or retirement; guaranteeing that private pension plans will meet obligations to their beneficiaries; protecting consumers from fraud and deception; and protecting personal information used in financial transactions. It also includes the long-term strategy for managing the Social Security and Medicare programs. Lastly, it addresses financial education, so that Americans are better prepared to manage their personal finances.

E2B Improve the Stability of the International Financial System. Treasury is committed to improving the stability of the international financial system in order to prevent crises, and to minimize the impact of those that do occur. Financial crises in developing and emerging markets can undo the benefits of years of economic progress, throw millions into poverty, create political instability, and may require expensive international intervention. By continuing to build a more stable international financial system, Treasury will enhance the conditions necessary for growth and improved standards of living through developing and emerging markets.

Key Outcomes

- Americans have adequate personal savings to support them in tough times or retirement (aligns with E2A).
- Consumers are protected from fraud and deception (aligns with E2A).
- Americans are prepared to manage their personal finances (aligns with E2A).
- International financial systems are stable in order to prevent or minimize the impact of financial crises (aligns with E2B).

Public Benefit

By creating conditions in which the American people feel economically secure, they will have the savings and other resources necessary to live as they desire, and are protected from frauds and other financial crimes.

International financial stability enables more predictable growth for the U.S. economy and minimizes costly intervention.

Select Performance Measures

The measures shown are a subset of the total measure set for Promoting Stable U.S. and World Economies. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.
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- U.S. Household Net Worth as percentage of disposable personal income.
- Number of crises in emerging markets as indicated by defaults.
- Number of crises in emerging markets as indicated by currency depreciations.

For a full description and results of these measures, see PART IV.

**Key Partners in Achieving this Goal**

Domestically, Treasury works with, among others, the Federal Reserve System; the Food and Drug Administration; the Bureau of Alcohol, Tobacco, Firearms, and Explosives; the Federal Deposit Insurance Corporation; Customs and Border Protection; the Federal Trade Commission; the U.S. Trade Representative; state agencies; and the banking and thrift industries.

On global economic issues, Treasury’s key partners include the Department of State, the Federal Reserve System, the Export-Import Bank, the Overseas Private Investment Corporation, the office of the U.S. Trade Representative, the Organization for Economic Cooperation and Development, the Basel Committee on Banking Supervision, the Interagency Country Exposure Risk Committee (ICERC), G7, G8, G10, and G20 countries, the International Monetary Fund, and the Multilateral Development Banks.

**Performance Summary and Resources Invested**

The charts shown reflect the resources Treasury devotes to the goal of “Promote Stable U.S. and World Economies.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

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5 The complete list of measures supporting this objective can be found in PART IV

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**E2A Increase Citizens Economic Security**

### Strategic Objective and Key Outcome Overview

To increase the personal savings rate and ensure people make informed financial decisions, Treasury coordinates financial education efforts across the U.S. Government. Treasury also supports pension legislation that properly measures liabilities and aligns funding targets so that all pensions have the resources necessary to support their beneficiaries.

### Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Increase Citizen’s Economic Security.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

#### E2A Performance Target Summary

<table>
<thead>
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<th>Total Measures for E2A</th>
<th>Performance Results - E2A</th>
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<tbody>
<tr>
<td>7</td>
<td>Unmet 3 (43%) Met 4 (57%)</td>
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### Successes

**Financial Education.** Treasury dramatically increased its outreach efforts to improve access for all Americans. As of February 2004, the online Federal Financial Education Directory provided improved access to information on more than thirty personal finance programs and initiatives in English and Spanish. In addition, Treasury promoted financial education through increased outreach at events, speeches, round-tables, teaching sessions, and by recognizing exemplary financial education programs across the country.

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*The complete list of measures supporting this objective can be found in PART IV*
In December 2003, the President signed the Fair and Accurate Credit Transactions Act, which called for the creation of a Financial Literacy and Education Commission (FLEC) comprised of more than 20 federal agencies. Treasury took the lead in rolling out the federal effort to make federal financial literacy resources more accessible, more effective, and more useful to the public.

**U.S. Household Net Worth as Percentage of Disposable Personal Income**

<table>
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<th>Percentage</th>
<th>Target</th>
<th>2004</th>
<th>2005</th>
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<tr>
<td>537%</td>
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<tr>
<td>512%</td>
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<td>514%</td>
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**Personal Financial Information Security.**

Treasury is fighting identity theft and promoting other measures to provide consumers better security of their personal financial information. The Federal Accurate Credit Transaction (FACT) Act, which Treasury was instrumental in developing and helping to implement, will enable consumers to obtain a free copy of their credit report and to implement a national consumer information security alert system. By promoting proposals designed to protect personal information, Treasury hopes to prevent citizens’ personal information from being stolen and misused.

**Alcohol, Tobacco Tax and Trade Application Program.**

Treasury ensured that only eligible persons entered into the businesses regulated by Alcohol, Tobacco Tax and Trade Bureau (TTB). Personal and financial background investigations, as well as inspections of premises to be used for the operations, were also conducted. In FY2004, TTB received 4,188 original permit applications and approved 3,935 for permits. In late 2003, Treasury, through TTB, launched a web-based and entirely paperless system called Certificates of Label Approval (COLA) Online that gives alcohol industry members and third party filers the option to file these applications electronically via the internet. Treasury receives over 100,000 COLAs applications annually (paper and e-filed applications), an increase of 50% over the past five years. The introduction of this technology significantly reduces the paperwork burden on industry, and has made the operation of the bureau more efficient by improving procedures and workflow.

Treasury contributed to the World Wine Trade Group (WWTG) ongoing labeling agreement negotiations to ensure that U.S. consumers have a clear standard for content labeling of wines imported into the U.S. from participating countries. At the same time, Treasury showed its commitment to reducing trade barriers by facilitating the concept of a common wine label for use among WWTG trading partners.

Treasury completed its first phase of the Electronic Appellations Initiative by providing listings of authorized U.S. appellations of origin on the internet. This is the first step in developing an electronic “warehouse” of all U.S. and foreign authorized appellations of origin. This will facilitate the opportunity for foreign governments to review their appellation listings prior to publication.

**Challenges**

Treasury did not achieve its targets on the following performance measures for Strategic Objective E2A, “Increase Citizen's Economic Security.”

- Response to unsafe products and product deficiencies discovered.
- Percentage of Certificates of Label Approval (COLA) applications processed within 9 working days of receipt.
- Percentage of Specially Denatured Alcohol formula submissions completed within 10 days of receipt.
E2A Challenge Summary. The performance targets in this objective were not achieved, but most were just slightly under target. Significant impact on program performance was minimal. Some of these measures may be discontinued as better measures are developed that link more clearly to the strategic objective.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Treasury’s Office of Financial Education will continue in its efforts to help all Americans learn how to save, invest, and to use the many financial products offered by our financial institutions. To accomplish this, Treasury will continue its financial education outreach efforts to cities throughout the United States. Treasury will continuously monitor and update the online Federal Financial Education Directory to ensure that it provides access to information on the most innovative and successful personal finance programs and initiatives in both English and Spanish.

Additionally, Treasury will continue coordinating the federal efforts of more than 20 federal agencies on financial literacy through quarterly meetings of the Financial Literacy and Education Commission (FLEC). Working with the FLEC members and gathering input from outside groups, Treasury will develop an effective national strategy to ensure that federal financial literacy resources are more accessible, effective and useful to the public.

In FY 2005 and beyond, Treasury will measure investment impact by enhancing the CDFI Fund’s research capacity, and implementing market and portfolio analyses to measure the delivery of financial services to underserved communities. Treasury will critique the financial and program performance of CDFIs to improve performance reporting within the CDFI industry through its investment in the Community Investment Impact System.
E2B Improve the Stability of the International Financial System

Strategic Objective and Key Outcome Overview

To improve the stability of the international financial system, Treasury develops and implements the U.S. Government’s emerging markets strategy with the goals of less frequent crises, greater ownership of policy at the local level, increased private capital flows and higher credit ratings. Several important elements of this strategy include developing a framework for analyzing and resolving currency “mismatch” problems (i.e. overvalued or undervalued currencies) with the goal of avoiding sharp exchange rate fluctuations and potentially expensive interventions, and improving Treasury’s measures of emerging market vulnerability in order to better predict and prevent crises.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Improve the Stability of the International Financial System.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

Successes

Partnering with USAID for International Economic Development. The United States supports economic development through various channels. Through the United States Agency for International Development (USAID), the United States provides annual investment of more than $850 million to improve the quality of life and strengthen the economies of Latin American and Caribbean countries. These funds are used to strengthen educational systems, address key health concerns, and improve the climate and capacity for trade and investment with other countries.
U.S.-Mexico Partnership for Prosperity. Treasury played the leading role in facilitating low cost remittance transfers and helping Mexico to promote private sector led growth and develop a secondary mortgage market. Treasury also had a role in promoting physical infrastructure investment, small and medium enterprise development, and corporate citizenship.

Multilateral Development Bank (MDB) Reform. Treasury improved the effectiveness of development aid with other countries by linking financial commitments by the U.S. to the multilateral development banks for the implementation of reforms. These reforms hold institutions accountable for spending resources more effectively, by providing more grants to the poorest countries, supporting countries with good policy performance, and increasing transparency. The MDBs now routinely incorporate results measurement indicators in their loan and grant proposals that measure the impact of resources spent on development. Under U.S. leadership, the most recent funding replenishment of the International Development Association (IDA) included a fundamental shift toward this goal.

Treasury made considerable headway in achieving MDB transparency and accountability goals prescribed under Section 581 of the FY 2004 Foreign Operations Appropriations legislation (Section 1504 of the International Financial Institutions Act). Prominent examples include the following.

• The new Inter-American Development Bank information disclosure policy includes a provision for release of the Board minutes within 60 days of their approval, a first within the MDB system.

• The new African Development Bank policy includes a commitment to make country strategies and operation policies public at least 50 days prior to formal Board discussion.

• The new draft Asian Development Bank policy includes a large number of the transparency provisions of Section 581, including disclosing Board minutes and making public an annual report containing statistical summaries of fraud and corruption cases pursued by the bank’s investigative unit.

• The World Bank started issuing information on results of individual projects during implementation.

Paris Club Debt Management. The Paris Club, an informal group of creditor countries, negotiates collectively with developing countries that are encountering external debt-servicing difficulties. The traditional approach with middle and lower-middle income countries encountering difficulties has been to reschedule payments. In FY 2004, creditors successfully provided debt rescheduling tailored to Kenya’s situation, with an agreement that Kenya would exit from Paris Club treatments.

Sarbanes-Oxley Act. Treasury achieved progress in managing reforms and capital market regulations in the U.S. and Europe, in particular helping resolve tensions over implementation of the Sarbanes-Oxley Act. The Act requires numerous corporate reforms by U.S. firms to address deficiencies identified during recent corporate and accounting scandals, and also affects businesses in other countries. The U.S.-EU Dialogue provided a forum to successfully address the concerns of other nations regarding Sarbanes-Oxley. Other discussions within this forum brought clarity to how U.S. financial institutions will operate, how financial conglomerates will be supervised, and how international accounting standards can be adopted in the EU.

International Monetary Fund (IMF) Reform. Treasury contributed to IMF reform through the successful introduction of collective action clauses in external sovereign bonds contracts. Twenty countries used these clauses, making them the market standard in New York sovereign bond issues. This innovation is a major step towards facilitating orderly resolution of future sovereign debt crises and could help limit negative consequences in debtor economies and in the United States.

Early Warning System for Country Analysis. Treasury refined this tool, created in 2003, for senior government officials to maintain regular vigilance over countries that caused significant international economic disruption in the past (called the “Blue Chip” Vulnerability Index).
This system provides regular updates on economic and financial developments in emerging market countries to assess changes over time. Treasury began work to extend the system analysis to a second tier of emerging market economies, particularly those of strategic importance to the United States. The “Blue Chip” report facilitated the creation of a regular inter-agency

Vulnerabilities Working Group (VWG) chaired by Treasury. The VWG covers a range of countries as well as economic, political, and financial vulnerabilities. This type of knowledge sharing throughout the U.S. government increases the opportunities for quick responses to developing situations.

Challenges

All performance targets were achieved for this strategic objective.

Moving Forward

Treasury achieved success in FY 2004 with respect to Paris Club reform, securing agreement by members of the Paris Club to tailor debt-restructuring approaches to the needs of the debtor nations (the Evian Approach). In FY 2005, work will continue on the practical implementation of this new approach.

Treasury will measure its performance on U.S.-EU financial markets against a goal of maintaining and improving opportunities for U.S. financial institutions to compete in the EU and Japan. To accomplish this, Treasury will seek equivalency determinations by the U.K.'s Financial Services Authority and other European financial supervisory agencies for U.S. financial institutions operating in Europe. More broadly, Treasury will work with the EU to achieve a reinsurance directive that does not discriminate against the U.S., and advocate stronger corporate governance rules in Europe.

To advance IMF reform, Treasury has chosen two focus areas:

- Developing and maintaining a system to track IMF programs, detect potential concerns and intervene early with IMF staff to correct problems before new programs or program reviews are presented to the IMF Board.
• Promoting reforms in IMF operations, by discussing proposed reforms with other IMF member governments (e.g. through the G-7), and working with IMF management and its Executive Board to encourage timely implementation of reforms – particularly a new, non-borrowing vehicle to promote strong economic policies in member countries.

Treasury will also continue to work with the Multilateral Development Banks to improve the effectiveness of development aid. The primary goal in this area is to increase both the dollar amount and percentage of committed funds given to developing countries in the form of grants, rather than loans. The focus on grants is critically important, because it can help stop the vicious circle created by loaning poor countries money that they cannot pay back, and then requiring that they borrow even more money to pay off the loans. To complement the grants initiative, Treasury is focusing even greater attention on measures that are attached to the grants. Since grant money does not have to be paid back, the U.S. has a very strong interest in ensuring that proposed projects have a high probability of success, and that they are monitored regularly.
Focus Description

Treasury is the principal fiscal agent for the Federal Government, managing the Nation’s finances by collecting money due the United States, making payments, managing borrowing, and performing central accounting functions. The Treasury administers the financial system in a way that promotes its use for legitimate purposes, and prevents the system from being used for purposes that support criminal activity. Treasury’s role in executing the Nation’s financial sanctions policies and countering money laundering and other financial crimes, such as terrorist financing, has become increasingly important in recent years.

Strategic Goals

Treasury’s financial focus consists of two Strategic Goals:

F3  Preserve the Integrity of Financial Systems
F4  Manage the Government’s Finances Effectively

Summary Data

The summary charts depicted include resources (both people and dollars) by strategic goal and the percentage of targets that were achieved for all performance measures in the Financial focus area.
F3 Preserve the Integrity of Financial Systems

Goal Description

The goal of Preserving the Integrity of Financial Systems contains three important elements:

- Ensure that the U.S. financial systems will continue to operate without disruption from either natural disasters or man-made attacks.
- Keep the system free and open to legitimate users, while excluding those who wish to use the system for illegal purposes.
- Ensure that the U.S. financial system and access to U.S. goods and services are closed to individuals, groups, and nations that threaten the U.S.’ vital interests.

Strategic Objectives

F3A Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate their Support Networks. Treasury leads the U.S. Government’s multi-faceted effort to keep the world’s financial systems free and open to legitimate users, while excluding those who wish to use the systems for illegal purposes. The broad range of activities in this area includes stopping the flow of money to terrorist groups, drug traffickers, and other criminals, disrupting their support networks.

F3B Execute the Nation’s Financial Sanctions Policies. Treasury is responsible for designing, implementing, and enforcing a variety of economic sanctions on foreign entities. These economic sanctions are based on U.S. foreign policy and national security objectives.

F3C Increase the Reliability of the U.S. Financial System. The Nation’s financial system must remain operational at all times. Treasury is responsible for ensuring the strength and resilience of critical U.S. financial markets, and minimizing the potential effects of wide-scale disruptions. Additionally, recent corporate scandals signal the need for better corporate governance to ensure the reliability of the U.S. financial system. Treasury ensures the integrity of the national currency and the safety of funds placed in financial institutions. Treasury also administers a temporary federal program, established by the Terrorism Risk Insurance Act of 2002 which provides for a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism.

Key Outcomes

- Stop the flow of money to terrorist groups, drug traffickers, and other criminals; and disrupt their support networks (aligns with F3A)
- Deprive target entities that threaten the national security, foreign policy, or economy of the U.S. of the use of their assets and/or deny them benefits of trade with the U.S. (aligns with F3B)
- The nation’s financial system remains operational at all times (aligns with F3C)

Public Benefit

The U.S. must have a financial system that can operate without disruption, remain free and open to legitimate users, and be protected from those who threaten the Nation’s vital interests. Treasury works to ensure that citizens will have access to their money during and after a disaster. Treasury is working with banks, stock brokerages, insurance companies and other financial service providers to strengthen their ability to recover from attack. By continuing to take assertive and bold steps to prevent any potential disruption or misuse of the U.S. financial system, Americans and the world will continue to confidently place their investments in a U.S. financial institution.
The war on terrorist financing is a vital responsibility of Treasury. Terrorists – like any other organized criminals – rely on financial networks to fund and support their activities. Disrupting and dismantling those networks can make it more difficult for terrorists to carry out their deadly activities. Treasury’s work to curb money laundering and terrorist financing will help to limit the financial capabilities of terrorists by:

- Shutting down the pipeline through which terrorists raise and move money.
- Informing third parties, who may be unwittingly financing terrorist activity, of their association with supporters of terrorism.
- Deterring non-designated parties, who might otherwise be willing to finance terrorist activity.
- Forcing terrorists to use potentially more costly, less efficient and/or less reliable means of financing.

**Key Partners in Achieving this Goal**

Treasury’s key partners include the Departments of Justice (DoJ), State (DoS) and Homeland Security (DHS); the National Security Council (NSC); federal law enforcement agencies, including the Federal Bureau of Investigation (FBI), Bureau of Immigration and Customs Enforcement (BICE), and the U.S. Secret Service (USSS); federal financial regulators and supervisors, including the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), the Securities and Exchange Commission (SEC), the Commodities and Futures Trading Commission (CFTC), and the National Credit Union Administration (NCUA); state and local authorities; private sector financial institutions, including banks, credit unions, money service businesses, and securities broker/dealers; foreign jurisdictions and authorities; and international bodies, including the Financial Action Task Force (FATF), the G7, International Monetary Fund (IMF), World Bank, various FATF-Style Regional Bodies (FSRBs), various multi-lateral development banks, the Organization of American States (OAS), the Basel Committee on Banking Supervision, and the Egmont Group of Financial Intelligence Units.

**Select Performance Measures**

The measures shown below are a subset of the total measure set for Preserving the Integrity of Financial Systems. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

- Number of users directly accessing Bank Secrecy Act (BSA) data through FinCEN’s Gateway process.
- Percentage of national banks with composite Capital adequacy, Asset quality, Management, Earnings, Liquidity & Sensitivity to market (CAMELS) rating of 1 or 2.
- Percent of thrifts with composite CAMELS rating of 1 or 2.

For a full description and results of these measures, see PART IV.
Performance Summary and Resources Invested\(^8\)

The charts shown reflect the resources Treasury devotes to the strategic goal of “Preserve the Integrity of Financial Systems.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

![Chart showing employees and funding for FY 2003 Actual, FY 2004 Actual, and FY 2005 Pres. Budget for F3 Preserve the Integrity of Financial Systems.]

A description of each strategic objective and the results achieved for Preserving the Integrity of Financial Systems follows.

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\(^8\) The complete list of measures supporting this objective can be found in PART IV

Part II - Annual Performance Report

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Strategic Objective and Key Outcome Overview

A key element in the global war on terror is finding and eliminating sources of funding for terrorists and other criminals. On the terrorism front, Treasury supports the U.S. anti-terrorist financing strategy and blocks terrorist financing networks by identifying donors, facilitators and fundraisers for terrorists and cutting the money off at its source. To achieve these goals, Treasury implements a coordinated, global attack on terrorist financing by engaging international partners and ensuring worldwide compliance on counter-terrorism financing standards. Treasury also leads interagency teams overseas working with foreign central banks, finance ministries, and regulators to tighten their laws and regulatory oversight of terrorist fundraising groups.

In addition to focusing on terrorist financing, Treasury also combats money laundering by narcotics traffickers, perpetrators of organized crime, corrupt foreign officials, and other criminals. In FY 2004, Treasury expanded the reach of anti-money laundering obligations under the Bank Secrecy Act (BSA) and the USA PATRIOT Act, ensuring compliance with those laws and regulations that enable the U.S. Government to deprive criminals of major sources of funding.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective “Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals and Isolate their Support Networks.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

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9 The complete list of measures supporting this objective can be found in PART IV
Successes

Creation of the Office of Terrorism and Financial Intelligence (TFI). In March 2004, Secretary Snow announced the creation of TFI to lead Treasury’s efforts to cut the lines of financial support to international terrorists. Treasury’s Executive Office of Terrorist Financing and Financial Crimes (EOTFFC), the Financial Crimes Enforcement Network (FinCEN), Office of Foreign Assets Control (OFAC) and other internal resources were brought under the leadership of TFI. A key leadership position authorized by the Intelligence Authorization Act of 2003, the Under Secretary for Enforcement, was filled. This strengthens Treasury’s policy-making and oversight of anti-terrorist efforts. Better integration of the management structure will allow for a strategic, consolidated and comprehensive approach to implementing Treasury’s authorities against terrorists.

Through TFI, Treasury focuses on the financial war on terror, the protection of financial systems integrity, the enforcement of economic sanctions against rogue nations, and the ongoing hunt for Iraqi assets. Four goals have been set using the new management structure to combat terrorist financing.

- **Targeted Intelligence Analysis.** Combined use of intelligence and financial data is the best way to detect how terrorists are exploiting the financial system and to design methods to stop them. Better coordination of Treasury’s intelligence functions and capabilities will enhance analytical capabilities, and the use of additional expertise and technology.

- **Aggressive Enforcement.** The USA PATRIOT Act passed in 2001 gave Treasury important new tools to detect and prevent the abuse of the financial system by terrorists and other criminals. TFI coordinates Treasury’s aggressive effort to enforce these regulations.

- **Unprecedented International Coordination.** The unified structure promotes international engagement and allows Treasury to intensify outreach to counterparts in other countries.

- **Accountability.** A unified office is the best way to ensure accountability and achieve results for this essential mission.

Disrupting and Dismantling Terrorist Financing. Within Treasury, TFI leads the effort to locate, disrupt and dismantle terrorist financing networks.

**Iraq.** In FY 2004, Treasury played a key role in the confiscation of assets from the former Iraqi regime and their return to the Iraqi people. The President signed executive orders drafted by Treasury’s Office of the General Counsel (OGC) which the Secretary implemented to confiscate over $2 billion in Iraqi assets. Beginning in March 2003, $1.7 billion in vested Iraqi assets were transferred to the U.S. Treasury Special Purposes Account at the Federal Reserve Bank of New York. Over a period of seven months, assets were withdrawn as U.S. currency and shipped to Iraq. An additional $192 million of vested Iraqi assets were also transferred to the Development Fund for Iraq. These transactions involved many complex legal, financial, accounting, procedural and logistical issues. Treasury worked with the Department of Defense’s Defense Finance and Accounting Service (DFAS) and the Office of Management and Budget to resolve these issues, including how to budget, account for, and safeguard the cash. This program was implemented and executed with no instances of fraud or theft.

**Saudi Arabia.** In FY 2004, Treasury engaged the government of the Kingdom of Saudi Arabia to prevent the use of Islamic charities as fronts for money laundering and terrorist financing. Saudi Arabia responded positively to long-standing U.S. requests to curtail financial flows going to terrorists from their charitable institutions by replacing all existing international charities based in Saudi Arabia with a single, government run vehicle for Saudi citizens to make charitable donations abroad. Another result is the shut down of Al Haramain, and several other criminal charities complicit in money laundering and terrorist financing activities.

**Other International Partnerships.** Increasing the number of partners in the global war on terrorist financing is a key priority to extend the reach of anti-terror efforts. Through the Financial...
Crimes Enforcement Network (FinCEN), Treasury continues to support international partnership efforts to achieve greater sharing of financial information globally to fight money laundering, terrorist financing and other financial crimes. Treasury offers a wide array of technical assistance to foreign governments and existing or developing Financial Intelligence Units (FIUs) through a global organization known as the Egmont Group. Treasury also assists the FIUs with establishing or expanding their anti-money laundering and terrorist financing regulatory programs. In FY 2004, Treasury provided regulatory and technical assistance to over two-dozen countries and conducted training seminars for the Asia/Middle East and African regions. Treasury upgraded its content on the Egmont secure web site and connected with FIUs in 90% of member countries.

Significant achievements in ongoing bilateral outreach with key foreign governments:

- Developed a joint U.S.-Russia report and strategy on counter-terrorist financing.
- Identified the flows of terrorist financing funds.
- Worked to strengthen the position of foreign governments to fight corruption and assist in identifying assets that could be recovered from former corrupt regimes.
- 94 countries and jurisdictions now have FIUs that are members of the Egmont group, an increase of 36 countries since September 11, 2001. Over the past three years, terrorist financing laws have been strengthened or new ones implemented in over 100 countries.
- Treasury targets kleptocracy in the international financial markets - the financial networks responsible for stealing national funds that could be used by terrorists. Specific targets are those in Cuba, Haiti, and Liberia.

In FY 2004, the Internal Revenue Service (IRS) Criminal Investigation Division (CI) continued to actively support the national effort to combat terrorism by participating in two investigative taskforces, the Federal Bureau of Investigation’s (FBI) Joint Terrorism Task Forces (JTTFs), and the Department of Justice’s U.S. Attorney’s Office of Anti-Terrorism Task Forces (ATTFs). CI’s counterterrorism program is vitally important for national security. CI’s Garden City Lead Development Center is dedicated to researching terrorist financing particularly the use of charitable tax-exempt organizations to fund terrorist activities. The Garden City Project uses distinctive analytical capabilities to conduct link analysis, data matching, and proactive data modeling designed to manage counterterrorism financial data in a way that leverages CI’s expertise and enhances communication with its partners. CI also conducts investigations of domestic extremists that espouse anti-government, anti-compliance philosophies or file fictitious financial instruments.

Cracking Down on Drug Financing and Money Laundering: Efforts to eliminate money laundering operations and other sources of criminal funding are closely tied to those designed to eradicate terrorist and other criminal activities. CI works with the Drug Enforcement Administration (DEA) on the money laundering component of significant drug investigations, the Federal Bureau of Investigation (FBI) on terrorist financing cases, and investigates offshore tax shelters and other tax-related matters. CI’s financial forensic expertise is critical to U.S. law enforcement in its attack on sources and schemes of terrorist financing. CI also plays a key role in detecting, disrupting and dismantling terrorist financing operations at home and abroad. The IRS exceeded its year-end plan for completed, narcotics-related criminal investigations by 27.5%. CI also stepped up its efforts to identify, investigate and punish tax cheats, and tax shelter promoters and users. Efforts to stop abusive tax schemes were also increased through the use of civil injunctions and criminal investigations.
Following September 11, 2001, Treasury on behalf of the U.S., has advocated that the International Monetary Fund and the World Bank include as a regular part of their financial sector oversight and surveillance responsibility, integrated and comprehensive assessments of country anti-money laundering and counter-terrorism financing regimes. The Financial Action Task Force (FATF) on Money Laundering’s 40 Recommendations and eight Special Recommendations are now the global standard for the regular and ongoing review of the legislative and institutional capacities of all 184 International Financial Institution members in the areas of anti-money laundering and counter-terrorism financing. This institutionalizes the international fight against terrorist financing and money laundering, broadens the global effort, and helps countries identify and address priority shortfalls in their anti-money laundering and counter-terrorist financing regimes.

**Narco-traffickers.** Upon the inception of the Foreign Narcotics Kingpin Designation Act in 2001, Treasury has worked with other federal agencies and named 14 foreign businesses and 37 foreign individuals in Mexico, Colombia, and the Caribbean as derivative (“Tier II”) designations. Designation of these kingpins allows Treasury to attack their financial infrastructures. A total of 104 organizations, individuals and businesses in 12 countries are now designated. On February 19, 2004, Treasury designated 40 key individuals and companies associated with prominent Colombian narco-terrorist organizations.

The identification and attack of the financial infrastructure of major drug trafficking organizations often involves long-term efforts. However, when properly implemented, these efforts can be devastating to criminal organizations. FY 2004 successes include:

- Treasury designation of 23 businesses and 118 individuals associated with the notorious Cali Colombia drug cartel leaders Miguel and Gilberto Rodriguez Orejuela. These names were also added to the Specially Designated Narcotics Traffickers (SDNTs) list, subjecting them to economic sanctions imposed against Colombian drug cartels.

- Colombian authorities, including more than 450 prosecutors and 3,200 police officers seized and forfeited assets from the entire nationwide chain, comprised of 432 businesses in 96 municipalities and 22 departments. Estimates of the value are 550 billion pesos, or about $220 million.

- This Specially Designated Narcotics Traffickers (SDNT) follow-up three SDNT actions in FY 2003 targeting several complex financial networks of the same two notorious drug cartel leaders in Colombia, Latin America, and Spain.

**Asset Forfeiture.** Another key component within Treasury’s TFI is the Executive Office for Asset Forfeiture (TEOAF), which manages the Treasury Asset Forfeiture Fund to partly fund the war against both terrorist and criminal financing. In FY 2004, this special revolving fund received more than $300 million in forfeiture revenue from the combined efforts of the former Bureau of Alcohol, Tobacco and Firearms, the U.S. Secret Service, the Internal Revenue Service, and the Bureau of Immigration and Customs Enforcement. This is in addition to a combined total of nearly $35 million from the Super Surplus and Secretary’s Enforcement Fund available for other Federal law enforcement needs. This represents a significant increase over FY 2003, in which TEOAF received over $247 million dollars of forfeiture revenue. This increase was realized despite the transfer of two of these bureaus to the Department of Homeland Security and one to the Department of Justice during FY 2003.
Included in the 2004 sum was over $65 million for equitable sharing to state and local law enforcement agencies, other federal agencies and foreign governments that contributed to forfeitures made by these bureaus. The funds must be used, with only limited exceptions, in the respective communities for law enforcement purposes. This arrangement encourages the participation of state and local law enforcement in federal investigations, which return significant financial resources on a yearly basis to many state and local communities.

**Improving Financial Transparency.** The U.S. is leading the global effort to increase financial transparency. Rules that guarantee a certain level of transparency are absolutely required if the U.S. is to be effective at tracking terrorist financing. The USA PATRIOT Act, Section 311 allows the government to protect financial systems from illicit funds emanating from jurisdictions that do not have such rules. With this authority Treasury’s TFI can prevent jurisdictions and foreign financial institutions found to be of "primary money laundering concern" from doing business with the U.S.

In May 2004, Treasury designated the Commercial Bank of Syria (CBS) a primary money laundering concern, based on practices relating to financial transparency, and problems observed with that institution, including terrorist financing. Treasury issued a proposed rule that, when issued in final form, will oblige U.S. financial institutions to sever all correspondent relations with the CBS. The CBS will either take effective steps to address these concerns, or be cut off from the U.S. financial system. These type of actions help cause jurisdictions and institutions to adopt real reforms that include an acceptable degree of financial transparency, and help protect the integrity of U.S. and other financial systems.

**Promoting Regulatory Innovation.** In FY 2004 the Financial Crimes Enforcement Network (FinCEN) continued to develop and implement regulations aimed at deterring money laundering and terrorist financing. Under the authority of the USA PATRIOT Act, FinCEN issued regulations requiring Suspicious Activity Reports (SARs) from futures commission merchants and commodity introducing brokers. FinCEN also issued eight rulings to clarify definitions for types of money service businesses, money transmitters, and responded to questions regarding other reporting requirements. In addition, FinCEN imposed special measures against one jurisdiction and two financial institutions and proposed special measures against an additional three financial institutions that were designated as being of “primary money laundering concerns.” FinCEN also significantly expanded its interaction with industries that are newly covered by Bank Secrecy Act (BSA) regulations, and to more established industries already covered by BSA to improve overall quality of the data reported.

Treasury, worked with seven other federal agencies to issue the final rules for Section 326 of the USA PATRIOT Act. This will permit financial institutions to accept identification documents appropriate for their communities and customer base, as part of a positive effort to bring more people into the mainstream and out of the “underground” financial sector. The rule adopted by Treasury and all federal banking regulators requires financial institutions to develop effective methods for verifying the identity of their customers.

**Using Technology to Improve Enforcement.** In FY 2004, Treasury’s FinCEN made significant progress on a long-term goal to upgrade the collection and retrieval processes by awarding a contract to build the Bank Secrecy Act (BSA) Direct. This system, scheduled to be operational by October 2005, will dramatically improve law enforcement and regulatory agency access and retrieval capabilities of BSA data. FinCEN also continued to implement electronic filing of this data and electronic reporting reached a goal of 20% in August and September. Under the new authority of Section 314(a) of the USA PATRIOT ACT, FinCEN processed approximately 200 information-sharing requests with over 1,400 subjects to approximately 30,000 financial institutions. This program is critical to law enforcement; as in every instance, information sharing has resulted in one or more new investigative leads for law enforcement. In addition, over 2,500 financial institutions have indicated that they are willing to share information with other financial institutions.
In FY 2004, access by federal, state, and local enforcement agencies to Bank Secrecy Act (BSA) data through FinCEN’s Gateway and Platform programs increased about 30% over FY 2003. FinCEN experienced a significant shift in the number of cases received for basic BSA and other data checks, which directly correlated to increases in the use of the Gateway and Platform programs. Analysts completed nearly 800 complex cases with over 50% related to money laundering, narcotics, and terrorism. FinCEN produced over 250 proactive case referrals to law enforcement based upon analysis of information in these databases. FinCEN produced nearly 60 strategic analysis products to include four Suspicious Activity Report Reviews, two industry suspicious activity reporting guides, three advisories, seven threat assessments, fourteen country/region or industry analysis reports using the suspicious activity reports, and other statistical analysis. FinCEN also initiated an Analyst Exchange Program with the Financial Intelligence Units (FIU)s to support ongoing terrorism related investigations.

### Challenges

Treasury did not achieve its targets in the following performance measures for Strategic Objective F3A, “Disrupt and Dismantle Financial Infrastructure of Terrorists, Drug Traffickers, and Other Criminals, and Isolate Their Support Networks.”

- Number of vulnerable industries covered by anti-money laundering regulations
- Number of subjects in completed investigative analytical reports
- Percentage of FinCEN’s customers rating its strategic analytical products as valuable
- Number of strategic analytic products

**F3A Challenge Summary.** The performance targets in this objective were not achieved primarily due to falling short on quality and customer satisfaction metrics. These metrics are important outcome measures at the bureau level, and corrective actions have been planned to generate the needed improvements.

A full explanation of these measures and their results may be found in PART IV.

### Moving Forward

To effectively realize Treasury’s goals, unique responsibilities and analytic capabilities in the terrorism context as well as money laundering and financial crime areas, a selection of FY 2005 highlights are provided.

- In its efforts to cover, as appropriate, all vulnerable industries, Treasury will continue its outreach to industries covered by anti-money laundering requirements, proposed to be approximately 15 industries by the close of FY 2005.
- Treasury will continue efforts to enhance Suspicious Activity Reports (SAR) data quality by providing targeted outreach to financial institutions as systemic filing errors are identified.
- Treasury will also establish a compliance oversight function to support and evaluate the effectiveness of the examination process of regulatory partners.
• To ensure effective and uniform enforcement of anti-money laundering regulations, Treasury will begin analysis of the Bank Secrecy Act (BSA) data for filing anomalies and refer anomalies to the regulators to be used to enhance regulators’ compliance examinations.

• Treasury will increase the percentage of electronic BSA filings from 20% to 35-40% by the end of the fiscal year.

• Treasury will complete BSA Direct by October 2005, providing users with enhanced data access, specifically, the ability to analyze the BSA data to support their investigative efforts. In conjunction with this enhanced capability, customers will be encouraged to continue to use the Gateway process to perform their own investigative research. This will allow Treasury to redirect its resources to provide more in-depth and comprehensive research products, including additional proactive terrorism investigative targets and strategic analysis efforts.

• Globally, Treasury will continue to provide regulatory advice and play a key leadership role in the international network of Financial Intelligence Units (FIUs), known as the Egmont Group. This support includes expanding and systematizing the exchange of financial intelligence information, improving the expertise and capabilities of personnel employed by such organizations to globally fight money laundering and terrorist financing.

• In FY 2005, FinCEN will continue to increase Gateway access for Bank Secrecy Act data for law enforcement agencies across the country.

• In FY 2005, Treasury will continue to aggressively pursue financial transparency in accordance with the Patriot Act to prevent institutions that are primary money-laundering concerns from doing business with the U.S.

• Treasury will continue working with other agencies across the federal government in its efforts to shut down fraudulent, charitable tax-exempt organizations that are fronts for terrorist financing.

• Treasury will continue to aggressively pursue asset seizures for money launderers, drug traffickers and sources of terrorist financing.
Strategic Objective and Key Outcome Overview

Treasury develops and implements the U.S. Government’s financial sanctions policies. They identify, trace, and freeze sanctioned assets; support prosecutions related to financial sanctions policies; and impose fines for violations of sanctions policies. Treasury also works with international partners to coordinate global enforcement of sanctions policies. The design of economic sanctions also involves International Affairs and the Office of General Counsel.

Performance Indicators and Resources Invested¹⁰

The charts shown reflect the resources Treasury devotes to the strategic objective “Execute the Nation’s Financial Sanctions Policies.” These resources include staffing (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

Successes

The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those who engage in activities related to the proliferation of weapons of mass destruction. Cuba is a major focus of Treasury’s sanctions program, and FY 2004 was an active year for Cuba policy.

¹⁰The complete list of measures supporting this objective can be found in PART IV
Following President Bush’s October 2003 call for enhanced enforcement of the Cuba trade and travel embargo in order to hasten the arrival of a new, free and democratic Cuba, Treasury increased inspections of travelers and shipments to and from Cuba, initiated significant new civil and criminal investigations of violations, imposed additional penalties such as fines and license suspensions, increased training programs and private sector outreach, and designated 12 companies controlled by the Cuban government as Specially Designated Nationals (SDNs) of Cuba.

Treasury has issued new Cuban Assets Control Regulations (CACR) that have further restricted travel to Cuba and the amount of funds that travelers may take to Cuba or spend while in Cuba, as well as imposed additional restrictions related to remittances to Cuba and goods that may be brought back.

Treasury has also established and chairs an interagency working group that is actively working to target mechanisms and entities used to violate the CACR.

Through these actions, Treasury continues to restrict the Cuban government’s access to capital, seeking to deny it the ability to further enrich itself and perpetuate its totalitarian regime at the expense of the Cuban people.

Key Nodes Approach and the Combatant Commands Relationship. Treasury, in coordination with the Department of Defense (DOD), has been developing the “Key Nodes” approach to identifying and targeting terrorists, terrorist organizations and their support networks. The Key Nodes approach is designed to significantly impair and deprive entire terrorist networks of their support by systematically identifying the networks and simultaneously acting against as many nodes within the network as possible. By simultaneously removing key support nodes – financial, material, logistical and operational – it may be possible to cripple the entire network.

Iraq Insurgency Executive Order. The Iraq insurgency, which threatens both combatants and noncombatants alike, is comprised of several different elements: former regime supporters, local militia, as well as terrorist groups, which often operate independently of each other in order to achieve similar but separate goals. However, existing authorities that were established to disrupt terrorist financing were not broad enough to allow the U.S. the flexibility to implement financial sanctions against all of these elements. To address this issue, Treasury has been working with other key partners in the U.S. government to develop a new executive order.

Operation Balkans Vice 1 – 4. Treasury continues to work closely with the U.N. Stabilization Force, the Office of High Representative (OHR) and U.S. Embassy Sarajevo, Bosnia-Herzegovina (BiH), to designate individuals and entities pursuant to Executive Order 13219, aimed at those obstructing implementation of the Dayton Peace Accords in Bosnia. Action focuses on those providing continuing material and financial support to Radovan Karadzic, a Person Indicted for War Crimes. In anticipation of the designations, the OHR developed their own parallel Treasury-style authority, with the assistance of Treasury’s Foreign Terrorist Division, to block the assets held in BiH and prohibit their citizenry from having dealings with listed individuals. To date, there have been four successful actions.

Specially Designated Narcotics Traffickers. Treasury’s International Program Division continues to develop targets for investigation under both the Specially Designated Narcotics Trafficker (SDNT) and Kingpin Act programs. In FY 2004, two major SDNT actions resulted in the designation of 62 drug cartel businesses and 213 individuals for a total of 275 designations. Several other investigations are completed and nearing designation and others are in various stages of completion. These investigations include targets in Colombia, Mexico, the Caribbean, Asia and the Middle East.

Kingpin Act Totals. The Kingpin Act has used economic sanctions as a tool against foreign narcotics traffickers since 1995. Actions in the past 15 months have raised the total number of persons designated under the Kingpin Act to 127.
Of that 127 total, 48 are “Tier I” drug Kingpins, 21 are companies, and 58 are other individuals. They are located in 12 countries.

**Iran Action Plan.** Treasury has targeted violators of the Iran sanctions against nuclear proliferation and instituted penalty enforcement action in more than 100 cases. The violators include financial institutions, brokerages, insurance companies and U.S. corporations.

**Cuba Major Case Squad.** Treasury has targeted companies, banks, and other entities engaging in illegal transactions with Cuba. More than a million dollars in civil monetary penalties have been collected in FY 2004 from these violators.

**Termination of Libya Sanctions.** On September 20, 2004, termination of the Libya sanctions program unblocked over $1.2 billion frozen under the Libyan Sanctions Regulations.

**Challenges**

All performance targets were achieved for this objective.

**Moving Forward**

The new office of Terrorism and Financial Intelligence (TFI) combines key Treasury offices to leverage Treasury’s contribution to the war against terrorism.

Treasury will continue to work with its U.S. Government partners, especially the Department of Defense to significantly impair and deprive entire terrorist networks of financial, material, logistical, and operational support.

Treasury will continue to execute the nation’s financial sanctions programs and will respond to new Presidential or Congressional mandates.

Treasury, working with the Department of Defense, will continue to invest resources in the Key Nodes approach in FY 2005 to significantly impair and deprive entire terrorist networks of financial, material, logistical, and operational support.
F3C Increase the Reliability of the U.S. Financial System

Strategic Objective and Key Outcome Overview

Treasury develops and implements critical infrastructure protection policies that strengthen both the U.S. financial system and the fiscal systems of Treasury. Through its broad authorities and expertise, Treasury is charged daily with preserving the integrity of the financial system through the following:

- Charting the counter-terrorist financing campaign.
- Setting and implementing anti-money laundering and counter-terrorist financing policies, regulations, and standards at home and abroad.
- Gathering and sharing financial information with law enforcement and foreign counterparts regarding financial crime.
- Implementing the nation’s economic sanctions.
- Enforcing relevant regulations and laws related to these missions.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Increase the Reliability of the U.S. Financial System.” These resources include staffing (Full-Time Equivalent (FTE) employees and funding for three fiscal years.

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11 The complete list of measures supporting this objective can be found in PART IV

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Successes

Treasury worked to improve information sharing between the public and private sectors. Treasury invested $2 million to create the Next Generation Financial Services Information Sharing and Analysis (FS-ISAC), which is charged with disseminating trustworthy and timely information to increase sector-wide knowledge about physical and cyber security operating risks faced by the Financial Services Sector.

Treasury, working in close cooperation with the Department of Homeland Security, other federal and state agencies, and the private sector, has greatly improved the security and resiliency of the U.S. financial system in many ways.

- Arranging for critical financial institutions to have access to priority telecommunication services to help their voice and data communications transmit successfully during times of crisis.

- Assisting in the coordination of protective responses by state and local authorities with critical financial institutions.

- Establishing systems and procedures that enable federal financial regulators to communicate among themselves and with the private sector during times of crisis as well as mitigating risks to the financial infrastructure.

- Promoting industry measures that maintain crucial financial communications among private sector participants.

Treasury’s efforts were tested on August 14, 2003, when electrical power was lost across much of the Northeastern region of the United States. Recognizing the potential impact to the financial services sector, the Office of Critical Infrastructure Protection and Compliance Policy (OCIP) quickly activated the emergency communications protocols. As a result of the coordinated efforts of the private and public sectors, the American public did not panic and the impacted financial institutions were able to resume normal business.

Ensuring Private/Public Sector Coordination in Case of Attack or Other Disruption.

Treasury undertook a variety of actions to strengthen the ability of financial institutions and other financial services providers to reduce vulnerability to terrorist attack and quickly recover from effects of any such attack. Treasury led nationwide efforts to identify and mitigate vulnerabilities in our financial infrastructure. Treasury established procedures to improve communication during times of crisis among the institutions and their regulators. Treasury also provided key federal and state financial regulators with secure telecommunications equipment for use in a crisis, and we are adding capacity for encrypted e-mail. Treasury tests these systems and procedures regularly and looks for opportunities to improve them.

By protecting the infrastructure and ensuring private/public sector coordination in case of attack or other disruption, Treasury helps ensure that citizens will have access to their money and to other financial services during and/or following a disaster.

Due to the continued, cooperative efforts of the private and government sectors to protect our financial institutions and systems, Americans and the world can continue to place their investments in a U.S. financial institution with confidence.

Ensuring the Reliability of the Housing Government Sponsored Enterprises (GSE).

Fannie Mae and Freddie Mac are publicly traded corporations which were originally created by Congress to provide liquidity in the secondary mortgage market. The Federal Home Loan Banks are twelve geographically diverse institutions which were also created to help provide funding for the mortgage market. The Federal Home Loan Banks are cooperatives, owned by member institutions. Treasury helped to develop the policy to ensure the financial integrity of these Government Sponsored Enterprises (GSE), including promoting reform legislation and preventing enactment of insufficient legislation to ensure the continued prudent operation of the $2.3 trillion housing GSE system. Additionally, Treasury was instrumental in obtaining commitments from the housing GSE to voluntarily register a class of their securities with
the SEC, thereby providing enhanced disclosure to the American public. Ensuring that the housing GSE are safe and sound will help to increase home ownership.

**United States Currency.** In the spring of 2004, the United States Mint introduced the first new nickel design in 66 years to commemorate the Lewis and Clark expedition and the Louisiana Purchase. The United States Mint is continuing its ten year 50 State Commemorative Quarter program, issuing new designs every ten weeks to honor each state.

Another new initiative for the United States Mint is their partnership with the National Endowment for the Arts (NEA). The partnership has created a pool of 24 accomplished artists and art students who will be invited to submit designs for selected projects, and continue the United States Mint’s efforts to invigorate the artistry of coin design in America.

The United States Mint is transforming its operations to world-class status through lean manufacturing and improved strategies to increase efficiency and cut costs. As of October 2001, the United States Mint has reduced the time it takes to get a product to the market by 370 days. The inventory turnover rate has increased from 1.96 turns per year in FY 2003 to 2.48 turns per year in FY 2004. The cost to manufacture per 1,000 coin equivalents produced (coin equivalents are a measure of the total production volume) decreased by 20% in FY 2004 compared with FY 2003.

The United States Mint has also achieved excellence in its customer satisfaction rating. The American Customer Satisfaction Index (ACSI) score of 87 in 2003 was the highest of any government agency and second highest of all entities evaluated, both public and private. This high score reflects world-class customer service and high product quality.

For the first time in almost a century, the Bureau of Engraving and Printing (BEP) is producing currency that features colors other than green and black with the introduction of subtle background colors. The new “Color of Money” began circulating with the redesigned $20 in the fall of 2003 and continued with the redesigned $50 in the fall of 2004. This achievement was the culmination of efforts led by Treasury’s Advanced Counterfeit Deterrence Steering Committee, the Federal Reserve, the United States Secret Service (USSS), and BEP. The new designs for the $20 note and $50 note reflect a coordinated strategy built around a state-of-the-art design that allows the new bill to be safer, smarter and more secure. The new currency is safer because it is harder to copy and easier to authenticate; smarter to stay ahead of tech-savvy counterfeiters; and more secure to protect the integrity of U.S. currency.

BEP is the world’s largest producer of paper currency. BEP produced and delivered 8.7 billion Federal Reserve notes on time and significantly below budget while successfully converting both the $20 and $50 note to a new design featuring subtle background colors. BEP strives to be a world-class securities printer by consistently providing a high-quality security product on which the public can rely and that contributes to public
confidence and preserves the integrity of U.S. currency. BEP measures its overall efficiency and effectiveness using program performance measures similar to those used by private sector manufacturers. Direct manufacturing costs are closely tracked and quality controls are monitored throughout the manufacturing process to ensure operational efficiency and effectiveness.

For the second straight year, BEP has pursued and achieved important operational performance measures. Actual cost performance against target depends on the BEP’s ability to meet annual spoilage, productivity and capacity utilization goals. Performance in all areas was favorable compared to targets established for FY 2004. This enabled BEP to realize significant cost savings which it passed along to its customer, the Federal Reserve, by reducing the average billing rate for currency by 6% in FY 2004 following a 10% reduction in the previous year. This was primarily due to lower than expected spoilage on all denominations and improved manufacturing performance overall. Also adding to the reduction was a significant decrease in lost time due to injuries and cost savings due to staff reductions that resulted from the BEP’s timely use of retirement incentives.

**Manufacturing and Sales.** The core responsibility of the United States Mint is to produce the circulating coins used to conduct commercial transactions across the nation. New circulating coins are shipped to the Federal Reserve Banks (FRB) as they are needed to replenish inventory and fulfill commercial demand. Included in these shipments are the popular 50 State Quarters and recently minted Lewis and Clark Nickels. The United States Mint assesses the effectiveness of coin production by measuring the conversion cost to produce 1,000 coin equivalents. Coin equivalents normalize the production level to account for the different metal content and denomination mix produced in a year.

In FY 2004, the cost per 1,000 coin equivalents was reduced to $7.93, compared with $9.96 in FY 2003. The improvement was due to efforts to cut costs at the manufacturing facilities as well as increased production volumes. The United States Mint also tracks selling, general and administrative (SG&A) expenses. SG&A expenses improved to 12.3% in FY 2004 from 15.3% as a percentage of non-bullion reserve in FY 2003.

**Numismatic.** Numismatic sales include annual sets, commemorative coins and medals, and precious metal coins for collecting or investing. Numismatic programs generated revenue of $656.9 million in FY 2004, compared with $470.3 million in FY 2003. Numismatic profits increased to $44.1 million in FY 2004 from $4.2 million in FY 2003. The increase in revenue and profits is due to new products coming to market, cost cutting efforts, and price increases on select products to cover the rising costs of the metals.

**Transfers to the Treasury General Fund.** The net income resulting from the operations of the United States Mint are returned to the Treasury General Fund on a regular basis. In FY 2004, $665 million was returned to Treasury as a result of operations, compared with $600 million in FY 2003.
Administration of Bank and Thrift Supervision Programs. Treasury promotes the increased reliability of the U.S. financial system by administering bank and thrift supervision programs. These programs consist of those ongoing supervision and enforcement activities undertaken to assure that each national bank or thrift is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the bank or thrift and the customers and communities it serves.

Bank Supervision. At the beginning of FY 2004, the Office of the Comptroller of the Currency (OCC) completed the transition to a continuous supervision process for all national banks. Under this process, a supervisory strategy is developed based on the risk profile and condition of each banking institution. Examination activities include safety and soundness, consumer compliance, information technology, and asset management examinations. During FY 2004, OCC’s examination activities indicated that national banks continued to operate in a safe and sound manner. For the past two years, 99% of all national banks have been well-capitalized at year-end, exceeding the target of 95%. For the past two years, 94% of all national banks received composite Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitive Rating System (CAMELS) rating of 1 or 2, exceeding the target of 90%.

The OCC took responsible action within 90 days of all banks that became critically undercapitalized. The OCC also worked diligently to rehabilitate problem banks. Of the 121 institutions with a composite CAMELS rating of 3, 4, or 5 on September 30, 2003, 36 had improved CAMELS ratings by the end of FY 2004. Another 14 of the 121 banks were sold, merged or left the system without loss to the insurance fund during the year. The OCC achieved a 41% rehabilitation rate exceeding the performance target of 40%. This was an increase over the 32% achieved in FY 2003.

Consumer compliance remains high with 96% of all national banks earning a rating of 1 or 2 again in FY 2004. The FY 2004 target was established at 94% and reflects a national banking system that effectively complies with consumer laws and regulations. This is the threshold level for ensuring that the overall national banking system supports fair access to banking services and fair treatment of bank customers.

Thrift Supervision. The Office of Thrift Supervision (OTS) adopted the CAMELS rating performance measure in 2003, establishing a target of 90% based on historical experience and a review of supervisory resources needed if more than 10% of the industry was adversely rated (not rated highest at 1 or 2). OTS adjusts its resources to ensure adequate regulatory oversight in response to industry conditions. OTS uses the CAMELS rating to evaluate an institution’s capital, asset quality, management, earnings, liquidity, and sensitivity to market risk.
Favorable economic conditions and the regulatory oversight of the OTS contribute to a thrift industry that has operated in a safe and sound manner and performed extremely well, achieving a 93% level for this measure during FY 2003 and FY 2004. OTS examines institutions every 12-18 months for safety, soundness, and compliance with consumer protection laws. During these exams, the thrift’s ability to identify, measure, monitor, and control risk is evaluated. When weaknesses are identified, supervisory action is taken. OTS continually assesses its examination procedures to ensure that there is an adequate review of institution controls and risk management processes.

The few thrift failures that have occurred in the past few years have been due to idiosyncratic factors versus systemic economic factors. The assets of problem thrifts (those with low composite examination ratings of 4 or 5) declined to $493 million in June 2004 compared with $5 billion as of June 2001. The thrift industry has also benefited from the low interest rate environment over the past few years. In the past several months, the Federal Reserve has increased interest rates, but in small increments. This has allowed the industry time to react and adjust their balance sheets to offset additional interest rate risk exposure.

OTS adopted the compliance ratings performance measure in 2003, establishing a target of 90% based on historical experience and a review of supervisory resources needed if more than 10% of the industry was adversely rated (not rated highest at 1 or 2). OTS adjusts its resources when compliance ratings fall below the target to ensure that the thrift industry effectively complies with consumer protection laws and regulations. The thrift industry achieved a 95% level for this performance measure during FY 2003 and 94% for FY 2004.

OTS began to combine safety and soundness and compliance examinations in 2002 to make exams more efficient and to improve risk assessment. Exam teams assess an institution’s capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk, and compliance with consumer protection laws and regulations by conducting comprehensive examinations whereby OTS issues one report covering safety and soundness and compliance disciplines. Using these comprehensive exam procedures, compliance with consumer protection laws is reviewed at more frequent intervals, which has improved the quality of the examination process. OTS also provides technical assistance and training events to industry executives regarding community reinvestment responsibilities and opportunities.

OTS’ Community Affairs Program supports the thrift industry’s efforts to meet the convenience and needs of the communities they are chartered to serve and meet their Community Reinvestment Act (CRA) obligations. They also provide safe and sound loans, investments and financial services for low and moderate income individuals and communities, and areas of greatest need.
Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective F3C, “Increasing the Reliability of the U.S. Financial System.”

- Inventory Turnover.
- Yield.
- Lost Time Accident Rate.
- Cycle Time.
- Customer Service Index.
- Percentage of Consumer Complaints Closed Within 60 Calendar Days of Receipt.
- Number of Consumer Complaints Opened During the Fiscal Year.
- Number of Consumer Complaints Closed During the Fiscal Year.

F3C Challenge Summary. The performance targets in this objective were not achieved in a number of operational, efficiency, and customer satisfaction areas. In many cases, there were improvements over last year’s performance, but targets were not achieved because challenging stretch goals had been established. In other instances, increases in work complexity and/or volume caused slightly reduced productivity. Action plans have been established to generate the needed improvements.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

An uneven economic recovery may leave certain business segments and bank portfolios vulnerable to continued credit quality concerns and earnings pressures. Higher interest rates may place renewed pressures on asset liquidity and investment portfolios, bank core deposits, and mortgage banking activities and related fee income. As a result, credit quality, adequacy of allowance of loan and lease losses, off-balance sheet activities, and liquidity and interest rate risk management will continue to require close supervisory attention.

OCC

Industry consolidation and earnings pressures will continue to create incentives for banks to reduce overhead, outsource technology- or people-intensive operations to third party vendors, and search for new or expanded products and services. Assessing the adequacy and effectiveness of bank transactions and strategic and reputation risk management processes will continue to be a critical component of the Office of the Comptroller of the Currency’s (OCC) supervisory strategies. Effective bank supervision will also include consumer and compliance issues, such as Bank Secrecy Act/Anti-Money Laundering (BSA/AML), privacy, predatory lending, and the Community Reinvestment Act (CRA).

The OCC has two important information systems projects planned for FY 2005. It plans to enhance its BSA/AML work. The Quantity of Money Laundering Risk Identification project will allow the OCC to gather quantity of money laundering risk information for each mid-size and community bank. This information will be used to develop unique supervisory strategies, allocate examiner resources, and quantify money laundering risks across this population of national banks. The Suspicious Activity Reports (SAR) database will increase OCC’s ability to detect existing and emerging operational risks associated with suspicious activity reported by the banking community and develop appropriate supervisory responses to those risks.

OTS

To combat fraud, money laundering, and protect the integrity of financial systems, the Office of Thrift Supervision (OTS) examines thrifts for compliance with the requirements of the Bank Secrecy Act (BSA), the USA PATRIOT Act, and other anti-money laundering laws. The following actions demonstrate OTS’s vigorous and diligent efforts to ensure maximum compliance of the BSA and the USA PATRIOT Act:

- Reduction in the interval between BSA examinations.
- Education of the industry and OTS staff.
OTS works with both domestic and international financial supervisors to ensure that the thrift industry remains a healthy and robust component of the global financial services marketplace. The Basel Committee and U.S. bank and thrift regulators are attempting to improve the current system by making capital standards more risk sensitive. OTS is evaluating potential issues to ensure that the new framework results in safe and sound capital allocation and fair competition among all financial institutions. OTS has also engaged in dialogue with European financial supervisors. The European Union (EU) is seeking to ensure that financial conglomerates domiciled outside EU member countries are subject to an equivalent level of supervision by foreign supervisors and to enhance coordination among relevant supervisors. OTS is the supervisor of U.S. based thrift holding companies, including a number of financial conglomerates active in the EU. In order to supervise these institutions, OTS is seeking equivalency status under the European Union Financial Conglomerates Directive, which goes into effect January 1, 2005.

During 2005, through Community Reinvestment Act (CRA) evaluations, outreach, and other means, OTS will identify competitive initiatives and strategies and provide information about community development best practices, investment authority, and subsidy resources to thrifts. OTS will also offer technical assistance or sponsor training opportunities that support responsive community reinvestment and the prudent use of an association’s community development investment authority.

United States Mint
In 2004, the first newly designed nickels in 66 years were introduced to honor the Louisiana Purchase and the Lewis and Clark Expedition. In 2005, a contemporary image of President Jefferson will appear on the nickel, along with two new designs that recognize the American Indians and wildlife encountered by the Lewis and Clark expedition. Depictions of Monticello and Thomas Jefferson will return to the nickel in 2006. The 50 States Commemorative Quarter program will continue its successful run, introducing 5 new quarters each year until all 50 states are represented by the end of 2008. The United States Mint is exploring the possibility of manufacturing 24-karat gold bullion coins in 2005. Currently, the United States Mint produces 22-karat gold bullion coins. Producing 24-karat gold bullion coins would allow the United States Mint to compete in new markets in which 24-karat gold is the standard. The United States Mint will remain focused on producing coins efficiently and cost-effectively. These new coin programs are undertaken not only to ensure adequate coinage for commerce and collectors, but also to provide beautiful designs in which the nation can take pride.

BEP
The Bureau of Engraving and Printing (BEP) is introducing redesigns of currency to thwart the technological advances available to counterfeiters and to maintain the integrity of the nation’s money supply. Redesigns of the $20 note and $50 note were introduced into circulation in FY 2004, and in 2005, the redesign of the $10 note will be unveiled, with introduction into circulation in 2006. BEP is continuing to research additional counterfeit deterrent features for the redesign of the $100 note.
Goal Description

Provide the American public with cost-effective, efficient, and secure management of federal finances, while employing modern technology and providing quality customer-centered service.

Strategic Objectives

F4A Collect Federal Tax Revenue When Due Through a Fair and Uniform Application of the Law. Treasury must collect the revenue due to the U.S. Government in a manner that is not only timely but also fair. Treasury works to educate all Americans and help them meet these obligations. Treasury also works to increase the electronic collection of payments and improve the ease of payment.

F4B Manage Federal Debt Effectively and Efficiently. Treasury is responsible for borrowing what is necessary to meet the U.S. Government’s financing needs. The sum of all borrowing is called the gross federal debt. Treasury’s goal is to provide government financing at the lowest cost over time. Issuing debt regularly and in predictable quantities fulfills this mission. The risks to regular and predictable issuance includes unexpected changes in borrowing requirements, demand for securities, and anything that inhibits timely sales of securities. To reduce these risks, Treasury closely monitors economic conditions, fiscal policy, and market activity. Treasury also responds with changes in debt issuance based on thorough analysis and discussions with market participants. Treasury seeks to lower government borrowing costs by ensuring timely, reliable sales of securities through continuous improvement in the auction process.

F4C Make Collections and Payments On-Time and Accurately, Optimizing Use of Electronic Mechanisms. Treasury collects approximately 95% of total federal receipts, such as individual and corporate income and other taxes, duties, fees, debts, and other money owed to the U.S. Government. Treasury devotes the bulk of its resources to collecting taxes. Each year the IRS collects more than $1.5 trillion primarily through the Electronic Federal Tax Payment System (EFTPS) online. Financial Management Service (FMS) administers a number of collection systems, including EFTPS which is the world’s largest collection mechanism and facilitates efficient collections by promoting electronic collections to federal agencies. The purpose of this objective is timely, complete collection of all monies due the government consistent with good customer service and “best practice” business efficiency. FMS disburses 85% of the U.S. Government’s payments to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veterans’ benefits. In FY 2004, 75% of these disbursements were made electronically.

F4D Optimize Cash Management and Effectively Administer the Government's Financial Systems. Treasury manages the government’s cash position to ensure that funds are available on a daily basis to cover federal payments. Managing the government’s cash flow with the most up-to-date and accurate information benefits the taxpayer by enabling Treasury to maximize investment earnings and minimize borrowing costs within established policy objectives. To accomplish this objective, Treasury must closely monitor the government’s receipts and payments and accurately forecast the government’s current and future daily cash requirements. In addition, Treasury must execute borrowing operations in an efficient and reliable manner.

Key Outcomes

- Improve taxpayer compliance (aligns with F4A).
- Provide government financing at the lowest cost over time (aligns with F4B).
• Complete collections and payments on-time, accurately and cost-effectively (aligns with F4C).
• Accurately forecast the government’s current and future daily cash requirements to minimize costs (aligns with F4D).

Public Benefit

The U.S. government must manage its finances effectively and efficiently. As the primary fiscal agent for the U.S. Government, Treasury manages the Nation’s finances by collecting money due the United States, making payments, managing borrowing, performing central accounting functions, and producing coins and currency to meet demand. A vast array of activities are performed to generate value for the American public, and include the following.

• Taxpayer education.
• Early intervention in tax issues.
• Improved regulations.
• Reduction in the length of the appeals process.
• Improved pre-filing guidance.
• Assistance for taxpayers filing returns.
• Increasing electronic filing options.
• Multi-lingual customer assistance.
• Rapid refund payments.
• Electronic funds transfer.
• Paper check conversion.
• 100% paperless savings bond program.

Many of these activities are aimed at making it easier for Americans to work with the IRS and other government agencies involved in collecting revenue or making payments. Other activities are performed to increase the efficiency and effectiveness of financing the operations of the U.S. Government so that ultimately the tax burden on Americans is reduced.

Key Partners in Achieving this Goal

Treasury works with, among others, the Departments of Transportation, Education, Agriculture, Veterans Affairs, Labor, Justice (and FBI), Transportation, Homeland Security (and USSS), Housing and Urban Development, Health and Human Services, the U. S. Postal Service, the Pension Benefit Guaranty Corporation, the National Credit Union Administration, State tax agencies, practitioner and preparer associations, community based coalitions, low-income tax clinics, the banking and thrift industry, tax software professionals, the Federal Reserve System, the Joint Financial Management Improvement Program (JFMIP), and international financial institutions.

Select Performance Measures

The measures shown below are a subset of the total measure set for Promoting Prosperous U.S. and World Economies. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

• Customer Service Representative (CSR) Level of Service.
• Percent of Individual Returns Processed Electronically.
• Dollars Collected per Dollar Spent (Alcohol and Tobacco Tax and Trade Bureau).
• Percent Reduction in the Rate of Increase in Transaction Costs to Collect Federal Government Receipts through the Electronic Federal Tax Payment System.
• Percent Collected Electronically of Total Dollar Amount of Federal Government Receipts.
• The Dollar Amount of Collections Transacted through Pay.Gov.
• Percent of Auction Results Released in Two -Minutes Plus or Minus Thirty Seconds.
• Percent of Treasury Payments and Associated Information made Electronically.
• Percent of Government-wide Accounting Reports Issued Accurately.
• Percent of Government-wide Accounting Reports Issued Timely.

For a full description and results of these measures, see PART IV.
Performance Summary and Resources Invested\textsuperscript{12}

The charts shown reflect the resources Treasury devotes to the goal “Manage the U.S. Government’s Finances Effectively.” These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

\begin{itemize}
  \item \textbf{F4 Manage the U.S. Government’s Finances Effectively} \\
  \textbf{Employees (FTE’s) Working on this Goal} \\
  - FY 2003 Actual: 102,309 \\
  - FY 2004 Actual: 101,128 \\
  - FY 2005 Pres. Budget: 104,652 \\

  \item \textbf{Funding for this Goal} \\
  - FY 2003 Actual: $10,306,672 \\
  - FY 2004 Actual: $10,925,495 \\
  - FY 2005 Pres. Budget: $11,239,945
\end{itemize}

A description of each strategic objective and the results achieved for Managing the U.S. Government’s Finances effectively follows.

\textsuperscript{12} The complete list of measures supporting this objective can be found in PART IV
Strategic Objective and Key Outcome Overview

Treasury must collect the revenue due to the Federal Government in a manner that is timely and fair. In the context of tax collection, fairness is primarily a product of compliance. Treasury works to educate all Americans and help them meet these obligations. Treasury also works to increase the electronic collection of payments and improve the ease of payment.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the objective of “Collect Federal Tax Revenue When Due through a Fair and Uniform Application of the Law.” These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

Successes

Compliance. Treasury is working to increase compliance with tax laws by supporting the Internal Revenue Service (IRS) compliance initiatives and initiating, completing and updating tax information exchange treaties with other

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13 The complete list of measures supporting this objective can be found in PART IV
Treasury is also implementing a variety of procedures to enhance the timeliness and quality of administrative guidance to ensure that taxpayers understand their responsibilities, and to administer the tax laws appropriately and fairly. On the legislative front, Treasury is working to enhance proposals to combat abusive tax shelters and legislation authorizing the use of private collection agencies to collect delinquent debt.

Treasury works to improve compliance through better and more targeted taxpayer education, enhanced reporting, more voluntary agreements, improved regulations, earlier intervention and a reduction in the length of the appeals process. Treasury is maximizing the collection of delinquent non-tax debts and referring delinquent non-tax debt owed by commercial vendors, separated employees, and nongovernmental agencies to the Financial Management Service (FMS) for collection.

The IRS is enhancing its pre-filing guidance in order to improve taxpayers' understanding of complex tax law provisions. The IRS is modernizing its work processes and expanding partnerships with individuals and organizations to help taxpayers file returns, increase electronic filing options, make communications more understandable, expand multi-lingual customer assistance, and pay refunds faster.

To aid taxpayer compliance and assist small businesses, the IRS made available several resources for free on the internet (IRS.gov). Taxpayers visited the web pages to learn how the tax code treats different business structures, apply for an Employer Identification Number or make tax payments.

To increase compliance, the Alcohol and Tobacco Tax and Trade Bureau (TTB) is working with statistical methods to measure and analyze compliance with tax laws. TTB is performing full personnel and financial background checks of all applicants that request an operating permit to ensure that only qualified applicants enter the alcohol and tobacco business. Using the new statistical techniques, TTB has moved from random selection to risk-based selection of audit targets.

TTB is enhancing online information for taxpayers and other industry members to make complying with regulations easier. TTB is providing regulations, forms, and other information in plain language format, and continuing to create alternative excise tax return filing methods through e-Government initiatives.

The Taxpayer Advocate Service (TAS) automated its process to request assistance from the IRS Operating/Functional Divisions (O/FDs) in resolving taxpayers' problems. The new procedure provides data to TAS and the O/FDs for tracking and analyzing such requests. This is part of IRS's efforts to improve its systemic processes and reduce the number of times taxpayers must contact the IRS for assistance.

**Electronic Government.** Each year, more taxpayers choose to pay their federal taxes electronically using the Electronic Federal Tax Payment System (EFTPS), a joint project of IRS and FMS. In FY 2004, 72 million payments were processed through EFTPS for a total value of $1.6 trillion, an increase of 6% over last year.

The enhancement and expansion of electronic services, including the IRS website, electronic filing, and electronic payments, is a top priority. **Electronic transactions save the Federal Government money.** IRS will expand electronic document repositories and develop a multilingual centralized database.

IRS also released three new electronic e-Services tools for tax professionals. Disclosure Authorization and Electronic Account Resolution give tax professionals online options for working with the IRS. The Disclosure Authorization tool gives eligible tax practitioners an online option for submitting Power of Attorney or Taxpayer Information Authorization forms. Electronic Account Resolution allows tax practitioners to electronically correspond with the IRS. IRS also launched a new service through the IRS GuideWire list server to make technical guidance available via e-mail to tax professionals when the documents are issued.

In FY 2004, the IRS deployed Modernized E-file, which provides e-filing for the first time to large corporations and tax exempt organizations. In
addition, IRS deployed additional on-line e-Services functionality for tax practitioners and other third parties, such as banks and brokerage firms that file Form 1099.

Over the past nine months as part of its Business Systems Modernization program, the IRS has been introducing a number of e-Government services on the internet for tax practitioners and other tax advisors known collectively as e-Services. Specifically, these services include application for e-Services, Electronic Return Originator application, Disclosure Authorization application, Preparer Tax Identification application, Electronic Account Resolution, Taxpayer Identification Matching, and Transcript Delivery.

The IRS launched a new program, Express Enrollment for New Businesses, designed to boost electronic payment of taxes. This development offers taxpayers new, faster access to an electronic payment system. This initiative is available using the EFTPS, a service offered free by two Treasury bureaus: IRS and FMS.

- Treasury collects more than $1.6 trillion annually in electronic tax payments through a network of more than 10,000 financial institutions.
- EFTPS enables taxpayers and tax professionals to make federal tax payments electronically online, by phone, or with batch provider software for professionals.
- Business taxpayers with a federal tax obligation will be automatically pre-enrolled in EFTPS to make all of their Federal Tax Deposits.

Electronic filing at the IRS set a record and reached over 70 million returns. This represents an increase of approximately 16% from last year. These trends will help IRS move towards its goal of 80% of individual returns filed electronically by 2007.

- Home computer usage by individuals to prepare and e-file tax returns soared to over 14 million returns.
- Tax professional use of e-file jumped more than 15%, with 42.8 million electronic filings.
- In its second year, “Free File,” the public-private partnership between the IRS and a consortium of tax software companies saw 3.5 million taxpayers use the free on-line filing service, a 26% increase from last year.
- IRS continues to expand electronic tax products for business, implementing electronic filing of corporate 1120/1120S returns and the tax-exempt 990/990EZ returns in February. To date, 48,501 and 775 returns were filed, respectively.

More taxpayers used the IRS web site, including the “Where’s My Refund?” feature, which allows taxpayers to inquire if the IRS received their return and whether their refund was issued. There were almost 24 million inquiries to the on-line service to check on refunds, and 739 million IRS internet downloads. 49 million taxpayers chose direct deposit for their refunds this year, an increase of approximately 11%.

With record numbers of Americans e-filing their tax returns and recently announced e-filing options for corporations and tax exempt organizations, this year the IRS launched a new online form that gives tax professionals a faster, easier method for applying to become an authorized e-filer.
• Tax professionals now have an online application form that cuts processing time and reduces errors associated with using the paper Form 8633, Application to Participate in IRS e-file.

• Once the application is approved by the IRS, tax professionals can e-file returns for their clients.

With more account and tax law inquiries moving to the Internet for resolution, the toll-free level of service improved to 87%.

**Operations.** Treasury collected $2.0 trillion in FY 2004, processed 220 million tax-related documents and collected nearly $3 billion in delinquent non-tax debt.

For the 2004 filing season, the IRS processed over 131 million individual returns, and issued approximately 100 million refunds totaling nearly $208 billion. IRS representatives answered 35 million telephone calls, and the automated telephone system handled nearly 34 million calls.

• The quality of phone service continues to trend upward, and is at 87%; this can be attributed to the implementation of new telephone lines and less complicated scripts used to answer taxpayer questions.

• Time spent waiting improved substantially. The average wait time is 158 seconds, down 21% from FY 2003. Continued improvements are necessary to achieve private sector standards.

• For the 2004 filing season, taxpayers received correct responses to 80% of tax law questions and 89.6% of account questions.

TTB’s Revenue Collection Program is responsible for collecting alcohol, tobacco, and firearms and ammunition excise taxes which in FY 2004 totaled $14.8 billion. Approximately 97% is collected from the alcohol and tobacco industries (roughly 4,600 taxpayers). Alcohol represents 46% and tobacco represents 51% of annual tax receipts and revenue collections. It is important to note that about 400 taxpayers (8%) account for approximately 95% of annual tax collections in these industries. As the third largest tax collection agency, TTB’s goal is to improve service to the taxpayer and reduce the burden of complying with federal tax laws.

As a result of the Debt Collection Improvement Act of 1996, FMS provides debt collection operations services. FMS delinquent debt collection continues to exceed performance goals as a result of continued improvements to its Debt Management Program. For FY 2004, FMS achieved collections of more than $3.0 billion.

Legislation was enacted in FY 2004 establishing a permanent indefinite appropriation to reimburse financial institutions for services they provide as depositories and financial agents to the Federal Government. These services support FMS programs that “collect revenue” electronically, including the EFTPS, the Lockbox Network, the Plastic Cards Network, and CA$HLINK.
The Department achieved major milestones in its strategy to curb abusive tax shelters. The IRS and Treasury have addressed 31 abusive transactions in formal guidance, and have put in place regulations that significantly improve the IRS’s information about potentially abusive transactions and those that promote them. The IRS has dramatically increased civil and criminal investigations of the professional firms and individuals who promote tax shelters or inappropriately provide legal opinions.

**Outreach and Education.** This year, IRS conducted a public education campaign for low-income workers who are eligible for and claim the Earned Income Tax Credit (EITC). An IRS online EITC preparer tool kit was developed and e-mail messages were sent to over 220,000 tax preparers promoting it. The IRS also unveiled the EITC Assistant, a new tool to help tax professionals determine whether their clients are eligible for the Earned Income Tax Credit. The new application is available in English and Spanish. The EITC Assistant is another step being taken by the IRS to maximize taxpayer participation while minimizing EITC errors. The EITC Assistant will help determine eligibility for the credit, filing status of the taxpayers and if the taxpayers’ children meet the definition of “qualifying children” for EITC purposes.

The IRS awarded $7.5 million in matching grants to Low Income Taxpayer Clinics (LITCs). In 2004, IRS awarded these grants to 135 clinics representing 49 states, the District of Columbia and Puerto Rico. LITCs are qualifying organizations that represent low-income taxpayers involved in tax disputes with the IRS or that inform taxpayers for whom English is a second language or have limited English proficiency of their tax rights and responsibilities. The IRS matching grant program, which is in its sixth year, encourages the creation and growth of Low Income Taxpayer Clinics across the nation. These clinics provide an important resource to taxpayers that cannot afford to hire a tax professional.

The IRS hosted a series of six Tax Forums to help educate and serve the tax practitioner community. The three-day Forums were offered in July, August and September. Attendance at the forums, now in their 14th year, has grown steadily.

More than 16,000 tax professionals attended the Forums in 2003; in 2004, 17,500 attended, a 9% increase. The agenda for the 2004 Forums included seminars on the new IRS e-Services program, retirement plans for small businesses, abusive tax avoidance transactions, the proposed revisions to IRS guidance on ethics and professional responsibility, privacy, faster account resolution, tax law changes, and compliance initiatives, among others.

**Challenges**

Treasury did not achieve its targets on the following performance measures for Strategic Objective F4A, “Collect Federal Tax Revenue when Due through a Fair and Uniform Application of the Law.”

- Individual Returns Examined – Field (SBSE & LMSB) >$100,000.
- Examination Customer Satisfaction (SBSE).
- Correspondence Exam Accuracy.
- Compliance Services Collection Operation Accuracy.
- Examination Customer Satisfaction (LMSB).
- Examination Quality (LMSB) Coordinated Industry.
- Examination Quality (LMSB) Industry.
- Field Collection Quality of Cases Handled in Person.
- Number of TEGE Compliance Contacts.
- Individual Returns Examined – Field (SBSE & LMSB) <$100,000.
- Customer Accuracy-Customer Accounts Resolved (Adjustments).
- Customer Accuracy-Toll Free Tax Law.
- Field Assistance Accuracy of Tax Law Contacts.
- Percentage increase in amount of debt collected for every dollar of debt collection program cost.
- Total published guidance items.
- Percentage of voluntary compliance in filing tax payments timely and accurately (TTB).
- Percentage of total tax receipts collected electronically.
F4A Challenge Summary. The performance targets in this objective were not achieved in a number of operational, efficiency, and customer satisfaction areas. Customer accuracy and quality metrics fell short due to increases in work complexity, volume or insufficient training of personnel. Action plans have been established to generate the needed improvements.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Compliance. The FY 2005 President’s Budget included proposals to increase and enhance opportunities to collect delinquent debt. Treasury continues to work toward enactment of the following legislative proposals to support increased debt collection efforts:

- **Information Comparisons and Disclosure to Assist in Federal Debt Collection.** This proposal would authorize the Secretary of Health and Human Services (HHS) to match information, provided by the Secretary of the Treasury with respect to persons owing delinquent debt to the Federal Government, with information contained in the HHS National Directory of New Hires, and to disclose to Treasury information obtained from matches. Information obtained from the National Directory of New Hires would facilitate FMS’ debt collection efforts by providing employment information about debtors enabling FMS to issue wage garnishment orders in appropriate cases.

- **Increase in Continuous Levy for Certain Federal Payments.** This proposal would allow IRS, working through FMS, to continuously levy up to 100% of a Federal vendor payment to collect outstanding tax obligations. Under current law, FMS is authorized to continuously levy up to 15% of specified Federal payments. (Note: This proposal was enacted as part of P.L. 108-357.)

- **Elimination of Limitations Period on Offset.** This proposal would eliminate the 10-year limitation period applicable to the offset of Federal nontax payments to collect debts owed to Federal agencies. Except for student loan debt, under current law Federal payments being made to payees who owe delinquent debt to the government cannot be offset if the debt has been outstanding for more than 10 years.

- **Offsets of Past-Due, Legally Enforceable State Unemployment Compensation Debts Against Overpayments.** This proposal would expand the tax refund offset program to allow for collection of past-due, legally enforceable state unemployment compensation debts.

New projects are planned in the next several years to help assistors provide better quality answers to customer account questions and to provide private collection agencies a support application that will help the IRS collect delinquent taxes.

Electronic Government. For FY 2006, FMS increased its target to 83% for the measure, percentage collected electronically of total dollar amount of Government receipts. FMS will continue to provide collection mechanisms that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers. This will be accomplished through the enhancement and marketing of the following initiatives:

- **EFTPS-On Line** allows businesses and individuals to enroll and pay all Federal taxes through a secure Website. Prior to FY 2005, EFTPS was maintained and operated by two financial agents. By FY 2006, the system will be run by only one financial agent, yielding additional efficiency and provide a substantial savings to the Government ($90 million annually).

- **Paper Check Conversion** is technology that allows a paper check to be scanned, capturing the financial institution and account information, and then converting...
the payment to an electronic transaction using the Automated Clearinghouse (ACH). The result is a more reliable and efficient method for citizens and businesses to pay the Government and it provides each point-of-sale customer with a cancelled check and transaction receipt.

- **Check Truncation** is the process of removing the paper check from the clearing process and sending the check data/digital representation through the check clearing system, potentially reducing the cost of check processing and accelerating the collection time. Check Clearing for the 21st Century Act (Check 21) was signed into law in October 2003 and is effective in October 2004. To facilitate check truncation, the Check 21 authorizes a new negotiable instrument called a substitute check that is a paper copy of the front and back of the original check and is its legal equivalent.

**Operations.** The IRS will increase or maintain their level of service.

- The goal in Taxpayer Service in FY 2005 is to maintain the high level of performance IRS is achieving in FY 2004 and continue to offer self-service options to taxpayers.

- Toll Free Assistor Level of Service will be 87% or higher.

- 67 million individual returns will be filed electronically, a 10% increase over FY 2004.

- Taxpayers will expand their use of self-service options on IRS.gov, downloading 200 million more forms and instructions.

- Other taxpayer satisfaction and accuracy measures for Taxpayer Service programs will be maintained at current levels or slightly increase above the high FY 2004 levels.

- In FY 2005, the processing of individual paper return filings are projected to decrease by 4.4 million as a direct result of the increase in electronic filing.
Strategic Objective and Key Outcome Overview

Treasury works to effectively finance government operations, including efficiently meeting the Government’s borrowing needs. In order to measure success, Treasury is developing and using metrics to track the relative cost of financing the U.S. Government. As part of that effort, Treasury is moving to a 100% paperless savings bond program, and aiming to achieve “two minute auction” performance. The auction is administered by the Bureau of Public Debt.

As part of that effort, Treasury is moving to effectively finance government operations, and efficiently meet the borrowing needs of the U.S. Government. Treasury is also working to secure a long-term legislative solution to the debt ceiling issue.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the objective of “Manage Federal Debt Effectively and Efficiently.” These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

A description of each strategic objective and the results achieved for Managing the U.S. Government’s finances effectively follows.

Successes

In support of Treasury’s objective to achieve the lowest cost of financing over time, the Bureau of the Public Debt (BPD) is continually enhancing its auction systems and processes, and increasing the
efficiency of its securities operations. At the end of FY 2003, BPD completed a multi-year effort to dramatically reduce the time needed for completing auctions and announcing the results. Throughout FY 2004, BPD consistently released results after the auction close within the new Treasury standard of two minutes, plus or minus 30 seconds. This is important because shorter and consistent auction release times reduce the period of time auction bidders are exposed to uncertainty as to whether their bids were successful and at what price. By virtually eliminating this period of uncertainty, the need for bidders to build in a risk premium is also eliminated, resulting in lower cost financing for Treasury and the American taxpayer.

BPD is continuing its efforts to improve the efficiency of the securities services it offers to retail investors. The cornerstone of this effort is BPD’s new TreasuryDirect system, which, when fully implemented, will enable investors to purchase and manage all of their Treasury securities holdings online through a single portfolio account. The system currently offers both Series I and EE savings bonds in electronic form, holds more than $1 billion in over 225,000 accounts, and will be expanded to include marketable Treasury securities offerings. Because it is fully electronic, TreasuryDirect provides a more efficient platform for offering securities products to retail investors and at the same time substantially improves the services that BPD can provide via the internet to these investors.

In the past year, Treasury diversified its portfolio of securities offerings through the addition of 5-year and 20-year Treasury Inflation-Protected Securities (TIPS). A diversified portfolio helps the government maintain flexibility in its borrowing and management of its cash balances and to broaden its investor base, all of which help to keep borrowing costs down.

Challenges

All performance targets were achieved for this objective.

Moving Forward

Treasury is committed to financing the Federal Government at the lowest possible cost over time. BPD will support Treasury by continuing to meet the “two minute” auction standard and redesigning the auction system to ensure it keeps pace with business and contingency needs. At the same time, BPD will continue to progress towards a totally paperless environment for savings bonds. While paper savings bonds will remain available through conventional channels for some period of time, a conversion feature will be added to TreasuryDirect in FY 2005 that will permit the more than 55 million Americans who hold 700 million paper savings bonds to convert them to electronic form. Marketable Treasury bills and notes will also be offered in TreasuryDirect in FY 2005.
**Strategic Objective and Key Outcome Overview**

Treasury continues to concentrate efforts on converting remaining check payments to Electronic Funds Transfers (EFT). Treasury is currently working with the Federal Reserve System and the Social Security Administration on initiatives involving EFT research, marketing, and education campaigns. Treasury will collect business taxes electronically through expansion of electronic collections such as Electronic Federal Tax Payment System (EFTPS) On-Line. The Financial Management Service (FMS) continues to promote the use of technology in the collections process and assists agencies in converting collections from paper to electronic media. For instance, Treasury will use paper check conversion at its lockbox sites to reduce paper processing at lockbox banks and improve the efficiency of the lockbox system.

**Performance Indicators and Resources Invested**

The charts shown reflect the resources Treasury devotes to the objective of “Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms.” These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

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15 The complete list of measures supporting this objective can be found in PART IV
A description of each strategic objective and the results achieved for managing the U.S. Government’s finances effectively follows.

**Successes**

FMS and the IRS, along with the small business community and tax practitioners, are working on strategies to significantly increase the number of EFTPS enrollments. Additionally, the FMS is continuing to explore methods for reducing the costs of its banking services, using less expensive electronic mechanisms such as Paper Check Conversion at lockbox sites.

FMS is working to improve the efficiency of the lockbox network which supports processing of collections for Federal agencies. FMS will be finalizing implementation of the General Lockbox Network Rebid by conducting individual cash flow bids, developing a standard process for selection of financial agents, either through a designation or competitive selection and making selections of financial agents to manage the competitive accounts up for renewal or rebid. The General Lockbox Network Rebid sought financial institutions interested in providing services that would implement cost-cutting measures like imaging technology, check truncation, Paper Check Conversion (PCC), Pay.gov, and linking credit card collections to the lockbox processing operations. The goal of this effort is to reduce paper processing by converting paper transactions to ACH and transmit data using internet-based technology to enhance the efficiency of the government’s cash management operations.

**Provide federal payments in a timely and accurate manner, move toward an all-electronic Treasury for payments, and determine the optimal payment processing environment for the future.** FMS disburses 85% of the Federal Government’s payments to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veterans’ benefits. In FY 2004, FMS issued approximately 950 million non-Defense payments, with a dollar value in excess of $1.7 trillion. Approximately 75% of these transactions are issued by EFT, an increase of 1% over FY 2003. Paper checks account for the remainder of disbursements.

**Provide timely collection of Federal Government receipts, at the lowest cost, through an all-electronic Treasury.** FMS collects more than $2.0 trillion annually through a network of more than 10,000 financial institutions. It also manages the collection of Federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases. FMS establishes and implements collection policies, regulations,
standards and procedures for the Federal Government. FMS develops and operates a variety of collection mechanism and systems (e.g. EFTPS, lockboxes, Treasury General Accounts, debit/credit cards, and Pay.gov) to meet program agency needs. The majority of the dollar amounts of FMS collections, 81% for FY 2004, are made electronically. FMS continues to promote the use of technology in the collections process and assists agencies in converting collections from paper to electronic media.

FMS has also undertaken efforts to modernize its payment systems by incorporating new technologies and making full use of the internet. The Secure Payment System (SPS) replaces the Electronic Certification System, which has reached technological obsolescence. SPS is the cornerstone of the payments process in which agencies certify the accuracy, validity and legality of their payments. SPS provides a significant technological upgrade that is more efficient, user friendly and web accessible while providing greater integrity and security to the payments process.

Automated Standard Application for Payments (ASAP.GOV) is a new web-based system built jointly by FMS and the Federal Reserve Bank of Richmond as a replacement for the original ASAP System. It is an all-electronic grant payment system through which organizations such as states, universities, for-profits and non-profits, receive federal funds from accounts pre-authorized by federal agencies. Total disbursements to organizations in calendar year 2003 were $384 billion. Nineteen federal agencies transitioned to the new ASAP.gov in February 2004. FMS expects disbursements to dramatically increase as new users are brought on-line and will continue working with FRB Richmond to improve service to Federal agencies and their clients by adding functionality to ASAP.gov.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective F4C, “Make Collections and Payments on Time and Accurately, Optimizing Use of Electronic Mechanisms.”

- The dollar amount of collections transacted through Pay.gov.
- Percentage of payments customers indicating an overall rating of “satisfied” or better.

F4C Challenge Summary. The performance targets in this objective were not achieved for one system measure and for one survey measure. The system measure fell short on transitioning payments to a new system called Pay.Gov. Lack of features, scalability, and maintenance issues contributed to scheduling impacts that affected the amount of collections transitioned to this system. The primary software developer was switched as a corrective action. A new question added to the FMS’s survey of its customers for payment process improvements caused the survey results to be slightly lower. FMS continues to focus on payment process improvements.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

In FY 2005, more than 700 million payments will be made electronically, however, challenges remain in increasing growth in electronic payments. Overall, the direct deposit growth rate for Federal benefit payments has leveled off to less than 0.7% a year, a decrease of almost two-thirds since the late 1990’s. As the government prepares for the huge increase in retiring Baby Boomers, Treasury will work to increase direct deposit usage.
A pilot marketing campaign, called Go Direct, targets 10 counties across three states and in Puerto Rico. The goal of the campaign is to identify the best ways to increase Direct Deposit participation and encourage check recipients to switch to Direct Deposit. Strong public outreach and education programs will be critical to the success of this campaign. Treasury issues over 170 million benefit payments, such as Social Security, each year. Taxpayers will save $.62 for each check converted to Direct Deposit, or approximately $100 million per year.

FMS continues to expand the use of electronic media to deliver Federal payments, improve service to payment recipients, and reduce Government program costs. These efforts help decrease the number of paper checks issued and minimize costs associated with postage, re-issuance of lost, stolen, and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits. Some of the programs FMS will continue to focus on include:

- **Stored Value Card (SVC)** is a “smart card” with electronic money stored on an embedded computer chip. The SVC program is aimed at reducing the float loss associated with the more than $2 billion in coin and currency in circulation at military bases, ships at sea, and other closed government locations around the world. Stored value cards reduce the high costs of securing, transporting, and accounting for cash.

- **Treasury Check Information System (TCIS)** replaces the outdated Check Payment and Reconciliation (CP&R) System. TCIS was designed by a Federal Reserve Bank, which acts as Treasury’s fiscal agent, and is a web-based application that uses commercial off-the-shelf software for process flow, accounting, reconciliation and reporting functions for all Treasury checks. Phase two of the Treasury Check Information System (TCIS) project will merge the PACER On-Line System with TCIS. The Automated Clearing House (ACH) payments database will be moved under TCIS and a single interface will provide access for ACH and check payment inquiries. Continued development will occur to move ACH claims processing and case management to TCIS, which will reduce the cost to process payments.
Strategic Objective and Key Outcome Overview

Treasury will make the management of the Federal Government’s cash program more efficient and effective by continually enhancing the government’s cash management systems and improving and formalizing models for projecting the government’s cash position and will ultimately produce savings for the American public.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the objective of “Optimizing Cash Management and Effectively Administer the Government’s Financial Systems.” These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

Performance Results - F4D

A description of each strategic objective and the results achieved for managing the U.S. Government’s finances effectively, follows.

Successes

In support of Treasury’s strategic objectives to improve the quality, timeliness and integrity of the U.S. Government’s financial reports, the Bureau of Public Debt (BPD) plays a critical role for meeting these objectives in its accounting for what is currently the single largest liability on the U.S. financial report – the more than $7 trillion Federal Debt, which is critical for the government’s cash management and financial systems.
debt. BPD has consistently received unqualified opinions on annual audits of its Schedules of Federal debt. BPD has been successful in assisting other Federal agencies to produce more accurate reporting into the overall financial reports and will continue providing this support. BPD is also working to improve the clarity, utility and availability of federal debt information, to make it more understandable and accessible to the public.

Financial Management Service is building and implementing a system to improve the exchange of financial information among FMS, Federal Program Agencies (FPAs), the Office of Management and Budget (OMB) and the banking community. Once completed, this Government-wide Accounting (GWA) Modernization Project will comprehensively:

- Replace current government-wide accounting functions and processes (internal and external to FMS).
- Improve the reliability, usefulness and timeliness of the Government’s financial information.
- Provide FPAs and other users with better access to that information.
- Eliminate duplicate reporting and reconciliation burdens by agencies.
- Provide better tools for reporting financial information and access to daily account statements.

During FY 2003, FMS implemented the on-line, real time Account Statement module of the GWA project, when fully rolled-out, will enable agencies to balance their fund balance with Treasury on a daily basis. In addition, FMS has accelerated the release of the Monthly Treasury Statement which is the definitive report on the Government’s receipts, expenditures, and resulting surplus/deficit, from the fourteenth to the eighth business day.

Treasury’s Office of Fiscal Projections (OFP) performs two mission critical functions: 1) forecasting the Federal government’s financing needs; and, 2) managing the Federal government’s cash and debt positions. OFP relies on a forecasting system that allows staff to forecast short and mid-term cash and debt needs, track the level of Federal debt outstanding and manage the Federal government’s daily cash and debt positions. The cash and debt forecasting system is a mission critical asset, designated by the National Critical Infrastructure Assurance Office (CIAO) impacting both national and economic security.

A multi-bureau team from Treasury headquarters, FMS and Public Debt completed a software and hardware upgrade resulting in a more stable operating environment and system configuration for Treasury. The upgrade consisted of a migration from a legacy system at Treasury headquarters to a state-of-the-art infrastructure located at Public Debt’s primary data center in Parkersburg, West Virginia. Additional features were installed to increase file and general system access logging for security purposes. The upgrade further supports continuing efforts to strengthen contingency and continuity plans for Treasury.
Treasury worked to develop a new contingency plan for both the new systems and the Fiscal Projection System 1.0 application. The new design improves on the legacy infrastructure by significantly decreasing recovery time. In the event of a disaster at the primary Public Debt data center, users at Main Treasury can instantaneously connect to a disaster recovery server at a contingency site that is updated with production data at regular intervals. This system and its new infrastructure benefit the taxpayer by providing Treasury with timely information to maximize investment earnings and minimize borrowing costs.

Challenges

Treasury did not achieve its targets on the following performance measures for Strategic Objective F4D, “Optimize Cash Management and Effectively Administer the Government’s Financial System.”

- Marketable Debt Issuance.
- Percentage of reporting locations with reconciliation differences, for deposits and payments, less than three months old.

F4D Challenge Summary. While the performance targets in this objective were not achieved, there were improvements over last year’s performance and the previous two years’ performance. The 95% target remained constant as the specification for this metric improved from six months to 3 months over the course of two years. To achieve this goal in the future, FMS developed a Quarterly Scorecard showing the results of Federal Program Agency’s (FPA) financial reporting performance to measure compliance with FMS reporting requirements.

A full explanation of these measure and its results may be found in PART IV.

Moving Forward

BPD will continue to accurately account for and report on Federal debt. To improve the availability and usefulness of financial information, BPD will begin producing public debt financial statements on a quarterly basis in FY 2005, then monthly in FY 2006, and finally move to daily statements in FY 2007.

FMS will continue the multi-year project to rebuild the Government’s central accounting system for reporting budget execution information. As part of the system redesign, FMS will provide agencies a web-based account statement resembling a bank statement. It will contain summarized Treasury fund account balance activity. Agencies will have daily access through a web-based system to the detail data supporting the items on the account statement for reconciliation and fund reclassification, rather than having to use multiple systems. As a result, final monthly and year-end fund balance information will be available to agencies a full week earlier than today. This will move the Government one step closer to achieving its objective of producing year-end financial information more quickly and reliably.

Treasury will continue to place increased emphasis on improving the quality, timeliness and integrity of the Federal Government’s financial data. FMS’ Government-wide Accounting Modernization Project will improve the reliability, timeliness, and exchange of financial information between FMS, FPAs, OMB, and the banking community. This new system will improve the reliability and timeliness of the Government’s financial information and provide FPAs and other users with better access to information.

Treasury will continue its work with the FPAs to adopt uniform accounting and reporting standards and systems. FMS will develop a government-wide infrastructure to standardize definitions of federal accounting terms and their usage, and provide to agencies an interactive U.S. Standard General Ledger website and database. During FY 2004, the Federal Government’s cash position, budget surplus, and deficit information was on schedule and accurate 100% of the time. FMS is working to continue that consistency in FY 2005.

Treasury leads the effort to establish best practices for U.S. Government financial reporting, and to make the U.S. Government financial report a model for forward-looking financial reporting. Treasury is exploring ways to issue a guide to government financial reports that would help citizens interpret and understand U.S.
Government financial reporting. Treasury is also working with the Private Sector Council to create a committee of independent financial management professionals to review the financial report. The committee will provide feedback on the readability of the report and offer suggestions for improvement.
Management and Operations Focus

Focus Description

Treasury achieves its strategic goals in part by building a strong institution, which is citizen-centered, results oriented, and actively promotes innovation through competition. Treasury works effectively and efficiently to implement the President’s Management Agenda across all Treasury bureaus and to continuously improve internal business operations. Treasury bureaus support these goals through their internal management goals as articulated in their individual bureau strategic plans.

Strategic Goals

Treasury’s Management and Operations focus consists of one Strategic Goal:

M5 Ensure Professionalism, Excellence, Integrity, and Accountability in the Management of the Department of the Treasury

Summary Data

The summary charts depicted below include resources (both people and dollars) by strategic goal and the percentage of targets that were achieved for all performance measures in the Management and Operations focus area.
Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

Goal Description

Treasury achieves its strategic goals in part by building a strong institution, which is citizen-centered, results oriented, and actively promotes innovation through competition. Treasury works effectively and efficiently to implement the President’s Management Agenda across all Treasury bureaus and to continuously improve internal business operations. Treasury bureaus support these goals through their internal management goals as articulated in their individual bureau strategic plans.

Strategic Objectives

- **M5A Protect the Integrity of the Department of the Treasury.** Treasury is committed to preserving and protecting its integrity and the integrity of its programs, policies and initiatives. Treasury will ensure fairness, integrity, independence, objectivity, proficiency, and due care in performing its work.

- **M5B Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service.** Treasury seeks to ensure that taxpayers are getting the most efficient and effective use of their tax dollars. Emphasis is placed on infrastructure issues within Treasury to ensure all mission requirements are met at the lowest cost. Treasury also seeks to maintain and strengthen our human resources, financial, and information technology capabilities. Finally, Treasury is committed to reviewing results and assessing performance, and taking those results to implement necessary improvements.

Key Outcomes

- Treasury’s weaknesses are identified (aligns with M5A)
- Improvements have been recommended (aligns with M5A)
- Actions have been implemented (aligns with M5A)
- Achieve green status in all President’s Management Agenda initiatives (aligns with M5B)

Public Benefit

Treasury maintains the public trust and confidence by being citizen-centered and results oriented. Treasury acts as a steward of U.S. economic and financial systems. By maintaining effective management practices and influencing the international economy, Treasury is able to meet and exceed its strategic goals.
Select Performance Measures

The measures shown below are a subset of the total measure set for Preserving the Integrity of Financial Systems. These measures represent overall indicators from key areas of interest. Charts of some of these measures are included in the subsequent strategic objective sections that support this strategic goal.

- Provide integrity briefings to 33% of IRS employees during the fiscal year
- Percentage of statutory audits completed by the required date
- Complete investigations of EEO complaints in 180 days
- Percent reduction in the injury and illness rate over FY 2003 baseline – Treasury-wide, including DO
- Percent of all Treasury IT systems that are currently certified and accredited to operate

For a full description and results of these measures, see PART IV.

Key Partners in Achieving this Goal

All Treasury bureaus, external evaluators, and other agencies are partners with Treasury in achieving the President’s Management Agenda and driving Treasury to achieve world class performance.

Performance Summary and Resources Invested

The charts shown reflect the resources Treasury devotes to the goal of “Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury.” These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

A description follows for each strategic objective and the results achieved.

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17 The complete list of measures supporting this objective can be found in PART IV
Strategic Objective and Key Outcome Overview

In order for Treasury to preserve its integrity, it must rely on the advice, guidance, and counsel of both internal and external independent auditors. Treasury values the recommendations, suggestions, and oversight provided by its independent auditors. Treasury continues to use these recommendations in making the Department more efficient and effective.

The independent effort of an inspector general helps to promote fairness, integrity, independence, objectivity, proficiency and due care. The recommendations provided by an inspector general are used to address areas of concern. These recommendations inspire corrective actions and improve the general management of Treasury programs. Treasury has two separate entities that perform inspector general functions: The Office of the Inspector General (OIG) and The Treasury Inspector General for Tax Administration (TIGTA).

The OIG conducts and supervises audits, evaluations, and investigations in Treasury (non-IRS) programs and operations. The OIG promotes policies designed to prevent and detect fraud, waste, and abuse. The OIG keeps the Secretary of the Treasury and the Congress fully and currently informed about problems and deficiencies in Treasury programs and operations, and the need for and progress of corrective actions.

TIGTA’s mission is to provide audit and investigative services that promote economy, efficiency, and integrity in the administration of the internal revenue laws. TIGTA ensures that the Internal Revenue Service (IRS) is accountable in its administration of almost $2 trillion in revenue. Through its audits and investigations, TIGTA fosters economy and efficiency while protecting against corruption both internally and externally. TIGTA’s oversight extends to not just the IRS but includes the IRS Chief Counsel, IRS Oversight Board and all federal income tax administration. Ensuring the tax system is working fairly and effectively is critical to maintaining America’s confidence in our economy.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Protect the Integrity of the Department of the Treasury.” These resources include people (Full-Time Equivalent (FTE) employees), and funding for three fiscal years.

18 The complete list of measures supporting this objective can be found in PART IV

Part II - Annual Performance Report
Successes

Office of Inspector General (OIG)

Audit Program. In FY 2004, the OIG met its three Audit Program performance goals. It issued 49 audit and evaluation reports, completed all statutory audits by the required dates, and met applicable standards for sampled audits. The OIG issued the audit report on Treasury’s FY 2003 consolidated financial statements by November 14, 2003, which was 2 ½ months ahead of the FY 2003 financial reporting deadline established by Office of Management and Budget (OMB). This was the second year in a row that the OIG supported the Secretary’s goal of accelerated financial reporting.

Investigations Program. The OIG met the three Investigations Program FY 2004 performance goals. All investigations sampled met applicable PCIE standards. The OIG referred 36 investigations for criminal prosecution or civil litigation within one year of initiation. Thirty-two investigations for routine misconduct were referred to management for administrative adjudication within 4 months of initiation. As in the Audit Program, continuing resource limitations from the March 2003 divestiture of personnel to the Department of Homeland Security have affected the Investigations Program. Importantly, overall program performance could have been higher, but the OIG had to complete several unanticipated high priority investigations relating to the actions of senior Treasury officials and significant programs and operations. The sensitivity and urgency of these labor intensive investigations required the OIG to reassign criminal investigators from other planned and ongoing investigations.

Treasury Inspector General for Tax Administration (TIGTA)

In FY 2004, TIGTA consistently met or exceeded performance metrics for its two primary responsibilities – audit and investigative services. In FY 2004, TIGTA’s potential return-on-investment for every dollar invested was $45. There were 139 audit reports issued and 3,445 investigations opened.

Three primary strategic goals guide the organization’s efforts to achieve results.

- Promote the Economy, Efficiency, and Effectiveness of Tax Administration
- Protect the Integrity of Tax Administration
- Be an Organization that Values its People
Audit Program. TIGTA’s annual audit plans communicate audit priorities for the IRS, Congress and others, addressing both IRS’ fundamental goals as well as major management challenges. Audit reports recommend more effective methods of administering the nation’s tax system in addition to producing quantifiable outcomes.

For example in FY 2004, TIGTA’s audit work identified potential cost savings of almost $1.07 billion and $4.6 billion in potential increases or protected revenue, and positively impacted over 49.8 million taxpayer accounts. This is significantly higher than the performance projections because results vary considerably from one audit to another, and are inherently difficult to estimate in magnitude until the process has begun. The following two reports issued in FY 2004 represent a significant portion of the total outcome measures:

- The Internal Revenue Service’s Individual Taxpayer Identification Number Creates Significant Challenges for Tax Administration (Reference Number 2004-30-023, dated January 2004)


Investigation’s Program. TIGTA’s investigative work plays a vital role in assuring IRS’ integrity by providing comprehensive investigative services that accept and analyze allegations and conduct investigations into misconduct and criminal activities. Pursuant to this goal, Investigations developed a Performance Model that both guides the activities of Investigative personnel and articulates the value of its accomplishments to its external stakeholders. This model includes key emphasis areas in support of the mission: employee integrity; external attempts to corrupt tax administration; and, employee infrastructure security. For example:

- In FY 2004, roughly 44% of TIGTA’s investigative efforts focused on employee integrity cases.

- 43% of IRS employees briefed on employee integrity issues, surpassing the goal of 33%.

- Investigative casework resulted in financial recoveries of $32 million.

- Cases producing results, at 64% compared to an estimated 50% in FY 2003.

- An IRS agent was indicted for conspiracy, bribery, structuring, and causing failure to file legally mandated reports. The agent allegedly enabled co-conspirators to obtain over $400,000 in cash and allegedly received over $30,000 in compensation by attempting to avoid currency transaction reporting requirements.

Challenges

Treasury did not achieve its target on the following performance measure for Strategic Objective M5A, “Protect the Integrity of the Department of the Treasury.”

- Average calendar days to issue final report
M5A Challenge Summary. The performance target in this objective was not achieved primarily due the increased complexity of the audits performed, which required additional time. Understanding the complexity of future audits will assist in determining how to staff audit activities to achieve performance targets.

A full explanation of this measure and its result may be found in PART IV.

Moving Forward

In FY 2005, the OIG Audit Program anticipates issuing 53 audits and evaluations, completing all statutory audits by the required dates, and meeting applicable standards for sampled audits. In addition to mandated work, audits are designed to support Treasury’s efforts to execute the President’s Management Agenda and to address high-risk programs and operations throughout Treasury. The OIG intends to provide some level of audit coverage to all Treasury offices and bureaus.

In FY 2005, the OIG Investigations Program anticipates that all investigations sampled will meet applicable PCIE standards. The OIG expects to refer 11 investigations for criminal prosecution and/or civil litigation within one year of initiation. The OIG has modified its third Investigations performance measure to better reflect its workload. Under this revised measure, the OIG plans to refer 60 routine misconduct investigations and/or identified or suspected weaknesses or vulnerabilities to management for corrective administrative action. In previous years, this measure included referrals sent to bureau and departmental management for known, potential, and identified deficiencies in Treasury programs and operations. This modification adds referrals for self-assessments and corrective actions that management deems appropriate. The OIG will continue to investigate serious misconduct, fraud, and certain financial crimes. The OIG will seek to resume law enforcement oversight reviews, perform spot checks of statutory/regulatory compliance and enforcement, assist Treasury to secure its information technology critical infrastructure, and extend its outreach efforts.

In FY 2005, TIGTA will continue its audit activities that are focused on promoting the sound administration of the nation’s tax laws through comprehensive, independent performance and financial reviews of the IRS’ programs, operations, and activities by assessing efficiency, economy, effectiveness, and program accomplishments. The Office of Audit anticipates providing 128 audit reports. A portion of these audits represent mandatory coverage imposed by the IRS Restructuring and Reform Act of 1998, and other statutory authorities and standards involving computer security, taxpayer rights and privacy issues, and financial audits. The balance of audit work is discretionary and will focus on the major management issues facing the IRS, the IRS’ progress in achieving its strategic goals, and supporting the IRS’ efforts to implement the President’s Management Agenda initiatives.

Also, in FY 2005, TIGTA’s Office of Investigations will continue to help protect the ability of the IRS to collect revenue for the Federal Government. Investigative activities are centered in three critical areas: Employee Integrity, External Attempts to Corrupt Tax Administration, and Employee and Infrastructure Security. Approximately 44% of TIGTA’s investigative work in FY 2004 focused on employee integrity cases. In FY 2005, it is anticipated that a large number of cases will be in this critical area and again integrity briefings will be an important factor in maintaining the integrity of the tax administration.
Strategic Objective and Key Outcome Overview

Effective management of Departmental resources allows Treasury to meet its most basic duties of strengthening the economy, fighting the financial war on terror and financing the U.S. Government. Treasury seeks to ensure that taxpayers are getting the most efficient and effective use of their tax dollars. Emphasis is placed on infrastructure issues within Treasury so all mission requirements are met at the lowest cost. Treasury also seeks to maintain and strengthen our financial, human resources, and information technology capabilities. Finally, Treasury is committed to reviewing results and assessing performance, and taking those results to implement necessary improvements.

To achieve many of Treasury’s management goals, Treasury uses two Office of Management and Budget Government-wide initiatives: the President’s Management Agenda (PMA) and the Program Assessment Rating Tool (PART). The PMA is used to evaluate the agency’s progress on five key initiatives: Human Capital, Competitive Sourcing, Financial Performance, E-Government and Budget and Performance Integration. The PMA was launched by OMB in August 2001 as a series of initiatives that managers use to make the Federal Government more citizen-centered, results-oriented and market-based. Treasury uses the PMA to help manage its workforce and financial resources effectively, implement technology appropriately, and improve the efficiency of its operations. As part of its ongoing efforts to improve program performance – an effort that complements Treasury management reforms -- Treasury uses PART, an evaluation process through which Treasury and OMB assess the performance of 20% of Treasury’s programs each year.

Details of Treasury’s PMA accomplishments and of the management improvements that Treasury has undertaken for its programs that underwent PART evaluations in FY 2004 follow the summary of Treasury’s management achievements in this section.

Performance Indicators and Resources Invested

The charts shown reflect the resources Treasury devotes to the strategic objective of “Manage Treasury resources Effectively to Accomplish the Mission and Provide Quality Customer Service.” These resources include people (Full-Time Equivalent [FTE] employees), and funding for three fiscal years.

Details of Responsible officials reporting for this objective are found in PART IV.
Successes

Managing People. Treasury is improving organizational effectiveness, starting with its workforce. Through the President’s Management Agenda and its Human Capital Initiative (detailed in the following section), Treasury has mapped out a strategy for recruiting and retaining a world-class workforce. Efforts are underpinned by Treasury’s first Human Capital Strategic Plan (HCSP), which the agency formulated and began implementing in FY 2004. The HCSP outlines a plan for continuous improvement of the workforce through engagement, enhancing competency, and aligning the workforce to business needs. Its goal is to attract the talent and commitment Treasury will need to meet its future business challenges and provide quality customer service. Much work laid out in the HCSP is already underway, and Treasury has also achieved a number of important Human Capital milestones which are presented in the following section.

Treasury’s Inspector General for Tax Administration (TIGTA) was awarded the Commuter Connections Employer Recognition Award for its Telework program. 89% of TIGTA employees participate in the program. In the employee survey on the “Best Places to Work in the Federal Government,” TIGTA ranked number two in the Work/Life Balance category and number nine in the Family Culture and Benefits category. The Office of the Comptroller of the Currency (OCC) was also named one of the best places to work in the federal government by the Partnership for Public Service and the Institute for the Study of Public Policy Implementation at American University based on results of the Office of Personnel Management (OPM) survey of federal government employees. The OCC scored among the top 25 government organizations in several categories, including teamwork, support for diversity, and pay and benefits.

Managing Financial Resources. To manage its resources, Treasury seeks to maintain the integrity of its financial systems, deliver data to decision-makers timely and accurately, comply with existing laws and regulations and allocate resources in an effective manner. Treasury successfully closes its books within three-days at the end of each month, making the information the Department publishes timely and useful to decision makers. For the past two years, the Department has met OMB’s accelerated deadline of November 15th for submitting both its audited financial statements and its consolidated Performance and Accountability Report (PAR). Through extensive coordination with auditors, bureau representatives and other parties, the Department has reduced the year-end reporting process from five months to six weeks. Treasury’s accelerated financial reporting initiatives ensure that management’s decision-making is based on current financial and performance information.

In addition, Treasury and its bureaus continued to close the monthly financial books quickly and accurately to promote timely distribution of financial information and reports. Treasury bureaus, particularly the Internal Revenue Service, made progress in their efforts to improve their financial management systems and reduce the number of Treasury’s material weaknesses. Treasury also made substantial progress in
showing the full cost of its programs to the public through its budgets and integrating performance data into all aspects of budgetary decision-making. Many of these accomplishments are tied to the Financial Performance and Budget and Performance Integration initiatives of the PMA, which are shown in the subsequent section.

**Implementing Technology.** In FY 2004, Treasury hired a new Chief Information Officer and implemented a more comprehensive E-Government governance structure to improve its technology capacity, mitigate security issues within Treasury and address duplication concerns in its infrastructure. Information technology security was also a major focus for Treasury in FY2004. Last year, Treasury obtained certification and accreditation (C&A) for 86% of IT systems. C&A is a federally mandated standard process to insure that information systems meet and maintain documented security requirements throughout their system life cycle. In FY 2004, the Office of the Inspector General (OIG) testified before the House Committee on Government Reform on the results of their FY 2003 independent evaluation of Treasury’s information security programs. The testimony showed that Treasury improved its C&A levels from 32% in FY 2002 to 50% in FY 2003, and then to the 86% FY 2004 level.

**Improving Organizational Efficiency.** Maximizing taxpayer dollars by reducing duplicative administrative functions and promoting efficiencies in the delivery of administrative products and services is partly accomplished through the Treasury Franchise Fund (Franchise Fund). Using the Administrative Resource Center (ARC), a Franchise Fund business, Treasury has consolidated 10 entities, including accounting, procurement, human resources and travel, into one platform. Simply by avoiding the development and maintenance of multiple accounting systems the Treasury realizes more than $50 million in savings.

To date, ARC has consolidated platforms for more than 26 total entities across the government. It has reduced the number of federal administrative systems by providing an integrated system platform for administrative accounting, travel, procurement and personnel functions. In addition, ARC acts as a shared service center for many customers providing full-service transaction processing and reporting. In total, ARC now provides: 32 organizations with procurement services; 28 organizations with administrative accounting services; 28 organizations with travel services; and 17 organizations with personnel services.

**Challenges**

Treasury did not achieve its targets on the following performance measures for Strategic Objective M5B, “Manage Treasury Resources Effectively to Accomplish the Mission and Provide Quality Customer Service.”

- No Management control deficiencies identified as defined in Circular A-123 and reporting requirements referenced therein
- Percent change in total sales from prior year
- Percent change in customers serviced from prior year
- Number of open material weaknesses
- Increase the Percentage of allegations of discrimination for which Alternative Dispute Resolution processes are used
- Percent of total eligible FTE competitively sourced
Percentage of non-IT capital investments meeting costs, on schedule, and performance targets

Lost time due to injury and illness rate over FY 2003 baseline (Treasury-wide)

Percent reduction in the injury and illness rate over FY 2003 baseline – Treasury-wide

Percent reduction in the injury and illness rate over FY 2003 baseline – Departmental Offices

Injury and illness rate – Treasury-wide

Injury and illness rate – Departmental Offices

M5B Challenge Summary. The performance measures and their associated targets in the Management objective for effectively managing resources are varied. Internal financial controls and open material weaknesses are discussed in the financial report. The FTE measure that was not achieved is no longer tracked by OMB for competitive sourcing.

A full explanation of these measures and their results may be found in PART IV.

Moving Forward

Workforce planning is seen as a key element in aligning the workforce with new and changing business needs, and is a focus of the new HCSP for FY 2005. Treasury will build a workforce profile by identifying Treasury products and services, job series and critical competencies needed to provide those products and services. Additionally, Treasury will determine current and future occupation demand and business requirements, conduct workforce gap analysis and close the gaps.

Certification and accreditation of our information technology security program will continue to be a major focus. In FY 2005, efforts are intended to exceed 90% certification and accreditation by year-end. In addition, Treasury plans to continue implementing and applying the principles of the Modernization Blueprint to our information technology investments. One primary challenge Treasury will work on in this area is the need to improve capital investment business cases for new information technology investments. Treasury's plan is to integrate capital planning, with emphasis on electronic preparation of OMB’s 300 forms (an OMB planning tool), into the overall Treasury budget process.

Treasury also recognizes a need to improve its performance management system, and has identified these important actions for the Department to undertake. Looking ahead, Treasury will:

- Identify and implement measures more closely linked to key outcomes that provide value to the American public. Eliminate measures that are not mandated and do not add value.

- For each of the measures linked to key outcomes, establish clear baselines, performance targets, and where possible, a benchmark value for best-in-class performance.

- Implement a vigorous performance management system and a means of assessing value for key Treasury value chains. Value chains are composed of activities that cut across multiple bureaus and organizations to produce value for the American public.
President’s Management Agenda (PMA)

TREASURY FY 2004 PMA SCORES

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

The President’s Management Agenda (PMA)

Treasury uses the five initiatives of the PMA, which are detailed in the following section, as an important vehicle to accomplish and measure the strategic objectives of M5B. The PMA is used as a framework to strengthen Treasury’s workforce, lower the cost of doing business through competition, improve financial performance, increase the use of information technology and e-Government capabilities, and integrate budget decisions with performance data. OMB assesses each agency’s status and progress for each of the five PMA initiatives. Initiative “status” describes overall success, and “progress” describes the efforts underway to meet its PMA goals.

The five objectives of the PMA are:

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

Competitive Sourcing. Through this initiative, Treasury strives to deliver services effectively and at the lowest cost possible to American taxpayers. Competitive Sourcing allows Treasury to look internally and externally for the most efficient ways to achieve its mission.

Improved Financial Performance. Treasury is working to develop the financial systems capability in compliance with the Federal Financial Management Improvement Act (FFMIA) and accounting processes to produce accurate and timely information to support operating, budget, and policy decisions. Treasury is also continuing to reengineer processes to better measure and report on Treasury programs and activities. These actions will facilitate internal analysis, resolve known auditor-reported and Federal Managers’ Financial Integrity Act material weaknesses,
prevent new material weaknesses, and enhance external financial statement reporting.

**Expanded E-government.** Expanding electronic government products and services across Treasury makes the workforce more efficient and the agency more effective. In support of the PMA, the Treasury Chief Information Officer (CIO) is focused on: developing a Treasury Enterprise Architecture to guide future IT planning; preparing high quality business cases to justify major IT investments; managing IT projects to within 10% of cost/schedule/performance baselines; certifying and accrediting all Treasury IT systems to protect information from unauthorized access and theft; and fully participating in all Presidential E-Government Initiatives.

**Budget and Performance Integration.** Treasury works to assess the effectiveness and efficiency of its programs and allocate scarce resources accordingly. Budget and performance integration links strategic planning, budgeting and program evaluation functions and incorporates the PART evaluation process as a tool for decision-making.

**Scoring Summary**

In FY 2004, Treasury improved three of its five initiative scores for the PMA initiatives, which directly contribute to management successes for the goals identified in by Strategic Objective M5B. Overall, Treasury improved its Human Capital, Competitive Sourcing and Budget and Performance Integration scores, demonstrating Treasury’s commitment to building a world-class organization and providing the best value and service for its customers. Financial Performance and E-Government remained Red.

**Human Capital**

**Accomplishments**

In FY 2004, Treasury improved its status score on Human Capital from Red to Yellow on the strength of a number of achievements including its new Human Capital Strategic Plan (HCSP) aligning management and organizational performance. The HCSP is designed to guide Treasury’s efforts in linking human capital policies, programs, and activities accomplishing the Department’s mission and goals. The plan takes into account a detailed assessment of external and internal business environments, trends, challenges, and Government initiatives. The plan also advances the PMA by fostering an environment of accountability and performance. Treasury structured the HCSP to be proactive in recruiting and hiring a highly skilled and diverse workforce aligned with business goals. It aligns strategies and systems to achieve organizational effectiveness and enhances workforce capabilities to support the use of evolving technologies. Finally, it helps Treasury maintain an environment conducive to a high level of employee satisfaction to boost worker retention.

In addition, the Treasury Human Capital team has also:

- Developed workforce and succession planning guidance and implemented those strategies Department-wide. The online workforce and succession planning guidance will help Treasury’s bureaus accurately forecast future workforce requirements and rapidly assess and appoint high quality candidates at all levels of the organization.

- Leveraged the Intranet/Internet for recruiting a diverse applicant pool by implementing Career Connector and deploying HR Connect which provides state-of-art technology that streamlines and automates labor-intensive core processes.

- Developed a comprehensive diversity strategy that will help Treasury aggressively address under-representation, and take positive steps to strengthen and extend our partnerships with key colleges and universities to assure Treasury is recruiting a diverse workforce.

- Finalized and implemented a new Department-wide SES performance management system that effectively differentiates between levels of performance. The system clearly links
individual performance to organizational goals and desired results.

- Analyzed and confirmed that Treasury maintains a systematic performance management process for managers and employees. This process provides the framework for linking individual performance to organizational performance and ensures fair and consistent appraisals.

**Challenges**

Treasury is in the early stages of evaluating the results of its Human Capital Strategic Plan. The strategies and the plan are living processes that provide corporate-level guidance to Treasury’s bureaus to enable them to develop more detailed human capital action plans/strategies.

Treasury has not yet linked individual performance to Treasury’s goals beyond the SES level to line managers.

**Moving Forward**

These successes must be expanded in the future in order for Treasury to achieve a Green score for its Human Capital initiative. For FY 2005 and beyond, Treasury must:

- Continue to improve upon its Human Capital achievements and demonstrate that the efforts are positively impacting Treasury employment.
- Analyze the results of its comprehensive human capital plan to continue strategic decision-making.
- Ensure that the organization’s structure reflects the excellence that it would like to attain.
- Focus on reducing its “mission-critical” skill gaps through recruitment and retention policies.
- Combine succession planning efforts and narrow management competency gaps.

**Competitive Sourcing**

**Accomplishments**

Treasury improved its score for Competitive Sourcing from Red to Yellow in FY 2004. Among its accomplishments:

- Treasury projects savings from Competitive Sourcing to exceed $20 Million in FY 2005. Over the next five years, Treasury estimates savings to exceed $185 million.

- Treasury and IRS worked to complete studies for more than 1,200 positions. Efforts are underway at IRS to study 4,500 additional positions.

- The Department completed its last four full A-76 studies in less than 12 months per the Revised Circular A-76.

- Treasury continued its efforts to link Competitive Sourcing actions with other PMA goals such as Human Capital and E-Government.

In FY 2004, Treasury continued to oversee competitions, issue appropriate guidance to bureaus on initiatives and coordinate reporting to the Office of Management and Budget and Congress on the FAIR Act and Congressional mandates. Treasury also worked with OMB to redesign its Competitive Sourcing program and redirect efforts towards a new Green Plan, which Treasury expects to finalize in early FY 2005. The Green Plan is a customized plan to address agency workforce and mission needs, create a dedicated infrastructure to promote accountable decision making, and ensure processes that promote efficient conduct of competition-complete studies in a twelve-month timeframe.

**Challenges**

- Treasury union agreements often have different timeframes than those called for in Circular A-76, making it difficult to complete studies in the twelve-month timeframe.
Moving Forward

In FY 2005, Treasury will work with OMB to finalize the Green Plan. Specific deliverables must also be completed, including a study to examine “lessons learned” from competitions.

Overall, Competitive Sourcing goals for FY 2005 include:

- Tracking savings/improved performance implementing competitive sourcing actions.
- Identifying the fixed costs at overseeing the program.
- Improving the level of participation in public-private competitions.
- Clarifying source selection strategy.
- Specifically aligning competitive sourcing and human capital.

Financial Performance

Accomplishments

Treasury's financial management strategy of improving financial processes, systems, and data through our 3-Day Close initiative has led to several key accomplishments. Throughout FY 2004, we continued to close our monthly books on the third business day of each month and publish useful financial information on the morning of the fourth business day. Rigorous data quality edits in Treasury’s Financial Analysis and Reporting System (FARS) and a Data Quality Scorecard ensure the integrity and accuracy of Treasury's financial data. Treasury’s focus on acceleration and data quality has enabled the Department to successfully meet accelerated financial reporting deadlines including issuing our FY 2002 and FY 2003 Performance and Accountability Reports (PAR) by OMB's November 15th deadline. FY 2003 was also the fourth consecutive year that Treasury received a clean audit opinion.

For the second year in a row, Treasury conducted a meeting with representatives from the bureaus and Office of the Inspector General (OIG) to capture lessons learned from the acceleration of the FY 2003 audit and PAR. This meeting was especially important in FY 2004 because Treasury's OIG contracted with an independent accounting firm to perform the audit of the Department's FY 2004 financial statements. Information collected at this meeting was used to develop a more detailed and comprehensive timeline for the FY 2004 PAR. Treasury also captured and reported key financial performance measures to OMB in a timely manner. Treasury built upon this requirement by defining metrics and developing a Financial Performance Scorecard to assess bureau financial performance and benchmark Treasury against other agencies.

Treasury’s continued emphasis on reducing material weaknesses during the year resulted in a reduction from nine to eight material weaknesses at the end of FY 2004. FMS successfully closed its material weakness relating to systems security issues.

Treasury implemented its Improper Payments Information Act of 2002 (IPIA) plan in which a comprehensive inventory of programs and activities was compiled and conducted risk assessments on its programs and activities with funding greater than or equal to $10 million.

Based on a pre-defined set of criteria, if an estimated amount of improper payments exceeded $10 million, a corrective action plan would be developed and implemented to accomplish three objectives: 1) reduce the level of improper payments; 2) mitigate the high risk level; and 3) develop reduction targets. No high risk programs were identified through Treasury’s risk assessment process. The only existing high risk program is the IRS’s Earned Income Tax Credit (EITC), and it has reduction targets in place through 2006. IRS has developed plans for regular EITC program compliance studies to be conducted, as well as annual error rate estimates for the Qualifying Child residency component.

The Recovery Act of 2001 requires agencies to report in the FY 2004 PAR the dollar amounts of improper contract payments made and recovered in FY 2003. Treasury implemented the Act's requirements, but expanded its scope by requiring its bureaus to report on improper payments of all
types for both FY 2003 and FY 2004. The results were that in FY 2003, Treasury made $2 million in improper payments and recovered 97%. In FY 2004, Treasury made $854,638 thousand in improper payments and recovered 78%. The outstanding improper payments are in the process of being collected, and none of them are considered unrecoverable.

Challenges

- Treasury had planned to close three of its existing nine material weaknesses in FY 2004. However, delays in addressing systems security weaknesses at Departmental Offices and the IRS precluded Treasury from closing those two weaknesses.

- Setbacks in the implementation of IRS's integrated financial system (IFS) postponed the “going live” date to mid-to-late November 2004.

Moving Forward

- Treasury will continue efforts to lead the Federal Government in accelerated financial reporting and the use of financial performance indicators to measure and improve financial performance.

- Treasury will continue to work with its bureaus and Departmental staff to implement corrective actions to resolve material weaknesses. Treasury has an established schedule of planned actions in place to address its material weaknesses.

- Treasury will continue to work with the IRS on the EITC improper payments issue. Treasury will also work with IRS to reach final operating capability (FOC) for IFS Release 1.

E-Government

Accomplishments

In FY 2004, Treasury’s E-Government score remained Red. However, under a new Chief Information Officer (CIO), Treasury had a number of accomplishments that marked significant progress for the initiative.

- Established a New IT Governance Process and Executive Investment Review Board to oversee approximately $2.7 billion in annual investments. The new board is chaired by the Deputy Secretary and vice-chaired by the Assistant Secretary for Management and CFO, and the CIO, with membership comprised of all bureau heads.

- Strengthened the Treasury Capital Planning and Investment Control (CPIC) process and submitted FY 2006 Exhibits 300 and 53 to the Office of Management and Budget. Office of the Chief Information Officer is implementing a new CPIC Control Process to identify and manage all projects that do not meet established performance baselines.

- Certified and accredited 86% of systems (62% increase from FY 2003 for necessary security requirements). This represents a significant increase over the last fiscal year and is a result of concerted effort and adequate resources dedicated to certification and accreditation (C&A).

- Established memoranda of understanding with the managing partners of the President’s E-Government Initiatives in which Treasury participates, and contributed requested staff and financial resources.

- Began implementation of a modernization blueprint which incorporates broader enterprise IT management practices and helps implement a Federated Enterprise Architecture framework for the target environment. The Blueprint includes:
  - Portfolio management, which is the means by which the Department selects, controls, and evaluates the most optimal and cost-effective mix of IT projects in support of mission critical
activities. It also establishes a mechanism for monitoring and improving project costs, schedules, and performance goals.

- Asset management, which ensures that the asset inventory is fully identified and measured against meaningful performance metrics.

- Enterprise Architecture, which works to ensure that the budget is allocated to the strategically important projects during the IT portfolio management process.

Bureau E-Government initiatives resulted in Treasury connecting with its customers more quickly and effectively in FY 2004. Treasury is increasing usage of the Electronic Federal Tax Payment System (EFTPS), a joint project of the IRS and FMS. In FY 2004, the IRS deployed Modernized E-file, which provides e-filing for the first time to large corporations and tax exempt organizations. IRS also deployed additional online e-Services functionality for tax practitioners and other third parties, such as banks and brokerage firms that file Form 1099. As part of the Business Systems Modernization program, IRS increased its e-Services initiatives in FY 2004 to reach additional tax practitioners and other tax advisors. The Bureau of the Public Debt is continuing to roll out new functions of its TreasuryDirect system, and when fully implemented, will enable investors to purchase and manage their Treasury securities online through a single portfolio account.

Challenges

- Treasury lacked a comprehensive systems inventory for all Treasury IT systems as of September 30, 2004.

- Treasury lacked a comprehensive modernization blueprint for its IT systems.

- Business executives were not properly engaged in the risk management of systems supporting their programs.

Moving Forward

- Review quarterly cost/schedule/performance (against established baselines) by the Technical Investment Review Board. Corrective action will be implemented as necessary.

- Develop a comprehensive Enterprise Architecture to guide future investment planning.

- Establish a departmental C&A Program to identify and train business owners in their system responsibilities, and standardize system C&A efforts.

- Prepare guidance and a system to implement the Pre-Select, Select and Evaluate Phases for the FY 2007 budget development cycle.

- Direct engagement with project managers of each Presidential E-Government Initiative to ensure the Department is positioned to maximize the return on investment.

Budget and Performance Integration Accomplishments

Treasury improved its Budget and Performance Integration score in FY 2004 from Red to Yellow on the strength of a number of achievements.

- Focused on meeting specific PMA goals for performance integration that laid the groundwork for achieving Green in later quarters.

- Continued to improve alignment of bureau resources with Treasury strategic goals in FY 2004 by working with bureaus to restructure their FY 2006 Departmental budget submissions. The new submission aligned requests with goals and objectives. Performance
information was fully integrated into the budget allocation process.

- Worked with the OMB to realign the budget structure of the IRS to better align it with the performance budget structure.

- Starting with the FY 2006 budget cycle (which began in FY 2004), budgets integrate performance information and reveal full costs of activities by Treasury account, budget activity and strategic goal.

- Treasury finalized a new agency-wide Senior Executive Service performance management system that effectively differentiates between levels of performance. The system clearly links individual performance to organizational goals and desired results.

- Program efficiency was a major focus in FY 2004. The Office of Performance Budgeting worked with Treasury bureaus to develop efficiency measures for all programs subject to a Program Assessment Rating Tool evaluation, exceeding the PMA goal of 50% of programs. As a result, Treasury now has the ability to gauge operational efficiency and determine where changes must be made to ensure optimal performance.

**Challenges**

- Treasury was unable to qualify for a Green score due to the lack of marginal cost information and the fact that many of its performance integration activities are still in the implementation phase.

- Treasury must work with OMB to reduce the number of agency programs receiving a score of results not demonstrated on the PART evaluation; currently the number exceeds OMB mandates of less than 10% of programs receiving the score for two years in a row or more.

**Moving Forward**

Treasury’s efforts to attain a Green score will be shaped by a new comprehensive performance framework to guide future budget and performance integration. This framework, planned in FY 2004, will guide Treasury’s efforts to expand managers’ access to performance information. Quarterly meetings on performance results are also planned in FY 2005 as the framework is rolled out. Additional efforts will be undertaken by Treasury to meet with budget and performance stakeholders like OMB and Congressional representatives and determine an optimal performance budgeting format for the future. Treasury must also work with OMB to develop appropriate marginal cost reporting and reduce the number of Treasury programs receiving a score of results not demonstrated on their PART evaluations.
Program Assessment Rating Tool (PART)

Program evaluation is a core management objective used by Treasury to allocate resources and promote efficiency and effectiveness and is a vital part of Treasury’s efforts to meet Strategic Objective M5B.

How Treasury Uses Program Assessment Rating Tool (PART) Evaluations

In addition to regular independent program evaluations conducted by Treasury bureaus, Treasury also works with OMB to evaluate 20% of its programs each year through the PART process. Like the PMA, the PART process gives Treasury a framework for assessing performance. Through the use of in-depth performance questions, PART allows Treasury to evaluate how well a program is meeting its intended objectives, how effectively and efficiently it is managed, and the extent to which the program supports overarching strategic goals. Treasury’s five PART program evaluations from FY 2004 are included to demonstrate actions that Treasury has taken to improve program performance.

PART Evaluation Criteria

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

<table>
<thead>
<tr>
<th>Categories</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Purpose and Design</td>
<td>20%</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>10%</td>
</tr>
<tr>
<td>Program Management</td>
<td>20%</td>
</tr>
<tr>
<td>Program Results/Accountability</td>
<td>50%</td>
</tr>
</tbody>
</table>

PART scores are summarized as a qualitative rating of effective, moderately effective, adequate, results not demonstrated, or ineffective by OMB.

Treasury Performance. Programs and bureaus evaluated in FY 2004 include: Administering the Public Debt (Bureau of Public Debt); New Currency Manufacturing (Bureau of Engraving and Printing); African Development Fund (Departmental Offices); Debt Collection (Financial Management Service); and Submissions Processing (Internal Revenue Service).

<table>
<thead>
<tr>
<th>Program</th>
<th>Bureau</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administering the Public Debt</td>
<td>BPD</td>
<td>Effective</td>
</tr>
<tr>
<td>New Currency Manufacturing</td>
<td>BEP</td>
<td>Effective</td>
</tr>
<tr>
<td>African Development Fund</td>
<td>DO</td>
<td>Results Not Demonstrated</td>
</tr>
<tr>
<td>Debt Collection</td>
<td>FMS</td>
<td>Effective</td>
</tr>
<tr>
<td>Submission Processing</td>
<td>IRS</td>
<td>Results Not Demonstrated</td>
</tr>
</tbody>
</table>
### 1. PART Program Name
 Administering the Public Debt

<table>
<thead>
<tr>
<th>Bureau</th>
<th>Bureau of the Public Debt (BPD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Goal</td>
<td>Manage the Government’s Finances Effectively</td>
</tr>
<tr>
<td>Rating</td>
<td>Effective</td>
</tr>
</tbody>
</table>

#### Major Findings/Recommendations
Continue to improve annual performance targets.

#### Actions Taken
Increased the following FY 2004 performance targets:
- Improved the standard for releasing auction results from 6 minutes to 2 minutes plus or minus 30 seconds.
- Improved the standard for completing Federal Investment Program transactions timely and accurately to 100%.

#### Major Findings/Recommendations
Develop long-term performance measures and goals for inclusion in the FY 2005 budget.

#### Actions Taken
Long-term performance measures and goals discussed in the FY 2005 budget and included in the FY 2006 budget:
- Conduct 80% of Government Agency customer initiated transactions online by the end of FY 2008.
- Hold 50% of Treasury’s retail debt in our new TreasuryDirect System by FY 2011.
- Complete 90% of customer service transactions within 10 business days by FY 2010.
- Produce daily public debt financial statements by FY 2007.

#### Major Findings/Recommendations
Set interim targets for long-term performance goals.

#### Actions Taken
Interim targets identified in the FY 2006 budget:
- Conduct 65% of Government Agency customer initiated transactions online.
- Hold 10% of Treasury’s retail debt in our new TreasuryDirect System.
- Complete 90% of customer service transactions within 13 business days.
- Produce monthly public debt financial statements.
2. **PART Program Name** | New Currency Manufacturing  
---|---  
**Bureau** | Bureau of Engraving and Printing (BEP)  
**Strategic Goal** | Manage the Government’s Finances Effectively  
**Rating** | Effective  
**Major Findings/Recommendations**  
BEP should monitor its design and overhead costs related to the manufacture of New Currency to ensure the most efficient production and distribution of future denominations.  
**Actions Taken**  
BEP has worked closely with the Advanced Counterfeit Deterrent (ACD) Steering Committee to evaluate future design proposals based on cost/benefit and best value considerations to control design and overhead costs.

| **Major Findings/Recommendations** |
|  
BEP should continue working with Federal partners to assess the impact of New Currency on counterfeiting performance measures across government.  
**Actions Taken**  
BEP/Treasury/Federal Reserve/U.S. Secret Service work together within the ACD Steering Committee to assess impacts. The Bureau participates jointly with agencies to determine the effectiveness of the program and its benefits.

3. **PART Program Name** | African Development Fund  
---|---  
**Bureau** | Departmental Offices  
**Strategic Goal** | Promote Stable U.S. and World Economies  
**Rating** | Results Not Demonstrated  
**Major Findings/Recommendations**  
Closely monitor the Bank’s progress in implementing results-measurement and results-based management systems, particularly the development of short-term performance measures, targets, and baselines, as well as long-term targets and timeframes by September 30, 2004.  
**Major Findings/Recommendations**  
Request $118 million in 2005 for the third of three annual installments under the AFDF-1X replenishment agreement. By signing onto the agreement, the U.S. committed to provide $118 million annually for three years (2003-2005).  
**Major Findings/Recommendations**  
Continue to press AFDF and other donors to increase the amount of grants that the AFDF provides.  
**Actions Taken**  
The U.S. is currently engaged in replenishment negotiations for IDA and the AFDF. In both negotiations, the U.S. is pursuing an increase in grant financing, as well as continued improvements in results measurement, transparency, and private sector development.
<table>
<thead>
<tr>
<th>4. PART Program Name</th>
<th>Debt Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau</td>
<td>Financial Management Service (FMS)</td>
</tr>
<tr>
<td>Strategic Goal</td>
<td>Manage the Government’s Finances Effectively</td>
</tr>
<tr>
<td>Rating</td>
<td>Effective</td>
</tr>
</tbody>
</table>

**Major Findings/Recommendations**

Develop a more ambitious long-term performance measure.

**Actions Planned or Underway**

Continuously review the trend in debt collection and revise/update the long-term measure as necessary.

**Major Findings/Recommendations**

Set interim targets and describe interim actions necessary to achieve the long-term performance measure.

**Actions Planned or Underway**

FMS establishes annual performance measures for collections and referrals of debt by agencies. FMS has reduced its salary and expenses appropriated funding requirements for this program in recent years and is funding the program through fee revenue. These interim targets/ measures and actions are part of the overall long term strategy to maximize collections for the Federal government and to improve the efficiency and effectiveness of the debt collection program. These targets/ measures and actions help direct efforts to achieve our long-term measure.

**Major Findings/Recommendations**

Level fund the debt collection program for FY 2005.

**Actions Planned or Underway**

Operate within budgetary resources. Analyze projected collections and fees with the goal of maintaining or reducing the fees charged to customers for FMS debt collection services.

**Major Findings/Recommendations**

Propose legislation to increase and enhance debt collection opportunities.

**Actions Planned or Underway**

Legislation was proposed as part of the FY 2005 President's budget submission which will enhance the debt collection program and increase revenues.
### 5. PART Program Name

<table>
<thead>
<tr>
<th>Bureau</th>
<th>Internal Revenue Service (IRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Goal</td>
<td>Manage the Government's Finances Effectively</td>
</tr>
<tr>
<td>Rating</td>
<td>Results Not Demonstrated</td>
</tr>
</tbody>
</table>

**Major Findings/Recommendations**

Develop appropriate short and long-term outcome goals for Submission Processing.

**Actions Taken**

Outcome measures were finalized for FY 2004. These indicators reflect the purpose of the program. Seven outcome measures were determined for this program, and published in the FY 2005 Congressional Justification. They are:

- Percent of Individual Returns Processed Electronically – FY 2004 Target: 45%
- Percent of Business Returns Processed Electronically – FY 2004 Target: 19.6%
- Individual Return Deposit Timeliness - paper – FY 2004 Target: $500 (losses for untimely deposits per $1 million of deposits)
- Business Return Deposit Timeliness – FY 2004 Target: $500 (losses for untimely deposits per $1 million of deposits)
- Individual Return Deposit Error Rate – FY 2004 Target: 4%
- Business Return Deposit Error Rate – FY 2004 Target: 1.7%
- Refund Timeliness – Individual (paper) – FY 2004 Target: 98.4%
- Refund Error Rate with Systemic Errors – Individual (paper) FY 2004 Target: 5.3%
- Business Master File Refund Interest - $1,500
- Deposit Timelines: Paper: $414 (losses for untimely deposits per $1 million of deposits)
- E-File Training for SPEC (Submissions Processing) employees completed

**Actions Planned or Underway**

Track outcome measures through fiscal year.

**Major Findings/Recommendations**

Complete a successful implementation of the Integrated Financial Systems project, which will provide Submissions Processing with the data necessary to calculate accurate, complete unit cost measures.

**Actions Planned or Underway**

Work with IFS Project Office to implement unit cost analysis capability at aggregate level. IFS Release 1 scheduled for November 2004.
**Major Findings/Recommendations**

Implement the Modernized E-File IT project to facilitate further e-file growth.

**Actions Taken**

The Modernized e-File project has many deliverables, covering multiple years, to bring different returns and forms onto the e-File platform. The final release, which includes all of the 1040 series returns, will be available in January 2010, and may need enhancements during the filing season to ensure that all 1040 series returns can be fully processed via e-File.

**Actions Planned or Underway**

- **Outreach to Electronic Return Originators (EROs)** - The W&I Stakeholder, Partnerships, Education and Communication (SPEC) preparer segment includes those that file 60% or more W&I returns, which equates to over 77,000 of the approximately 162,500 nationwide return preparers for FY 2004. SPEC will perform targeted outreach June 1 through September 30, 2004 to non-EROs (third party preparers, volunteer and community organizations, employers, financial institutions, etc.) to encourage them to apply to become authorized e-file providers and e-file their clients' returns. Work plan and staff hour projections have been established for each territory office for conducting outreach activities. A mechanism for monitoring and tracking resource expenditures will be established.

- **Training of SPEC Employees** - An e-file training plan was developed for SPEC employees responsible for conducting and/or supporting e-file outreach activities. The training includes lessons on a variety of e-file programs, research tools, marketing techniques, and other courses and topics that will provide SPEC employees the technical knowledge and expertise to effectively market, and monitor e-file to both internal and external stakeholders. E-file training for SPEC employees will be completed by the end of FY 2004.

- **E-File Performance** - Through July 18, 2004, of the 1,917,527 volunteer returns prepared 1,357,406 (70.8%) were e-filed. During this same period in 2003 of the 1,595,131 volunteer returns prepared, 957,274 (60%) were e-filed. Additional e-file statistics taken from Electronic Tax Administration's "Daily e-file at a Glance" report as of August 11, 2004 shows that ERO accepted returns (42,524,676) are up 16.1% over 2003 (36,615,144).