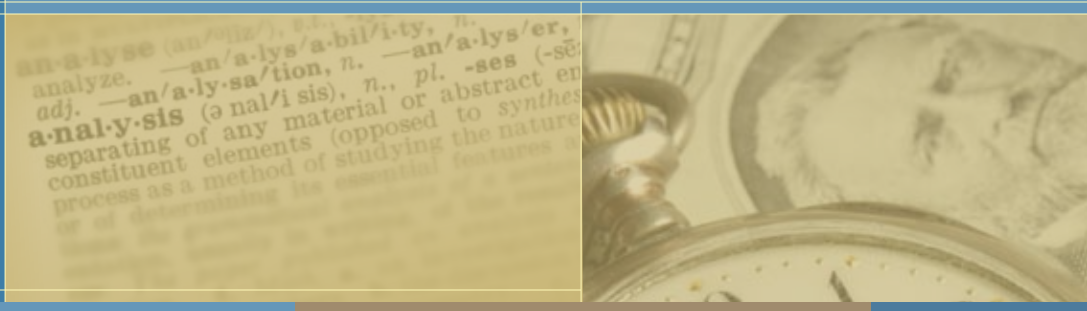
PART 2:

# ANNUAL PERFORMANCE REPORT



# INTRODUCTION

The Annual Performance Report (APR) provides information that enables the public to assess the Department's performance relative to its mission and stewardship of the resources entrusted to it. The report is organized by strategic goal, objective, and outcome, and provides detail on how each of the metrics contributes to the Department's overall mission. A performance statement is provided for each objective, along with charts and tables for cost and budget. Baseline measures are included in the calculations and count as having "met" their targets. As in prior years, Treasury has developed new measures and discontinued measures based on analysis of performance management needs.

The table of key performance measures in each goal section includes data from the last two years; a performance rating for 2010; the percent of target achieved; the percent change in actual results from the last fiscal year; the fiscal year 2011 target; and trends in both performance and targets over the last four years. Trends are indicated by colored arrows, with red indicating an unfavorable direction, green a favorable direction, black indicating no change, and "B" for a baseline measure. The Department considers external factors when evaluating performance. In some cases, additional indicators are discussed to provide an enhanced description of progress.

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

Throughout the report, cost is stated as "Performance Cost," and represents imputed costs, depreciation, losses, and other expenses not requiring budgetary resources. Performance cost was used rather than net cost because it more accurately represents the total cost to achieve a result or outcome. For instance, while the net cost to manufacture coins and currency for non-appropriated bureaus such as the U.S. Mint and the Bureau of Engraving and Printing is zero because it is essentially self-funded, the real cost of operating these organizations is over $4 billion once all imputed costs, depreciation, losses, and other expenses are included. While performance cost is more than net cost, it is less than the gross cost reported on the statement of net cost because it excludes accounts that do contribute to the cost of achieving performance for the agency, such as the Exchange Stabilization Fund and the Federal Financing Bank. Fiscal year 2010 is the fourth year that Treasury has included this information.

Overall, the Department set more aggressive targets on 37 percent of its measures in 2010 compared to 2009, and achieved 72 percent of those targets compared to 80 percent in 2009. The Treasury Department continues to review its performance measure set and eliminate or modify measures to obtain the best information possible on performance. Treasury's Annual Performance Report has not been audited.

See *http://www.treasury.gov/offices/management/dcfo/accountability-reports* for the Full Report of the Treasury Department's Fiscal Year 2010 Performance Measures.

# COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

## Accuracy of Performance Measures*

Measures are classified for accuracy as follows:

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

## Procedures for Conducting Review of the Department's Performance Measure Data

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

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

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

## Completeness of Data

**Not Available:** There were no measures in fiscal year 2010 for which data was not available.

**Discontinued:** The following performance measures were discontinued in fiscal year 2010 and will not have data available for this report. Explanations for why these measures were discontinued can be found at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Bureau | Performance Measure |
|---|---|
| BEP | Currency Production |
| BEP | Improper and/or erroneous payments or purchases |
| BEP | Maintain ISO certification |
| BEP | Other financial losses |
| BEP | Security costs per 1000 notes delivered |
| BEP | Total financial losses |
| BEP | Total regulatory fines and claims paid |
| CDFI | Administrative cost per number of Bank Enterprise Award (BEA) applications processed |
| CDFI | Administrative costs per financial assistance (FA) application processed |
| CDFI | Administrative costs per number of Native American CDFI Assistance (NACA) applications processed |
| CDFI | Administrative costs per number of New Markets Tax Credit (NMTC) applications processed |
| DO | Number of material weaknesses closed (significant management problems identified by GAO, the IGs and/or other bureaus) |
| MINT | Absolute Value of Production Percent Deviation from net Pay |
| MINT | Employee Confidence in Protection |
| MINT | Numismatic Net Margin |
| MINT | Protection Cost Per Square Foot |
| Treasury Franchise Fund | Operating expenses as a percentage of revenue – Consolidated/ Integrated Administrative Management |
| Treasury Franchise Fund | Operating expenses as a percentage of revenue – Financial Systems, Consulting and Training |

* Performance measures were not audited.

**Baseline:** The following measures established baseline values and targets in fiscal year 2010:

| Bureau | Performance Measure |
|---|---|
| BPD | Percent of overall customer satisfaction with Government Agency Investment Services |
| BPD | Percent of Summary Debt Accounting business processes restructured or eliminated |
| BPD | Percent of Primary Dealers that submit live bids from their disaster recovery site on two separate auction dates |
| CDFI | Application Cycle Time - BEA |
| CDFI | Application Cycle Time - CDFI |
| CDFI | Application Cycle Time - NMTC |
| CDFI | Application Cycle Time - Native Initiatives |
| CDFI | Disbursement Cycle Time - BEA |
| CDFI | Disbursement Cycle Time - CDFI |
| CDFI | Disbursement Cycle Time - NMTC |
| CDFI | Disbursement Cycle Time - Native Initiatives |
| Mint | Circulating on-time delivery |
| MINT | Safety Incident Recordable Rate |

**Data Reliability:** Performance data presented in this report meets the standards for reliability set forth in Office of Management & Budget Circular A-11, Section 230-5(f). The circular states that performance data must be accurate and reliable and that verification and validation techniques should be in place.

For additional details on performance measure information, see *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

# STRATEGIC GOAL: EFFECTIVELY MANAGED U.S. GOVERNMENT FINANCES

## STRATEGIC OBJECTIVE: Available Cash Resources to Operate the Government

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

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

- Alcohol and Tobacco Tax and Trade Bureau (TTB)
- Bureau of the Public Debt (BPD)
- Financial Management Service (FMS)
- Internal Revenue Service (IRS)
- Office of Domestic Finance

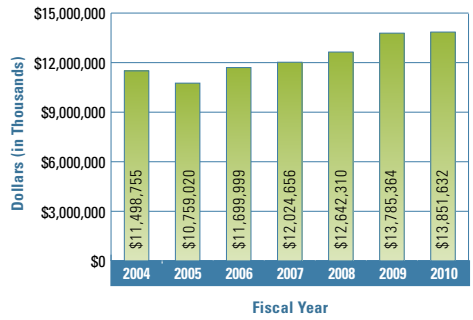
The outcomes associated with this objective are the following:

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

Performance measures associated with this objective had 46 percent more aggressive targets compared to 2009.

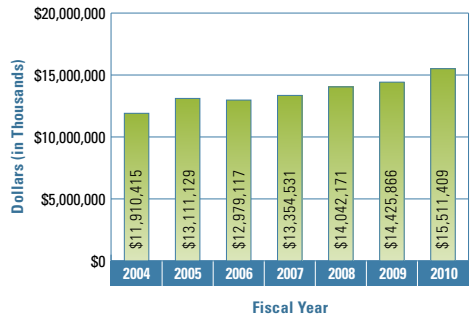
Budget Trend

**Available Cash Resources to Operate the Government**



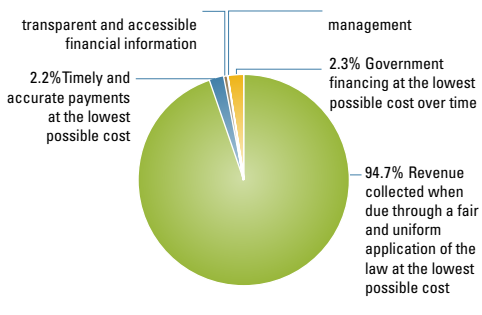

Performance Cost Trend

**Available Cash Resources to Operate the Government**




Performance Cost by Outcome

**Available Cash Resources to Operate the Government**



# Revenue Collected When Due Through a Fair and Uniform Application of the Law at the Lowest Possible Cost

Based on performance results, Treasury was mostly successful in achieving this strategic outcome for fiscal year 2010 as demonstrated by the chart below. It is important to note that 2010 targets for this outcome were over 50 percent more aggressive than in 2009.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Amount of delinquent debt collected per $1 spent ($) | FMS | $53.76 | $43.00 | $54.54* | 126.8% | 1.5% | Exceeded | $43.00 | ▲ | ▲ |
| Amount of delinquent debt collected through all available tools ($ billions) | FMS | $5.03 | $4.65 | $5.45 | 117.2% | 8.4% | Exceeded | $4.84 | ▲ | ▲ |
| Percentage collected electronically of total dollar amount of Federal government receipts (%) | FMS | 84 | 80 | 85 | 106.3% | 1.2% | Exceeded | 82 | ▶ | ▲ |
| Percentage of delinquent debt referred to FMS for collection compared to amount eligible for referral (%) | FMS | 100 | 97 | 100 | 103.1% | 0.0% | Exceeded | 97 | ▲ | ▶ |
| Unit cost to process a Federal revenue collection transaction ($) | FMS | $1.57 | $1.25 | $1.67 | 66.4% | 6.4% | Unmet | $1.70 | ▼ | ▲ |
| Customer Contacts Resolved per Staff Year | IRS | 12,918 | 9,398 | 10,744 | 114% | -16.8% | Exceeded | 10,181 | ▲ | ▲ |
| Customer Service Representative (CSR) Level of Service (%) | IRS | 70 | 71 | 74 | 104.2% | 5.7% | Exceeded | 75 | ▼ | ▼ |
| Examination Quality (LMSB) - Industry (%) | IRS | 88 | 89 | 87 | 97.8% | -1.1% | Unmet | 89 | ▲ | ▶ |
| Field Collection National Quality Review Score | IRS | 80.5 | 81 | 80.6 | 99.5% | 0.1% | Unmet | 82 | ▼ | ▼ |
| Field Examination National Quality Review Score (%) | IRS | 85.1 | 86.3 | 84.9 | 98.4% | -0.2% | Unmet | 86.3 | ▼ | ▼ |
| Percent of Business Returns Processed Electronically (%) | IRS | 22.8 | 24.3 | 25.5 | 104.9% | 11.8% | Exceeded | 25.4 | ▲ | ▲ |
| Percent of Individual Returns Processed Electronically (%) | IRS | 65.9 | 70.2 | 69.3 | 98.7% | 5.2% | Unmet | 74.7 | ▲ | ▲ |
| Refund Timeliness - Individual (paper) (%) | IRS | 99.2 | 98.4 | 96.1 | 97.7% | -3.1% | Unmet | 98.4 | ▼ | ▼ |
| Taxpayer Self Assistance Rate | IRS | 69.3 | 61.3 | 64.4 | 105.1% | -7.1% | Exceeded | 62.7 | ▲ | ▲ |
| Amount of revenue collected per program dollar ($) (New data compilation methodology, 2008) | TTB | $427 | $400 | $478 | 119.5% | 11.9% | Exceeded | $410 | ▲ | ▲ |
| Percent of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue) | TTB | 94 | 92 | 94 | 102.2% | 0.0% | Exceeded | 94 | ▶ | ▶ |

*Estimated

## Analysis of Performance Results

The table presents a sample of the measures associated with the achievement of the revenue collection outcome. Based on the full suite of measures relating to this outcome, during fiscal year 2010, Treasury met or exceeded targets for 69 percent of its performance measures relative to this strategic outcome (27 measures out of 39). This was a decrease from fiscal year 2009, when targets for 73 percent of performance measures were either met or exceeded. However, 50 percent of our performance

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

targets were made more aggressive in fiscal year 2010 contributing to the lower percentage of met or exceeded. Two measures were discontinued in fiscal year 2010.

IRS is the largest contributor to this outcome. For fiscal year 2010, IRS achieved an overall success rate of 66 percent, meeting or exceeding the target for 21 of its 32 performance measures. In fiscal year 2010, IRS met or exceeded 56 percent (10 of 18) of its Enforcement targets, and 50 percent (one of two) of its Business System Modernization targets.

In fiscal year 2010, the IRS met or exceeded 83 percent (10 of 12) of the Taxpayer Service performance targets. The two measures that fell short of the target were the individual E-file rate and refund timelines, which were both within 97 percent of their targets. The individual E-file rate fell short of the target due to a higher than anticipated number of paper returns received during fourth quarter. Refund timeliness fell short of the target due to delays caused by the computation of the Making Work Pay Credit and the First Time Homebuyer Credit.

Performance at FMS was generally positive. Performance targets for four of FMS's five measures were either met or exceeded in fiscal year 2010. FMS failed to meet its target for "Unit cost to process a federal revenue collection transaction." The average cost to process a collection item has increased in recent years due to a downturn in the economy, and due to additional development expenses related to the Collections and Cash Management Modernization (CCMM) Initiative.

The TTB measures for this outcome, "Amount of Revenue per Program Dollar" and "Percent of Voluntary Compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue)," exceeded their fiscal year 2010 performance targets by 19.5 percent and two percent, respectively. Voluntary compliance results were 94 percent of revenue, the same compliance rate achieved in 2009. Amount of revenue per program dollar was $478, an increase from $427 in fiscal year 2009.

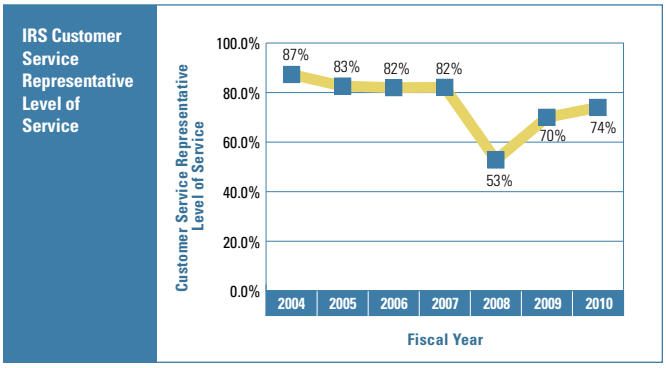
## Taxpayer Service and Revenue Processing

### Internal Revenue Service

The IRS delivered a successful 2010 filing season, while rising to challenges posed by the implementation of provisions in the *American Reinvestment and Recovery Act of 2009* (Recovery Act), the *Worker, Homeownership, and Business Assistance Act of 2009* (WHBAA), and increased telephone demand for Economic Recovery Payment inquiries. In fiscal year 2010, the total revenue collected by the IRS was $2.3 trillion. Results of the 2010 filing season include:

- Processed 141.9 million individual returns and issued more than 109.5 million refunds totaling $366 billion, compared to 144.4 million returns resulting in 111.4 million refunds totaling $339.6 billion for the same period in 2009
- Achieved a 74 percent telephone level of service, an increase from 70 percent in 2009, while answering 36.7 million assistor calls
- Processed over 2.9 million Free File returns
- Responded to more than 5.6 million web and 815,300 telephone requests for information on the one time $250 Economic Recovery Payment

In fiscal year 2010, electronic filing increased compared to 2009 results. Individual returns electronically filed increased to 69.3 percent, up from 65.9 percent in 2009, with the total number of individual returns filed electronically reaching 98.4 million. Business returns electronically filed increased 12 percent over 2009, reaching 25.5 percent. Tax professional use of E-file reached 62.3 million returns. Filing via home-computer reached 34.6 million returns, 7.4 percent greater than 32.2 million in 2009.



"Customer Contacts Resolved per Staff Year" was 10,744, achieving 114 percent of the target. The IRS is addressing demand through improved self-service options. More automated calls were completed, reaching 35.1 millions calls, a 21 percent increase from the 29 million automated calls completed in fiscal year 2009. The number of assistor answered calls was 36.7 million, lower than the 39 million assistor calls answered in fiscal year 2009. Responses to account questions received via the telephone were correct 95.7 percent of the time, an increase over the 94.9 percent accuracy achieved in fiscal year 2009.

In addition to E-filing, IRS internet presence facilitates better information and service. The IRS added more automated web tools and services in 2010. Over 213 million tax products were downloaded by taxpayers, an increase of almost 12 percent. More than 108.8 million electronic payments totaling over $1.9 trillion were processed through the Electronic Federal Tax Payment System (EFTPS). More than 66.9 million taxpayers used "Where's My Refund?" an increase of 23.8 percent from 2009. The IRS website also:

- Provided taxpayers with electronic tools such as the Earned Income Tax Credit (EITC) Assistant to determine if they qualify for the refundable tax credit
- Provided explanations of tax benefits of the Recovery Act
- Developed an automated service for taxpayers to obtain a PIN to satisfy signature requirements when E-filing a current year return
- Created a system that allows taxpayers to self screen and make online appointments for return preparation in the Taxpayer Assistance Centers. Taxpayers made approximately 19,000, or 18 percent of scheduled appointments, on-line
- Created a special section on IRS.gov titled "Tax Center to Assist Unemployed Taxpayers" for taxpayers who are struggling financially

Reaching taxpayers through social media was expanded by the IRS during the fiscal year 2010 filing season. The IRS produced a number of podcasts that were available on IRS.gov and iTunes. In addition, the IRS created YouTube videos on subjects including the Education Tax Credit, Making Work Pay, and the New Homebuyer Credit. Many were available in English, American Sign Language, and Spanish (*www.youtube.com/user/irsvideos*). The IRS and its partners educated and promoted asset building to low- and moderate- income taxpayers by creating six customized webcasts to cover a wide range of activities, such as establishing savings and Individual Development Accounts (a special savings account where money is matched by donations), credit counseling, and financial coaching.

To help taxpayers address questions, the IRS partnered with external stakeholder organizations to expand the availability and hours of service at taxpayer assistance sites. The IRS also helped facilitate filing compliance by developing new products and enhancing communication with the taxpayer community. The IRS updated forms and made forms accessible to the visually impaired. The IRS also translated more tax products into Spanish and implemented a multilingual website.

Each year, the IRS and its partners provide free tax assistance to the elderly, disabled, and people with limited English proficiency at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. In fiscal year 2010, more than $13.5 million in VITA and TCE Grants were awarded to 171 organizations, a 17 percent increase in the number of organizations from 2009. The IRS developed a "VITA Site List" on IRS.gov to provide information on site locations throughout the nation, which attracted over 45,000 visits. Assistors at the more than 12,000 VITA and TCE sites throughout the nation prepared more than 3.1 million tax returns. The number of returns prepared for individuals with disabilities and/or families with disabled dependents increased by 99 percent, preparing 360,500 returns, compared to 181,200 prepared in fiscal year 2009.

In an effort to assist the taxpayer community during the economic downturn, the IRS and its partners hosted five Open House events at 200 Taxpayer Assistance Centers (TACs) and partner sites across all 50 states. The goals of these events were to help resolve tax issues and assist taxpayers in preparation of tax returns. As a result, more than 31,400 taxpayers were served, and over 7,700 returns were prepared. Other outreach efforts included:

- Held two special Saturday events in which more than 9,500 taxpayers faced with unresolved tax related issues were assisted, and over 4,000 returns were prepared
- Provided a dedicated toll-free telephone line and hosted a Gulf Coast Assistance Day at seven TACs in the Gulf Coast region, that provided guidance and assistance to taxpayers affected by the oil spill in the Gulf of Mexico
- Used state-of-the-art automated check processing to deposit checks electronically at point of receipt at ten

TACs, thereby protecting a taxpayer's personal identifiable information (PII) from identity theft when mailing checks to processing sites, resulting in $95 million in checks processed

The IRS also assisted taxpayers who owed delinquent taxes, especially those who were having difficulties meeting their tax obligations because of unemployment or other financial problems, by:

- Granting assistors greater authority to suspend collection actions in certain hardship cases, preventing an automatic default of an installment agreement and expediting levy releases, if warranted
- Considering Offers in Compromise from taxpayers facing economic troubles, including those who were recently unemployed
- Increasing taxpayers' ability to speak to an assistor by expanding the number of call sites for taxpayers looking to resolve their balance due and/or delinquent return account while experiencing shorter wait times

As one of the Federal Government's largest benefit programs for working families and individuals, the Earned Income Tax Credit (EITC) provides additional help for those taxpayers struggling financially. In fiscal year 2010, the IRS conducted its fourth annual EITC Awareness Day in order to educate the public on the availability and benefits of this important tax credit. The IRS hoped to reach qualifying taxpayers by communicating the benefits of EITC through interviews, news conferences, and media tours.

## Alcohol and Tobacco Tax and Trade Bureau

TTB collects excise taxes associated with the sale of alcohol, tobacco, firearms, and ammunition through its Collect the Revenue program. In fiscal year 2010, TTB collected $23.8 billion in federal taxes from nearly 7,100 excise taxpayers. This represents a 15 percent increase in tax revenue compared with fiscal year 2009, collected from a taxpayer base that grew by only six percent. TTB collected $478 in revenue for every dollar spent on its revenue collection program, an 11.9 percent increase over the prior year.

The increased rate of return is principally due to the higher federal excise tax rate imposed on tobacco products by the Children's Health Insurance Program Reauthorization Act (CHIPRA), enacted in February 2009. Tobacco excise tax collections nearly doubled between fiscal year 2008 and fiscal year 2009 and, in the first full year of collections under the new tax rate, tobacco revenues were up nearly 38 percent compared to the prior year.

Firearms and ammunition excise tax (FAET) collections have also grown significantly in recent years. Since TTB assumed responsibility for administering the FAET tax program in 2003, collections have increased 87 percent. Consumer spending patterns contributed to a spike in FAET revenues in fiscal year 2009, followed by a decline in collections of approximately 20 percent in fiscal year 2010. However, FAET collections remain 15 percent above fiscal year 2008 levels, due to the enforcement efforts of TTB tax specialists and auditors.

TTB expanded its electronic tax filing program to enable all excise taxpayers to file and pay taxes electronically through the Pay.gov web-based system. More than 6,400 TTB taxpayers are registered to use Pay.gov to pay excise taxes and file excise tax returns and monthly operational reports, an increase of 23 percent over the prior year.

The National Revenue Center (NRC), TTB's tax processing center, receives approximately 68,000 telephone calls and inquiries on an annual basis. In fiscal year 2010, TTB developed and implemented an improved phone tree menu system for the main toll-free telephone number that better directs calls related to routine questions to clerks or contractors, and evenly rotates incoming calls of a technical nature to specialists. This system ensures that specialists' time is reserved for more complex or specific questions.

## Financial Management Service

FMS collects revenues needed to operate the federal government. In fiscal year 2010, FMS collected nearly $2.94 trillion through a network of roughly 9,000 financial institutions, with 85.3 percent of the dollars collected electronically. The most important program that supports electronic collections is the Electronic Federal Tax Payment System (EFTPS), which supports electronic tax payments at any time. In fiscal year 2010, more than 108 million payments were processed through EFTPS, reflecting an increase in transaction volume of seven percent despite only a 3.5 percent growth in tax revenue collected.

Pay.gov is a system that allows individuals and businesses to make non-tax payments to federal agencies over the internet. Pay.gov provides collections, form submittal, bill presentment, and agency financial reporting services. Pay.gov, which has been implemented with 153 federal agencies representing 667 cash flows, has collected $81.9 billion and processed 49.4 million transactions in fiscal year 2010.

The Paper Check Conversion Over-the-Counter (PCC OTC) program converts paper checks received at federal agency points-of-sale locations throughout the United States and overseas into electronic debits to the check writer's account through the Automated Clearing House (ACH) system or into a substitute check image that is truncated and cleared under the authority of Check 21. PCC OTC fully automates and improves the collection, reconciliation, research of returned checks, and reporting processes associated with the over the counter collections of Federal Program Agencies (FPAs). PCC OTC has been implemented with 11 new agencies and collected $16.6 billion in fiscal year 2010. Since the inception of PCC OTC in 2001, 70 agencies have used the program.

In addition, FMS is implementing Collections and Cash Management Modernization, a comprehensive effort to streamline, modernize, and improve the processes and systems supporting Treasury's collections and cash management program. This effort will improve financial performance by enabling FMS and FPAs to more effectively manage financial transaction information and improve the efficiency of the collections information reporting processes. For example, the Transaction Reporting System is a single touch point to standardize and consolidate collections information and eliminate redundancies in the federal government's collections reporting processes.

Additionally, partnerships are being formed with FPAs to implement the holistic approach to improve cash management practices. Through this effort, agencies are signing Strategic Cash Management Agreements (SCMAs) to convert electronic and paper processes to more efficient electronic collection mechanisms. In fiscal year 2010, 11 SCMAs were signed.

FMS' Debt Collection program recovers delinquent government and child support debt by providing centralized debt collection management and operational services to FPAs and states as required by the Debt Collection Improvement Act of 1996 (DCIA) and related legislation.

In fiscal year 2010, FMS collected $5.45 billion in delinquent debt including Economic Recovery Payments in the following categories:

- $2.10 billion in past due child support
- $2.30 billion in federal non-tax debt
- $435 million in state tax offsets
- $618 million in tax levies

As a result of FMS' continued improvements to the program, collections have steadily increased to more than $47.9 billion since the enactment of the DCIA in 1996. Agencies referred 100 percent of their eligible delinquent debt at the end of fiscal year 2010. In calendar year 2010, IRS is expected to refer an additional $47.7 billion of tax debts for continuous levy, a 13 percent increase from calendar year 2009.

The Department of Education started the Federal Salary Offset Pilot in June 2010 by removing the salary bypass indicator from 170 of their direct loan debts. The Centers for Medicare and Medicaid Services, U.S. Postal Service, U.S. Army Corps of Engineers, and Defense Finance and Accounting Service continue to take offsets and levies using the Non-Treasury Disbursing Office process. FMS continues to roll out the State Reciprocal Program, allowing states to submit other state debt to Treasury Offset Program (TOP) for offset against federal vendor payments and offset of state tax and vendor payments to satisfy federal non-tax debt. Currently, three states are participating in the program. FMS also continued to roll out Debt Check, an online program used to help agencies bar delinquent debtors from obtaining new loans or loan guarantees. The Department of Commerce's Economic Development Administration will be the next agency to utilize Debt Check. In addition, FMS began providing Debtor Locator Report data with partial matches to the federal and state agencies in TOP. With partial match information, the agencies and states will be able update their debtor files, improve their debt matching in TOP, and increase offset collections.

## Improving Voluntary Compliance and Narrowing the Tax Gap

The IRS remains committed to finding ways to increase compliance and reduce the tax gap. In fiscal year 2010, the IRS developed new methodologies for estimating the corporate income tax gap; updated the estate and gift tax nonfiling and

underreporting tax gap estimates; and developed a new basis for estimating the individual income tax nonfiler gap.

Research allows the IRS to target specific areas of noncompliance to improve voluntary compliance and allocate resources more effectively to reduce the tax gap. The fiscal year 2010 National Research Program (NRP) efforts included a study to assess the reporting compliance of employment taxes. The study spans three tax years from 2008 through 2010 and examines approximately 2,200 randomly-selected taxpayers each year. This new study complements the ongoing study of individual reporting compliance and the study of subchapter S Corporations due to be released in 2011.

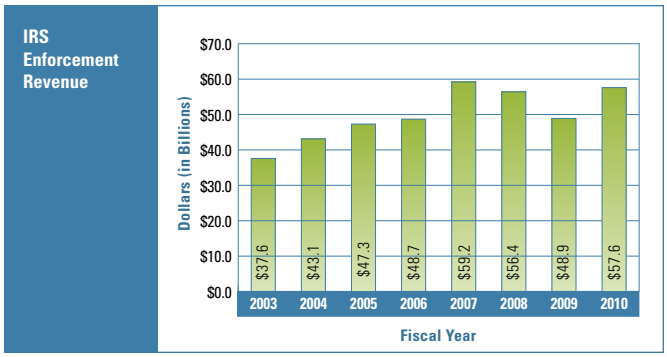
The IRS continues to study the effects of services it offers to taxpayers on the internet, at walk-in sites, and on its toll-free telephone lines as well as exploring the relationships between taxpayer errors and unclear correspondence. As part of this effort, the IRS is testing the impact of on-line assistance and instruction, and the impact of service quality to aid in the development of new approaches to service.

TTB continued its efforts to promote voluntary compliance among industry members in 2010 through industry seminars, web site tutorials, and other outreach efforts. Despite the prolonged economic downturn, TTB believes its outreach efforts were successful in improving upon the voluntary compliance rate. TTB had a compliance rate of 94 percent for timely filed tax payments among large excise taxpayers this fiscal year.

## Enforcement

### Internal Revenue Service

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and are a high priority.




In fiscal year 2010, the IRS met 56 percent (10 of 18) of examination performance measures in fiscal year 2010. Of the eight measures that fell short of the target, two were within 99 percent (field collection quality and collection coverage) of the fiscal year 2010 target, three were within 98 percent (field exam quality, exam quality for coordinated industry, and conviction rate), one was within 97 percent (exam quality – industry), one was within 96 percent (collection efficiency), and one (Tax Exempt/Government Entity (TE/GE) determination case closures) fell within 74 percent of the target.

Of the eight IRS measures that did not meet their target, four were related to quality of the Examination and Collection programs. The Field Exam National Quality Review Score was 84.9 percent, within two percentage points of the 86.3 percent target. Examination quality for industry was 87 percent, two percentage points below the target. Field collection quality, at 80.6 percent, was only half a percentage point away from the target. Quality for coordinated industry was 95 percent, within one percentage point of target. Major contributors to the shortfall were gaps in quality related to efficient resolution of issues, meeting timeframes, income determination and verification, and documentation of the audit trail.

The conviction rate in fiscal year 2010, 90.2 percent, missed the target of 92 percent because of the increase in the number of dismissals caused by unavailability of witnesses or fugitive subjects. These are primarily money laundering investigations in which more than three years passed since the date of indictment. Collection efficiency and coverage were not met due to delays in the issuance of return delinquency notices resulting in fewer balance due dispositions.

The last measure, TE/GE determination case closures, was 105,247 and fell short of the target for two reasons. First, a planned system conversion took longer than expected, requiring staff to switch to manual processing multiple times throughout the year. Second, TE/GE received 47 percent fewer applications of plans that required much less time (0.25 hrs) to complete than anticipated.

The IRS enforcement activities, which target elements of the tax gap, showed steady progress, building on fiscal year 2009 successes in key enforcement programs:

- Total individual audits increased 11 percent
- Automated underreporter contact closures increased almost 20 percent

- Number of high net-worth audits increased more than five percent
- Large corporate audits increased 8.1 percent—a significant achievement given the size (more than $10 million) and complexity of these corporate entities

As a result of these efforts, fiscal year 2010 IRS total enforcement revenue was $57.6 billion, exceeding the $48.9 billion in revenue received in fiscal year 2009.

In fiscal year 2010, the IRS placed extraordinary focus on identifying those who hide assets overseas to avoid paying taxes. As part of an overall strategy to improve offshore compliance, the IRS continued to take aggressive steps to track tax evaders who hide their wealth by engaging in offshore tax evasion schemes. The IRS more than doubled its offshore presence by opening new offices in Asia and Central America, placed additional law enforcement personnel at its existing offices throughout the world, and expanded its interaction with key international organizations involved in tax and financial law compliance. All of these steps are designed to develop new leads in ongoing criminal tax and financial crime investigations.

Some notable accomplishments include:

- Expanding international presence and coordination with treaty partners and international organizations to improve offshore compliance
- Establishing a global illicit financial unit to identify and investigate large multinational tax and financial crime cases generally perpetrated by organized crime syndicates
- Identifying and examining 17,888 foreign resident tax returns with tax deficiencies totaling over $1.64 billion

The voluntary disclosure program the IRS offered in 2009, combined with powerful whistle-blower initiatives, yielded information on illegal transactions and violations of international laws and fraud by banks and professionals. In fiscal year 2010, the IRS began reviewing the information from program participants to identify financial institutions, advisors, and others who promoted or otherwise helped U.S. taxpayers hide assets and income offshore. The U.S. expanded its crackdown on offshore tax evasion beyond the largest Swiss bank to Europe's biggest lender by market share. The Justice Department is conducting criminal investigations of clients who kept accounts at overseas bank branches and failed to report them to the IRS.

The pressure on offshore financial institutions known to facilitate concealment of income by U.S. citizens resulted in:

- A large bank entering into a deferred prosecution agreement on charges of conspiring to defraud the United States. Investigations resulted in indictments or guilty pleas of clients and bankers on federal income tax related charges, including filing false income tax returns, failing to report foreign bank accounts, and concealing over millions in income subject to taxation.
- A bank in Scotland agreeing to forfeit $500 million as part of a deferred prosecution agreement. The bank violated the Bank Secrecy Act (BSA) and conspired to defraud the U.S. by altering or removing names and references from payment messages to sanctioned countries, thereby allowing these entities to move hundreds of millions of dollars through the U.S. financial system without identification.
- A Swiss corporation agreeing to forfeit $536 million to the United States. The violations relate to transactions illegally conducted on behalf of customers and other countries sanctioned in programs administered by the Department of the Treasury. The corporation deliberately removed material information from payment messages so that wire transfers would pass undetected through filters at U.S. financial institutions.

Original Issue Discount (OID) redemption is a tax scheme in which promoters convince taxpayers to file a series of false IRS forms and request fraudulent tax refunds based on fictional claims of large income tax withholding. The IRS identifies and blocks the vast majority of these refund requests, however, clients of these promoters are subject to significant tax, penalty, and interest for obtaining a fraudulent refund. In fiscal year 2010, the IRS set up a task force to investigate OID cases resulting in:

- 100 open investigations
- Decreases in frivolous returns filed from 14,290 in 2009 to 5,540 in 2010
- Decreases in frivolous refund claims from $24 trillion in 2009 to $1.2 trillion in 2010

The IRS continues to ensure large corporate taxpayers are in compliance and use strategies that are less time and resource intensive. The Compliance Assurance Process (CAP) program has been the most successful example of enhanced transparency between the IRS and large corporate taxpayers. In exchange for

more openness and transparency before filing, the IRS resolves issues early and ensures filing of accurate returns. The CAP program allows taxpayers who identify their tax issues to get certainty with respect to their tax obligations at the time the return is filed, rather than waiting for the IRS to examine issues during an audit.

The CAP program benefits both the IRS and the taxpayer by fostering compliance, reducing the time it takes to process a return, and improving both customer and employee satisfaction while maintaining a high level of quality. In fiscal year 2010, participation increased to 112 corporate taxpayers, with all 102 from 2009 returning.

In fiscal year 2010, the IRS introduced a new quality examination process to replace the old joint audit planning process. The new process improves efficiency by streamlining internal administrative processes, increasing consistency, clearly defining roles and responsibilities, and providing the examination teams with more administrative flexibility. This approach ensures taxpayers are actively engaged with the audit team throughout the entire examination process.

The IRS criminal investigation program continued investigating egregious tax, money laundering, and other financial crimes that adversely affect tax administration. Improved case development and selection methods, coupled with heightened fraud awareness resulted in the successful prosecution of taxpayers involved in abusive tax schemes, high income non-filers, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. Performance levels for the IRS criminal investigation program remained high in fiscal year 2010, as indicated by the following:

- Completion of 4,325 criminal investigations
- A conviction rate of 90.2 percent
- A Department of Justice acceptance rate of 93.9 percent, with a U.S. Attorney acceptance rate of 91.8 percent, which compares favorably with other federal law enforcement agencies
- 2,184 convictions secured

In fiscal year 2010, the IRS continued to ensure compliance of exempt organizations and expanded its enforcement presence in the tax return preparer community.

Colleges and universities make up one of the largest non-profit segments in terms of revenue and assets. The Colleges and Universities project is part of an ongoing effort by IRS to review the largest, most complex organizations in the tax-exempt sector to identify issues that warrant additional guidance or scrutiny. In fiscal year 2010, the IRS released an interim report summarizing responses to compliance questionnaires sent to 400 public and private colleges and universities. The report discusses the respondents' organizational structures, demographics, exempt and unrelated business activities, endowments, executive compensation, and governance practices. The IRS opened examinations on several organizations that were selected based on responses to the questionnaire. These examinations focus primarily on unrelated business income and executive compensation issues.

In fiscal year 2010, the IRS launched a number of important changes to its oversight of the tax return preparer community to improve tax administration and tax compliance. These included a coordinated return preparer compliance strategy to ensure that the more than one million tax return preparers are competent, helping ensure the IRS collects the right amount of tax. Key elements of this compliance strategy include:

- Requiring registration and the assignment of preparer tax identification number (PTIN) for all paid tax return preparers
- Establishing mandatory testing and continuing education for paid tax return preparers who are not an attorney, certified public accountant, or enrolled agent
- Developing a public database so taxpayers can ensure their tax return preparer is registered with the IRS
- Making all tax return preparers subject to ethical standards of Treasury Circular 230 and subject to discipline by the IRS
- Increasing the IRS enforcement presence in the tax return preparer community

In fiscal year 2010, the IRS made a number of due diligence visits and took enforcement actions where warranted on paid tax preparers resulting in the following:

- Completed more than 5,000 field visits to tax return preparers
- Completed 265 undercover "shops," of which 62 percent resulted in preparation of fraudulent returns during the 2010 filing season

- Completed 165 Knock and Talk Visits, which identified at-risk tax return preparers during the 2010 filing season
- Achieved 91 convictions (a 100 percent conviction rate) on tax return preparer program criminal investigations
- Promoted compliance through publicity and education by participating in several outreach events for the tax return preparer program

### Alcohol and Tobacco Tax and Trade Bureau

In conjunction with the increased excise tax rate, CHIPRA imposed a requirement to pay a floor stocks tax (FST) on all tobacco products held for sale as of April 1, 2009. Through on-premises visits to industry and targeted post audit verifications, TTB auditors enforced collection of the tobacco FST from the manufacturers, importers, wholesalers, and retailers who held tobacco products for sale at the time of the tax rate increase. TTB combined technology, outreach to federal and state agency stakeholders, and sophisticated targeting techniques to develop a targeted audit plan.

Using a short field examination program developed for its auditors and investigators, TTB completed more than 250 field visits to verify FST payment, which identified $10.2 million in additional tax, or an average underpayment of $40,000. FST collections to date to more than $1.3 billion. The strategic approach used to deploy limited staff resources enabled TTB to leverage its field presence to cover a wide universe of potential FST taxpayers without adversely impacting the bureau's other audit and investigation priorities. In addition to FST examinations, TTB completed 145 targeted audits to ensure overall tax compliance, resulting in the identification of $7.4 million in additional tax, penalties, and interest in fiscal year 2010.

Tax fraud in the alcohol and tobacco industries poses a high risk to federal revenue collection, as well as a lucrative funding source for criminal or terrorist organizations. Diversion includes tax evasion, theft, distribution of counterfeit products, and distribution in the United States of products marked for export or for use outside the country. The Department of the Treasury's February 2010 report to Congress on "Federal Tobacco Receipts Lost Due To Illicit Trade and Recommendations for Increased Enforcement" estimated that the federal revenue loss on cigarettes diverted from lawful commercial channels may have reached $1.5 billion in the years prior to the tax increase imposed by CHIPRA. At the new tax rate, revenue losses could exceed $3 billion. In June 2010, the TTB Administrator testified before the House Ways and Means Committee, Subcommittee on Oversight regarding the illicit tobacco trade and TTB's jurisdiction and enforcement profile.

During fiscal year 2010, TTB carried out 35 joint investigations with various federal, state, and local law enforcement agencies, resulting in the seizure of more than 3,000 cases of alcohol beverage products and nearly 100,000 cartons of cigarettes having an estimated federal and state tax liability of $30 million. TTB closed 33 investigations involving diversion of products having an estimated tax liability of more than $30.3 million. As a result of these activities, TTB assessed or collected roughly $1.9 million in taxes owed. TTB is also involved in multiple ongoing criminal investigations of illegal activity.

TTB collaborated with several federal agencies, international organizations, and other stakeholders to ensure that the revenue due on imported alcohol and tobacco products is collected. Through its partnership with U.S. Customs and Border Protection (CBP), and by using data from CBP's International Trade Data System, TTB identified 165 entities (15 percent of those who imported cigarettes or other tobacco products in fiscal year 2010) as having imported tobacco products without a federal permit. TTB notified each entity to cease their illegal operations, and all have stopped importing or obtained a permit to import tobacco products. The tax value of these imports is $500,000.

TTB participated with CBP and Immigration and Customs Enforcement on the Fraud Investigative Strike Team (FIST). The FIST initiative addresses smuggling and fraud activity along United States' borders. TTB field personnel participated in FIST operations in six U.S. cities with ports or international borders. Through these efforts, TTB identified regulated industry members for comprehensive audits and identified more than $250,000 of additional excise tax liability based on these examinations.

## Business Systems Modernization

### Internal Revenue Service

The IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. In 2010, 50 percent (one of two) of its Business System Modernization targets were

achieved. The schedule variance measure was met, but only two of the five releases met the cost variance threshold of +/- ten percent.

IRS accomplishments in fiscal year 2010 include:

- Customer Account Data Engine (CADE). CADE posted more than 41.2 million tax returns and processed more than 35.8 million refunds. For the first time, CADE posted more than seven million payments submitted with taxpayer returns and issued 8,128 Savings Bonds Refunds. In fiscal year 2010, the IRS revised its CADE strategy to implement a new taxpayer account database for the 2012 filing season. This new database will support daily processing and accelerate the refund processing time for most taxpayers. The cost of CADE Release 5.2 Milestone 4b was less than planned because legislative and filing season changes were reduced in scope and complexity.
- Modernized e-File (MeF). The IRS deployed an additional release that enabled the acceptance of individual Forms 1040 (federal and state returns), Form 4868 extensions, and 21 other supporting 1040 forms and schedules. Modernize E-File Release 6.1 Milestone 4a-5 required additional funding to support unplanned, required needs including disaster recovery activities, increased performance testing, and back-end validation and expanded functionality, including the development of a transactional national account profile. In fiscal year 2010, MeF accepted over 6.9 million returns.
- Account Management Services (AMS). AMS deployed its final release in February 2010. The cost of AMS Release 2.1 Milestone 5 deployment was less than planned due to the required realignment of AMS project funds to support R1.3 software and infrastructure design activities. Since the deployment, AMS processed more than 2.3 million accounts and distributed more than 2.2 million electronic transcript cases. The final AMS release provided users the ability to view correspondence images online and on-demand, eliminating manual processing and reducing case cycle time from days to minutes. AMS also facilitated the identification of unallowable or fraudulent claims for First-Time Home Buyer Credits claimed through amended returns.

### Alcohol Tobacco Tax and Trade Bureau

TTB continued with business application development to improve internal efficiency and to reduce regulatory burden on industry members. TTB undertook a major software development effort in fiscal year 2010 that will allow industry members to electronically submit new and amended permit applications for approval. The Permits Online (PONL) project will provide a secure, web-based system to support online submission, routing, and processing of original and amended permit applications. PONL will allow TTB to screen and authorize applicants to operate alcohol and tobacco businesses under the *Federal Alcohol Administration Act* and the Internal Revenue Code. PONL will reduce costs to the industry and to TTB, help meet increasing demand for services, and improve customer satisfaction. The system will be released in early fiscal year 2011.

TTB made significant progress in its development of the Formulas Online (FONL) business application development project in fiscal year 2010. This system will allow industry members to submit beverage and nonbeverage alcohol formula forms and documentation via the web, and grants formula read access rights to Certificate of Label Approval (COLAs) Online industry users based on their permit numbers stored in Integrated Revenue Information System (IRIS), TTB's permit and tax database. This effort also enables industry members to register for both FONL and COLAs Online via the web. This online filing solution is scheduled for release in fiscal year 2011.

## Protection of Sensitive Information

The IRS takes the issue of identity theft very seriously. In fiscal year 2010, to preserve and enhance public confidence, the IRS advocated the protection and proper use of identity information by:

- Placing markers on more than 284,000 taxpayer accounts to alert employees the account belongs to a substantiated identity theft victim; and
- Ensuring identity theft indicators and business rules isolate returns for additional screening to validate whether the true taxpayer filed the return. More than 82,000 returns were selected for additional screening and closed; and $245 million was protected from being refunded to perpetrators on thousands of fraudulent returns.

The IRS also protects its systems and taxpayers from evolving online threats. By identifying fraudulent sites and phishing scams, the IRS helps to reduce the number of taxpayers who fall victim to online fraud schemes. During fiscal year 2010, the IRS shut down 4,109 phishing sites (899 domestic and 3,210 international), compared to 3,444 sites in fiscal year 2009.

## Conclusion

The Treasury Department, through its bureaus IRS, FMS, and TTB, was relatively successful in achieving its strategic outcome "Revenue collected when due through a fair and uniform application of the law." In fiscal year 2010, 69 percent of the targets were met or exceeded. Going forward, target setting in fiscal year 2011 for 14 of 39 metrics (36 percent) is more aggressive than in 2010.

Despite missing some key performance targets for fiscal year 2010, such as its quality metrics, IRS generally met or exceeded its performance targets. The IRS remains committed to finding ways to increase compliance and reduce the tax gap. In fiscal year 2010, the IRS developed new methodologies for estimating the corporation income tax gap; updated the estate and gift tax non-filing and underreporting tax gap estimates; and developed a new basis for estimating the individual income tax non-filer gap.

## Moving Forward

In fiscal year 2011, the IRS will focus efforts on the following priorities:

- **Taxpayer Service** – Increase the telephone level of service and improve the IRS website where an increasing percentage of taxpayers find the help they need
- **Enforcement** – Expand efforts to address offshore tax evasion and expand the focus on corporate and high-wealth returns
- **Business Systems Modernization** – Complete the new taxpayer account database. Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity. Ensure the privacy and security of data and safety and security of employees.
- **Human Capital** – Make the IRS the best place to work in government

The IRS will continue to invest in strong compliance programs, including a robust international enforcement initiative to address offshore tax evasion. Enforcement initiatives will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers and the complex business enterprises they control (including corporations, partnerships, and trusts).

In 2010, the IRS announced new recommendations to improve oversight of federal tax return preparers, including new registration, testing, and continuing education requirements. The recommendations are intended to increase taxpayer compliance and ensure uniform and high ethical standards of conduct for tax return preparers. Primary implementation of the initial changes is anticipated in fiscal year 2011.

Assisting taxpayers with their tax questions before they file prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. In fiscal year 2011, the IRS plans to increase level of service by adding resources to meet the ever increasing demand and continue to make efficiency improvements such as automated self-service applications that allow taxpayers to obtain information on less complex issues such as refund inquiries. These improvements free up staff to deal with the more complex tax law issues stemming from the passage of new legislation.

Data and technology are central to the future of tax administration. In fiscal year 2011, the IRS plans to complete the new taxpayer account database and continue investments in electronic filing systems. Completion of the core taxpayer account database is the cornerstone of IRS IT modernization that will expedite refunds to 140 million individual taxpayers. It is also a prerequisite for other major initiatives, such as expansion of online paperless services. In addition, next generation compliance systems require a relational database structure and movement away from the legacy data storage model. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the new taxpayer account database is completed.

Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Provide Treasury regulatory authority to require that information returns be filed electronically
- Require corporations and partnerships with assets of $10 million or more that are required to file Schedule M-3 to file their tax returns electronically
- Provide Treasury regulatory authority to reduce the current threshold, filing 250 or more returns during a calendar year, to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations)

- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes
- Increase certainty about the rules pertaining to classification of employees as independent contractors

FMS will continue to expand the use of electronic collection mechanisms that use the most advanced and secure collection technologies that are flexible enough to accommodate the varying needs and technical sophistication of all taxpayers and FPAs.

In fiscal year 2011, TTB expects to support the Department's high priority performance goal related to voluntary tax compliance by achieving a compliance rate of 94 percent for timely filed tax payments among its largest taxpayers (those paying more than $50,000 in excise taxes annually). TTB will sustain its high compliance rate through its continued efforts to promote industry member use of the online tax return and payment filing system, Pay.gov. TTB will further enhance its tax verification program, building on the Error Tracking Database (ETD) developed in fiscal year 2010 to identify late filers, non-filers, and errant filings of operational reports. In fiscal year 2011, the ETD will be expanded to include operational reports for all TTB-regulated commodity types. TTB also intends to create a module in the ETD to address missing and late excise tax returns.

In the first full year of collections under the new tobacco tax rates imposed by CHIPRA, TTB collection efforts resulted in year-to-year revenue increase of 15 percent. Going forward, revenue collection activities will focus both on legitimate industry members and those operating outside of legal distribution chains. TTB will continue to include in its audit plan a mix of comprehensive audits, limited scope audits, and examinations in order to maximize TTB's audit resources and provide broad industry coverage. TTB also plans to address revenue risk areas in fiscal year 2011 through enhanced risk modeling and audit programs.

# Timely and Accurate Payments at the Lowest Possible Cost

As the government's financial manager, FMS oversees a daily cash flow in excess of $94 billion, disbursing over $2.3 trillion in payments to more than 100 million people. These payments include income tax refunds, social security benefits, veterans' benefits and other federal payments to individuals and businesses. Based on performance results, Treasury was successful in achieving timely and accurate payments at the lowest possible cost during fiscal year 2010.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Percentage of paper check and electronic funds transfer (EFT) payments made accurately and on-time (%) | FMS | 100.0 | 100.0 | 100.0 | 100.0% | 0.0% | Met | 100.0 | ▶ | ▶ |
| Percentage of Treasury payments and associated information made electronically (%) | FMS | 81.0 | 81.0 | 82.0 | 101.2% | 1.2% | Exceeded | 83.0 | ▲ | ▲ |
| Unit cost for federal government payments ($) | FMS | $0.37 | $0.40 | $0.36* | 110.0% | -2.7% | Exceeded | $0.40 | ▶ | ▼ |

*Estimated

## Analysis of Performance Results

In fiscal year 2010, Treasury exceeded targets for 67 percent and met targets for 33 percent of its measures related to this outcome. FMS has consistently made 100 percent of payments accurately and on-time. The percentage of payments made electronically increased by one percentage point, and the unit cost for federal government payments was down 2.7 percent, or $0.01.

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

## Financial Management Service

During fiscal year 2010, FMS continued to expand and market the use of electronic funds transfer to deliver federal payments, improve service to payment recipients, and reduce government program costs. Through FMS, Treasury met or exceeded targets for 100 percent of its performance measures relative to this strategic outcome. This is in line with fiscal year 2009, when the bureau met or exceeded 100 percent of its targets.

The first of the three performance measures for this strategic outcome concern accuracy and timeliness of payments. During fiscal year 2010, 100 percent of paper check and electronic funds transfer (EFT) payments were made accurately and on time, matching the performance target and actual performance results from fiscal year 2009.

The second measure is the percentage of Treasury payments and associated information made electronically. This measure is an indication of the decrease in the number of paper checks issues, which reduces costs associated with postage, printing, and re-issuance of checks. Overall, 82 percent of Treasury payments and associated information were made electronically in fiscal year 2010 versus 81 percent in fiscal year 2009, a one percentage point increase.

FMS manages several payment systems and technologies to promote electronic payments. The Payments Application Modernization (PAM) is an effort to replace legacy applications that are used to disburse approximately one billion federal payments valued at over $2.3 trillion. PAM involves replacing over thirty applications with a single standardized application. In addition, FMS manages a Stored Value Card program that

facilitates transactions by military personnel in remote and dangerous locations. Finally, the Automated Standard Application for Payments (ASAP.gov) allows grantee organizations receiving federal funds to electronically draw from accounts.

FMS's nationwide Go Direct campaign, encouraging current federal benefit check recipients to switch to direct deposit, is now in its sixth year. Go Direct recently concluded an extremely successful fifth year in which over 1.5 million conversions were attributed to the campaign. The current number of total conversions obtained since the inception of the campaign in 2005 is five million. FMS has also facilitated unbanked federal check recipients to receive electronic payments through Direct Express. More than one million people have signed up for the card since it was introduced in April 2008.

The third measure is unit cost for federal government payments. This is a measure showing the efficiency of payments. In fiscal year 2010, the unit cost was $0.36, a decrease from fiscal year 2009.

## Bureau of the Public Debt

In 2010, BPD implemented an electronic payment system using Pay.gov that allows debtors to pay what they owe online. Debtors began using the system the same day it was implemented and within the first two weeks, 36 payments were received totaling over $11,400. Earlier, in 2010, BPD implemented a similar system, also using Pay.gov, which allows individuals to give gifts online to reduce the public debt.

## Conclusion

During fiscal year 2010, Treasury, through FMS, successfully achieved timely and accurate payments at a unit cost of $0.36 as indicated by having met or exceeded its performance measure targets. As the acceptance of electronic payments continues to expand, increased efficiency should result in further cost reductions. FMS is working to support greater adoption of electronic payments and to renovate systems that accept electronic payments.

## Moving Forward

Over the next fiscal year, FMS will continue efforts to expand electronic funds transfer, improve service to payment recipients, and decrease the average unit cost of payments. The fiscal year 2011 target for percent of electronic payments is 83 percent, an increase of two percentage points from the fiscal year 2010 target. FMS will also continue its Go Direct campaign. For fiscal year 2011, FMS plans to continue issuing 100 percent of payments accurately and on-time. The PAM will contribute to more efficient processing of payments.

# Government Financing at the Lowest Possible Cost Over Time

BPD conducts the Department's debt financing operations by issuing and servicing Treasury securities. In fiscal year 2010, BPD conducted more than 290 auctions resulting in the issuance of more than $8.41 trillion in marketable Treasury bills, notes, bonds, and Treasury Inflation Protected Securities. BPD's Government Agency Investment Services (GAIS) program supports federal, state, and local government agency investments in non-marketable Treasury securities and also manages over $4 trillion in customer assets.

Based on performance results, through BPD, Treasury was generally successful in achieving or exceeding the performance measures for government financing at the lowest possible cost over time during fiscal year 2010 by meeting or exceeding 89 percent of its targets.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost per debt financing operation ($) | BPD | $170,214 | $193,962 | $154,790* | 120.2% | -9.1% | Exceeded | $201,258 | ▼ | ▼ |
| Cost per federal funds investment transaction ($) | BPD | $41.71 | $45.70 | $74.05* | 38.0% | 77.5% | Unmet | $76.91 | ▼ | ▲ |
| Cost per TreasuryDirect assisted transaction ($) | BPD | $8.72 | $8.57 | $8.17* | 104.7% | -6.3% | Exceeded | $7.95 | ▲ | ▲ |
| Cost per TreasuryDirect online transaction ($) | BPD | $5.21 | $5.69 | $5.60* | 101.6% | 7.5% | Exceeded | $5.46 | ▲ | ▲ |
| Percent of auction results released in two minutes +/- 30 seconds (%) | BPD | 100 | 95 | 100 | 105.3% | 0.0% | Exceeded | 100 | ▶ | ▲ |

*Estimated

## Analysis of Performance Results

The table above is a sample of the measures associated with the achievement of the government financing outcome. BPD exceeded 56 percent of its nine performance measures associated with this outcome, met 33 percent, and failed to meet 11 percent (one measure) related to this outcome. These results are consistent with fiscal year 2009 performance when BPD met or exceeded all but one target. This year, "Cost per federal funds investment transaction" was unmet, while BPD met the target for the metric it missed last year, "Cost per TreasuryDirect online transaction."

In order to effectively finance the U.S. Government, Treasury must efficiently execute its securities auctions. By minimizing the time that bidders are exposed to the risk of adverse market movements, participants are likely to bid at rates and yields more favorable to the federal government. BPD consistently releases securities auction results within two minutes, plus or minus 30 seconds, of the auction close. BPD exceeded its target of 95 percent for the percent of auctions with results released within two minutes and achieved 100 percent.

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

In fiscal year 2010, the Department conducted over 290 government securities auctions, similar to the number conducted in fiscal year 2009. However, the cost per debt financing operation fell considerably from $170,214 in fiscal year 2009 to $154,790 in fiscal year 2010. Going forward, Treasury will start to measure the cost of debt financing operations using a five-year rolling average, which will smooth out the effects of spikes in the number of auctions.

In 2010, BPD made the decision to end SellDirect services effective December 17, 2010. This program allows investors who hold marketable securities in the TreasuryDirect and

Legacy Treasury Direct systems the option to sell their securities on the secondary market through the Federal Reserve Bank of Chicago. The decision was based on escalating operating costs, which would result in user fees comparable to those charged by brokers/dealers. Transaction volumes for this service are low, averaging 13,000 per year.

A key component of Treasury's Retail Securities programs is TreasuryDirect, which continues to grow in size and function. In the past year, 99,800 new customer accounts were added and TreasuryDirect reached a milestone one million accounts in August. BPD enhances the system regularly, and in 2010, the bureau added a streamlined process for reinvesting marketable securities. In addition, BPD partnered with its largest issuing agent, National Bond and Trust, to reach that agent's customer base, and 12,000 new customers enrolled in TreasuryDirect in the first half of August, up from a consistent monthly average of about 6,000 new accounts. Overall, the cost per TreasuryDirect online transaction was $5.60, meeting the target of $5.69, but an increase from the fiscal year 2009 cost of $5.21.

The GAIS program accounts for over $6 trillion in investment and borrowing activities implemented by various federal, state, and local government entities. This year BPD completed its long-term goal of consolidating the entire GAIS line of business into one information technology system. The systems reduction allows Public Debt to streamline the diversity of technology involved in supporting GAIS programs, as well as consolidate and standardize internal control processes. Fifty-five percent of GAIS customers reported overall "excellent" satisfaction with the program, a baseline for this new measure. In addition, the cost per federal funds investment transaction was $74.05, greater than the target of $45.70 due to a methodology change that better aligns costs with transactions.

## Bureau of the Public Debt

In fiscal year 2010, Treasury announced an initiative to end the sale of paper savings bonds through payroll savings plans by January 2011. Throughout 2010, BPD worked with Federal Reserve Banks, agents, and employers to encourage customers to transition to TreasuryDirect. Extensive outreach efforts were employed including: direct mail, bond inserts, use of Public Debt and Federal Reserve Bank websites, on-demand webcasts and targeted print, and radio advertising.

In support of the Treasury-wide initiative to reduce paper, BPD implemented electronic issue folders for Treasury's marketable securities auctions. An auction issue folder, created each time a security was auctioned, contained up to 32 different documents related to auction processing. This initiative eliminated the retention of multiple copies of paper-based folders.

## Office of Debt Management

The long-standing goal of the Treasury's Office of Debt Management (ODM) is to maintain the lowest cost of borrowing over time. This objective is achieved by being regular and predictable with Treasury debt issuance and communication to market participants while optimizing the size, mix, and calendar of debt issuance. The ability of Treasury to manage the nation's debt management is essential to maintaining the stability and integrity of the financial system. ODM pursued a number of policies to support the liquidity and functioning of the market for Treasury securities.

Treasury auctions in fiscal year 2010 have witnessed unprecedented demand. On average, nominal note and bond auctions have been oversubscribed by 1.9 times, significantly above the previous record of 1.5 times in fiscal year 2009. In this strong demand environment, Treasury extended the average maturity of the debt by 5 months, back to an historic average of 58 months. After large scale changes to the auction calendar in fiscal year 2009, this year's financing need have been reached mainly through changes to auction sizes.

## Conclusion

In fiscal year 2010, Treasury met or exceeded 89 percent of the targets that were established to demonstrate the achievement of financing the government at the lowest possible cost over time. There was a nearly 9 percent year over year decrease in cost per debt financing operation associated with the increased number of auctions.

## Moving Forward

BPD will move toward an all-electronic environment for retail securities. Although a date has not been established, proposed future plans include eliminating the issuance of paper over-the-counter savings bonds and decommissioning the legacy system

for marketable securities. TreasuryDirect will be enhanced to streamline payroll savings purchases and make it easier for investors to purchase securities as gifts. Retail payment systems will be updated to refer payments to the TOP to offset any debts that payees owe to the federal government.

BPD is also exploring the feasibility of conducting Treasury's marketable securities auctions via remote access. Remote access will strengthen BPD's ability to continue to execute auctions in a contingency situation.

Along with the Federal Reserve Bank of Philadelphia, BPD is working to automate the regression testing of major functionality within the Treasury Automated Auction Processing System. Scheduled for completion by the end of calendar year 2010, this project will save time and improve the quality of application software releases.

The GAIS program will work to maintain a high customer satisfaction rating from customers. Additionally, system functionality and reporting will continue to be enhanced to better serve customer needs.

Treasury anticipates that ODM will continue to be challenged given continued volatility in global financial markets. ODM has been working with outside consultants to develop models to improve its forecasting ability and is currently in the process of testing those models.

# Effective Cash Management

The Treasury manages the Government's central operating account and cash position to support gross annual transactions totaling $24 trillion. The Department's Office of Fiscal Projections (OFP) provides forecasts of federal receipts, outlays, and debt transactions to ensure that funds are available on a daily basis to cover federal payments. By increasing the accuracy of fiscal projections, the Department is able to minimize borrowing costs, which has direct and material impact on the government's net operating cost.

To analyze the effectiveness of the cash management techniques employed, the Department measures the variance between actual and projected receipts. This has been particularly challenging for the past few years due to the financial crisis. Treasury did not meet its aggressive goal of a five percent or lower variance in fiscal year 2010. The fiscal year 2010 result is consistent with the variance in the past four years.

### Key Performance Measure Table

The following table contains the key performance measure associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Variance between estimated and actual receipts (annual forecast) (%) | DO | 5.5 | 5 | 5.8 | 84.0% | 5.5% | Unmet | 5 | ▶ | ▲ |

## Analysis of Performance Results

Given economic uncertainties and legislative changes, the forecasts for fiscal year 2010 were not as good as those for fiscal year 2009. The estimated variance for fiscal year 2010 is 5.8 percent, higher than the 5.0 percent target. Revenue has been volatile over the past few years due to the financial crisis.

Individual tax payments in April came in below forecast as liability for tax year 2009 was much lower than expected. Credits from the Recovery Act, while stimulating the economy, further reduced these taxes. Corporate profitability and thus corporate tax receipts turned around, showing strong increases in fiscal year 2010. Federal Reserve Earnings, reflecting the increase in securities held by the Federal Reserve, more than doubled from their level in fiscal year 2009.

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

## Conclusion

OFP continues to effectively manage the government's daily cash position and to minimize borrowing costs over time to ensure that government activities and services continue uninterrupted. Despite not meeting the targeted variance between forecast and actual budget receipts, OFP continues to update and modify existing models and monitor new initiatives as they are introduced. The actual results came in close to the target considering the volatility and extent of the current economic environment.

## Moving Forward

Treasury anticipates that forecasting government receipts and outlays in fiscal year 2011 will continue to be challenging due to the difficulty in forecasting the strength of the current recovery. Volatility caused by changing economic conditions and new programs enacted by Congress will have to be accounted for in current forecasting models.

Further, Treasury is currently working to enhance its forecasting ability. OFP is in the process of developing a new system to create and manage its forecasts and expects this system to facilitate and strengthen its estimation process. The targeted variance between estimated and actual receipts will continue to be 5 percent in fiscal year 2011.

# Accurate, Timely, Useful, Transparent and Accessible Financial Information

The Government-wide Accounting and Reporting Program maintains the federal government's books and accounts for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system. Based on performance results, Treasury was successful in achieving accurate, timely, useful, transparent and accessible financial information during fiscal year 2010.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost per summary debt accounting transaction ($) | BPD | $8.66 | $11.81 | $11.41* | 103.4% | 31.8% | Exceeded | $12.54 | ▲ | ▲ |
| Release federal government-wide statements on time | DO | 1 | 1 | 1* | 100.0% | 0.0% | Met | 1 | ▶ | ▶ |
| Percentage of government-wide accounting reports issued accurately (%) | FMS | 100 | 100 | 100 | 100.0% | 0.0% | Met | 100 | ▶ | ▶ |
| Percentage of government-wide accounting reports issued timely (%) | FMS | 100 | 100 | 100 | 100.0% | 0.0% | Met | 100 | ▶ | ▶ |
| Unit cost to manage $1 million dollars of cash flow ($) | FMS | $7.08 | $11.77 | $7.36 | 139.8% | 4.0% | Exceeded | $10.15 | ▲ | ▼ |

*Estimated

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

## Analysis of Performance Results

FMS met or exceeded all three of its performance targets for this strategic outcome during fiscal year 2010. The unit cost to manage one million dollars of cash flow was $7.36, substantially lower than the $11.77 target but above the $7.08 level achieved in fiscal year 2009. FMS also met both its targets of 100% for accurate and timely reports on government-wide accounting.

BPD surpassed the target for its performance measure "Cost per Summary Debt Accounting Transaction." The cost was $11.41 in fiscal year 2010, below the target of $11.81. However, the cost was 32 percent above the fiscal year 2009 actual of $8.66.

## Financial Management Service

The Department, through FMS' Government-wide Accounting and Reporting Program, maintains the Federal Government's books and accounts for its monetary assets and liabilities by operating and overseeing its accounting and reporting system. The Consolidated Financial Report of the United States Government (FR) provides a comprehensive view of the Federal Government's finances and is critical to a fully informed budget process. FMS met the 45-day reporting deadline for the past five years for the FR. However, in fiscal year 2009, the OMB extended the release date of the Financial Report to February 26, 2010, due to substantial reporting requirements of the Recovery Act. The Department anticipates a return to the regular release schedule for the fiscal year 2010 FR of just 75 days after the close of the fiscal year.

To complement and support the accelerated release of the FR, Treasury continues to release the *Monthly Treasury Statement* on the eighth workday of each month. This release schedule allows Treasury to provide agency financial managers complete and accurate financial data more often as a basis for preparation of their financial statements.

Office of the Fiscal Assistant Secretary (OFAS), in cooperation with OMB, and with the support of the Government Accountability Office (GAO) develops, produces, and issues *The Federal Government's Financial Health – A Citizens' Guide to the Financial Report of the U.S. Government.* This Guide provides a summary of the key data and issues addressed in the full FR in a manner that is user-friendly to the general public.

The Government-wide Accounting (GWA) Modernization Program is improving long standing federal accounting processes and provides agencies with methodologies and tools to improve the accuracy and consistency of their financial data. This multi-year effort will improve the reliability, usefulness, and timeliness of the government's financial information and provide agencies and other users with better access to that information. It will also eliminate duplicate reporting and reconciliation burdens by agencies, resulting in significant government-wide savings.

To date, the program has implemented several improvements to provide agencies more timely data and enhanced tools to reconcile their fund balances with Treasury. The Authority Transaction Module automated the processes for borrowing from Treasury, non-expenditure transfers, and appropriation warrant transactions. The Provisional Account Statement now provides GWA Reporting Organizations the capability to view their submitted transactions on a daily basis, permitting a daily reconciliation of fund balances.

## Bureau of the Public Debt

Through its Summary Debt Accounting program, BPD continues to reliably account for the borrowing activity of the federal government and report timely on the resulting debt. During fiscal year 2010, 100 percent of daily financial statements were produced within three business days, and 100 percent of monthly ledgers closed within one business day. As noted in the *Schedules of Federal Debt*, these accomplishments contributed to continuous unqualified audit opinions and no material weaknesses of internal controls.

## Conclusion

FMS continues to make improvements to its policies, procedures, information systems, and internal controls associated with compiling and issuing the FR. GAO closed two of 44 recommendations in the fiscal year 2009 Audit Report. FMS will continue to resolve the preparation issues that are within its realm of control. OFAS continues to oversee increased efforts to resolve the significant disclaimers that have impacted the government-wide audit for more than a decade, including the development of a General Fund reporting entity, which is intended to facilitate interagency accounting, promote centralization and efficiency, and improve data integrity.

## Moving Forward

Treasury will continue to work to produce more accurate and useful financial statements and reports for the public. The Financial Information and Reporting Standardization (FIRST) initiative addresses the core of federal financial management problems, which is improving the quality of agency accounting. Once this foundation is in place, the Federal Government will be in a position to receive a clean audit opinion on the Financial Report of the U. S. Government. More importantly, FIRST will be the foundation for a central repository of accurate financial information.

Early in fiscal year 2011, the GWA Modernization Program will implement enhancements to all of its public facing components to allow agencies to enter and review the component based Treasury Account Symbol as published in the Common Government-wide Accounting Classification Code July 2007 Version 1.0 Document. Additionally, in mid fiscal year 2011, the program will implement the first Non-Treasury Disbursed Organization as a GWA Reporter. Additionally, the new Classification Transaction and Accountability Module will be deployed in 2011, facilitating the ability of agencies to more quickly transition to becoming GWA Reporters.

BPD will continue to accurately account for and report on federal debt. BPD will modernize its current summary debt accounting system and has established a goal to migrate to a shared service solution by fiscal year 2013. This approach will standardize business, system, and data elements and reduce operational risk and costs.

STRATEGIC GOAL:

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

## STRATEGIC OBJECTIVE: Improved Economic Opportunity, Mobility, and Security with Robust, Real, Sustainable Economic Growth at Home and Abroad

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

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

- Alcohol and Tobacco Tax and Trade Bureau (TTB)
- Community Development Financial Institutions Fund (CDFI Fund)
- The Office of the Comptroller of the Currency (OCC)
- The Office of Domestic Finance
- The Office of Economic Policy
- The Office of International Affairs
- The Office of Thrift Supervision (OTS)
- The Office of Financial Stability (OFS)

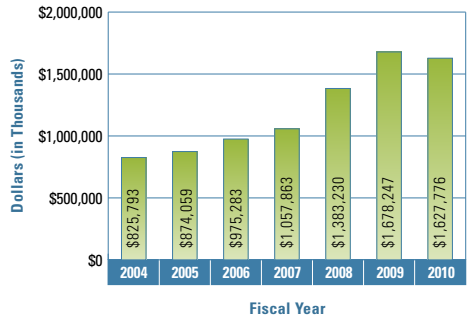
Performance measures associated with this objective had 24 percent more aggressive targets compared to 2009.

The outcomes associated with this objective are:

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

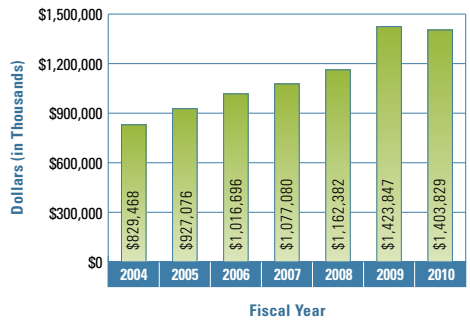
Budget Trend

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



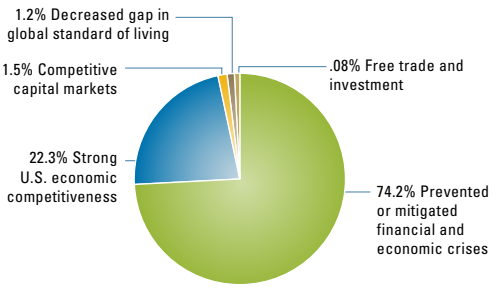

Performance Cost Trend

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




Performance Cost by Outcome

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



## Assessing the Effectiveness of Economic Policy

The Department's economic policy efforts can be separated into two categories: policy initiatives and established programs. Differences between them largely correspond to timing in the policy process. Policy initiatives are efforts to influence economic growth and financial market activity through new legislative proposals or government-wide policy. The Management Discussion and Analysis in Part One covers policy initiatives. Established programs are typically already defined by law or administrative function and have specific objectives and management scope. For performance management, it is generally easier to assess the performance of established programs, given their clearer objectives and scope. Most of the Department's performance measures consequently assess established programs and not policy initiatives.

# Strong U.S. Economic Competitiveness

Strong U.S. economic competitiveness is crucial for robust economic growth worldwide, continued investment in the United States, and job creation. The Treasury Department develops policies and programs intended to promote a prosperous financial infrastructure, a balanced macroeconomy, market efficiency, technological readiness, and innovation. For fiscal year 2010, Treasury generally met or exceeded its performance targets for established programs promoting U.S. economic competitiveness.

## Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Annual percentage increase in the total assets of Native CDFIs (%) | CDFI | 23 | 15 | 26 | 173.3% | 13.0% | Exceeded | 19 | ▼ | ▲ |
| Commercial real-estate properties financed by BEA Program applicants that provide access to essential community products and services in underserved communities | CDFI | 500 | 285 | 283 | 99.3% | -43.4% | Unmet | DISC | ▼ | ▼ |
| Community Development Entities' annual investments in low-income communities ($ billions) | CDFI | $3.60 | $2.50 | $3.10 | 124.0% | -13.9% | Exceeded | $2.50 | ▲ | ▲ |
| Community Development Entities' cumulative investments in low-income communities ($ billions) | CDFI | $12.50 | $10.00 | $15.80 | 158.0% | 26.4% | Exceeded | $10.00 | ▲ | ▲ |
| Dollars of private and non-CDFI Fund investments that CDFIs are able to leverage because of their CDFI Fund Financial Assistance ($ millions) | CDFI | $1,298 | $600 | $1,989 | 331.5% | 53.2% | Exceeded | $1080 | ▼ | ▲ |
| Increase in community development activities over prior year for all BEA program applicants ($ millions) | CDFI | $292 | $210 | $290 | 138.1% | -0.7% | Exceeded | $210 | ▲ | ▲ |
| Increase in the percentage of eligible areas served by a CDFI | CDFI | 25.1 | 21 | 27.5 | 131.0% | 9.6% | Exceeded | 20 | ▲ | ▲ |
| Number of full-time equivalent jobs created or maintained in underserved communities by businesses financed by CDFI program awardees | CDFI | 70,260 | 85,000 | 80,796 | 95.1% | 15.0% | Unmet | 85,000 | ▲ | ▲ |
| Number of small businesses located in underserved communities financed by BEA Program applicants | CDFI | 640 | 252 | 1005 | 398.8% | 57.0% | Exceeded | 250 | ▼ | ▲ |
| Percent of CDFIs that increased their total assets (cumulative) (%) | CDFI | 88 | 65 | 84 | 129.2% | -4.6% | Exceeded | 60 | ▼ | ▲ |
| Percent of CDFIs that increased their total assets over the previous year (%) | CDFI | 69 | 66 | 52 | 78.8% | -24.6% | Unmet | DISC | ▼ | ▼ |
| Percentage of eligible areas served by one or more CDFI (%) | CDFI | 14.8 | 5 | 16.6 | 332.0% | 12.2% | Exceeded | DISC | ▲ | ▲ |
| Percentage of loans and investments that went into severely distressed communities (%) | CDFI | 81 | 66 | 73.4 | 111.2% | -9.4% | Exceeded | 66 | ▶ | ▼ |
| Average number of days to process an original permit application at the National Revenue Center (%) | TTB | 64 | 72 | 65 | 109.7% | 1.6% | Exceeded | 70 | ▲ | ▲ |
| National Revenue Center (NRC) customer satisfaction survey | TTB | 89 | 85 | 89 | 104.7% | 0.0% | Exceeded | 85 | ▼ | ▼ |
| Percent of electronically filed Certificate of Label Approval applications (%) | TTB | 74 | 78 | 79 | 101.3% | 6.8% | Exceeded | 81 | ▲ | ▲ |
| Percentage of importers identified by TTB as illegally operating without a Federal permit (%) | TTB | 15 | 19 | 15 | 121.1% | 0.0% | Exceeded | 15 | ▼ | ▼ |

| Legend | Symbol |
|---|---|
| Favorable upward trend | ▲ |
| Favorable downward trend | ▼ |
| Unfavorable upward trend | ▲ |
| Unfavorable downward trend | ▼ |

| Legend | Symbol |
|---|---|
| No change in trend, no effect | ▶ |
| No change in trend, favorable effect | ▶ |
| No change in trend, unfavorable effect | ▶ |
| Baseline | B |

## Analysis of Performance Results

Performance for established programs promoting strong U.S. economic competitiveness exceeded target levels for 56 percent of measures, met targets for 32 percent of measures, and did not meet target levels for 12 percent of measures. Five performance measures were discontinued. CDFI Fund met or exceeded 18 of its 21 active performance measures, while TTB exceeded its four active performance measures. These results indicate that these programs generally succeeded in achieving their performance goals, although targets may need to be set more aggressively in some cases.

## Community Development Financial Institutions Fund

The CDFI Fund promotes economic opportunity by expanding the capacity of community development financial institutions to provide capital, credit, and financial services to underserved populations and economically distressed communities in the United States. The CDFI Fund receives applications on an annual basis and awards funds through a competitive process. The Fund's fiscal year 2010 activities can be broken up into six program areas: Financial and Technical Assistance (CDFI Program), New Markets Tax Credits Program (NMTC Program), Native Initiatives, Bank Enterprise Award Program (BEA Program), Financial and Education Counseling Pilot Program (FEC Pilot Program), and the Capital Magnet Fund (CMF).

- The CDFI Program in fiscal year 2010 awarded $104.8 million in funding to 179 community development financial institutions (CDFIs) and organizations to provide loans, investments, financial services, and technical assistance to underserved populations and low-income communities. In fiscal year 2010, the CDFI Program met its administrative target for cycle time from application deadline to the date of award announcement. The CDFI Program also met its administrative target of disbursing at least 85 percent of award funds in 60 days from the date of announcement. Due to increased program funding associated with the economic downturn, CDFIs were able to attract $1,989 million in private investment, far more than the target of $600 million. CDFIs provided funds for projects that created or maintained 80,796 jobs, which in the aftermath of the recession is lower than the target of 85,000 jobs. Since its inception in 1994, the CDFI Fund has awarded over $932 million through the CDFI Program.
- The NMTC Program, which provides tax credit allocation authority to CDEs for targeted investments in low-income communities, awarded $5 billion in tax allocation authority, including both the Recovery Act and regular tax credit authority. Cumulative investments in low-income communities rose to $15.8 billion, exceeding the performance target, an increase of $3.1 billion over the prior year. Allocatees projected 77,000 jobs will be created which would exceed the target of 60,000 jobs.
- NACA provides financial assistance, technical assistance, and training to Native American CDFIs and other Native entities seeking to become or create Native American CDFIs. NACA awarded $10.3 million in financial and technical assistance to 45 organizations. The NACA program disbursed 85 percent of both award fund rounds (Recovery Act and regular appropriations) 60 days from announcement. The NACA program registered a 26 percent increase in the total assets of NACA awardees, thereby exceeding its target.
- The BEA Program, which provides cash awards to banks for increasing their investment in low-income communities and CDFIs, registered an increase in community development activities. Fiscal year 2010 BEA Program awardees increased their qualified community development activities by $343.4 million over the prior fiscal year. This included a $276.2 million increase in loans and investments in distressed communities, a $53.4 million increase in loans, deposits, and technical assistance to CDFIs, and a $13.8 million increase in the provision of financial services in distressed communities. In fiscal year 2010, the BEA Program met its administrative cycle time target for processing applications to the date of award announcement in 21 weeks (which was less than the six month target). The BEA Program met its administrative cycle time target for disbursing at least 85 percent of the award funds within 60 from the date of award announcement.
- The FEC Pilot Program provides grants to organizations to establish and expand financial education and counseling services for prospective homebuyers. A total of $2 million was awarded equally to five organizations.
- The CMF will provide $80 million in grants to CDFIs and qualified nonprofit housing organizations in fiscal year 2011 following an application cycle which began in fiscal year 2010. CMF awards can be used to finance affordable housing activities, related economic development activities,

and community service facilities. Applications identified proposed housing projects in 49 states, the District of Columbia, and Puerto Rico and requested more than $1 billion in grants that would leverage an estimated $23.38 billion in total investments. The CDFI Fund met the application-award cycle time of 6 months with an application deadline of April 15 and an award announcement date of October 14, 2010.

## Protecting the Public through Alcohol and Tobacco Regulation

TTB uses its label approval, formula approval, and product integrity enforcement functions to protect alcohol consumers from fraud and deception. TTB received and processed about 6,700 domestic and imported alcohol beverage formulas and laboratory analyses to ensure that all ingredients met the Food and Drug Administration (FDA) food safety standards and were properly classified for tax and labeling purposes. Before alcohol beverages can be introduced into interstate commerce, a Certificate of Label Approval (COLA) or an exemption must be obtained from TTB by the importer or bottler. TTB seeks to protect consumers through its permitting process, ensuring that operators in the alcohol and tobacco industries are qualified. In fiscal year 2010, TTB issued 5,770 original and 18,200 amended permits; the total number of regulated industry members is now well over 52,000. TTB averaged 65 days to process original permit applications. Expeditiously processing permit applications allows qualified persons to commence operations sooner, and contributes to the overall growth and health of the U.S. and global economy. Additionally, through its screening process, TTB works to prevent illegal operations in the alcohol and tobacco industries. Because alcohol and tobacco trade is a lawful trade, and subject to substantial tax, it provides a compelling venue for organized crime and terrorist organizations to use the commodities for unlawful profits.

In fiscal year 2010, TTB approved 102,500 (78 percent) of the 132,600 COLA applications received; the remaining 30,100 applications were either rejected, returned for correction, withdrawn, expired, or surrendered. Applications received increased by more than six percent over fiscal year 2009, bringing total applications back to levels seen in 2008. As of August 23, 2010, 79 percent of the applications received were filed electronically through TTB's electronic label application system, COLAs Online, an increase of 5 percent over the prior year. Usage rates for the COLAs Online have increased more than 75 percent since the end of fiscal year 2003 when the system was introduced. Ongoing system enhancements and outreach efforts have contributed to high adoption rates.

In fiscal year 2010, TTB investigators closed more than 560 field investigations into permit applications, product integrity, and consumer complaints, and continued work on 280 in-progress investigations. To increase program effectiveness TTB revised its operating plan, directing resources to more complex and long-term investigations. Under the plan, TTB reduced its caseload to enable more in depth reviews of civil violations to determine if criminal conduct was involved. The flexibility built in to the new operating plan allowed TTB to redirect resources to address a scandal involving the fraudulent labeling of wine imported as Pinot Noir from France. TTB's work prevented approximately 1.9 million bottles of mislabeled Pinot Noir wine from reaching U.S. consumers in the marketplace.

TTB's International Trade program helps keep the U.S. economy strong by facilitating import and export trade in alcohol and tobacco products, while administering the consumer protection standards provided under its jurisdiction. By maintaining and enhancing collaboration with its counterpart regulators in foreign countries, TTB ensures that products entering the U.S. market are safe and compliant. TTB made significant progress in working with foreign counterparts and negotiating international agreements. Memoranda of Understanding (MOUs) in progress will facilitate trade by increasing mutual understanding of each country's alcohol and tobacco production requirements, labeling and licensing standards, and revenue protection measures. These agreements also provide a formal process whereby each party can exchange information that has the potential to impact trade, regulatory compliance, and product safety.

## Improving Access to Financial Services and Promoting Financial Capability

The Office of Financial Education promotes policies and programs that help empower Americans with the knowledge and skills they need to make wise financial choices. The Office also works to expand access to financial services for those outside the financial mainstream, such as Americans without bank accounts. Individuals and families with strong financial capabilities and access to financial services are more likely to be financially stable and invest for future goals such as homeownership, education, and retirement. The Office launched a pilot to help use tax refund season as an opportunity to provide

unbanked and underbanked Americans with access to safe, low-cost financial accounts.

Recent financial education efforts include launching an enhanced nationwide "Financial Capability Challenge" with the Department of Education to improve high school students' financial capabilities; providing leadership and support to the multi-agency Financial Literacy and Education Commission, which promotes federal interagency collaboration on financial education; overhauling the Financial Literacy and Education Commission's financial education website, *www.MyMoney.gov*, to make it a more powerful tool for consumers; and developing a national strategic plan to promote financial literacy.

## Conclusion

The CDFI Fund increased essential financial support to institutions serving low-income communities and underserved populations in the U.S. Through its programs and initiatives, the CDFI Fund enabled locally-based organizations to further economic development related to affordable housing, small businesses, community facilities, and community development financial services. To improve program management, the CDFI fund has initiated development of new performance measures.

TTB's Protect the Public program exceeded all of its performance targets in fiscal year 2010. TTB's efforts to boost electronic filing of alcohol beverage label applications resulted in performance results that exceeded the fiscal year target and improved upon 2009 performance results by seven percent. The bureau's rate of customer satisfaction with the permit and claims processing services at the NRC did not change from the prior year but efforts to improve turnaround times still helped TTB achieve a level of customer satisfaction five percent greater than its target. TTB's push for processing efficiency resulted in an average cycle time of 65 days to process an original permit application, better than its target of 72 days. However, this is one day longer than the 2009 average cycle time. TTB's ongoing mission to protect the public through improved enforcement is further evidenced by TTB's identification of only 15 percent of importers operating without a permit, unchanged from 2009. This measure gauges the threat to consumers and federal revenue collection by illicit import activity. TTB is reviewing alternative methods to assess importer compliance.

## Moving Forward

Economic recovery in low-income communities has historically lagged recovery elsewhere in the country. Like the communities they serve, CDFIs were hit especially hard by the economic downturn, and have found it more challenging to obtain sources of capital. In response, the CDFI Fund has been asked to implement several new programs and expand existing core programs. These initiatives will enable the CDFI Fund to expand assistance to underserved communities in new and highly focused ways.

In order to keep pace with this growth, the CDFI Fund has several priority projects planned for fiscal year 2011. The CDFI Fund is streamlining and enhancing its IT systems and data management processes to ensure there is sufficient capability to handle increased application workloads and the implementation of new programs. The CDFI Fund will continue to evaluate the high demand and impact of its programs and devise additional strategies to help meet those demands. The CDFI Fund will also evaluate innovative financial tools to promote access to capital and stimulate local economic growth. Finally, the launch of an enhanced compliance, monitoring, and certification effort is underway to ensure that CDFIs are satisfying all requirements.

In fiscal year 2011, TTB will continue to inform industry members of the benefits of E-filing and will continue to provide system demonstrations and publish online guidance to the user community. The introduction of Formulas Online (FONL), the new E-filing system that enables the online submission of alcohol beverage formulas, will also support increased user rates for COLAs Online. The integration of FONL with the existing COLAs Online system will streamline the process of obtaining both formula and label approval for those in the alcohol beverage trade. TTB adjusted its targets for fiscal year 2011 in response to the noncompliance rates reported in the last two years.

Even during the economic contraction, applications to open new businesses in the alcohol and tobacco industries continued to rise. Original permit applications have grown 19 percent over the last five years, and four percent in the last fiscal year. To address growing workloads, TTB purchased a commercial product to enable the electronic submission and processing of original and amended permit applications. In fiscal year 2011, TTB will begin its phased release of the new Permits Online (PONL) system. The first phase will enable electronic filing for the three highest volume permit areas. TTB anticipates increased cus-

tomer satisfaction as applicants experience faster response times and the ease of using the electronic filing system. Additionally, to streamline the permit application process, TTB created a task force to analyze and improve TTB bond forms, instructions, and internal business processes to improve service to industry.

TTB will continue to monitor imports of tobacco products by non-permitted entities, placing special emphasis on enforcing the *Prevent All Cigarette Trafficking Act* (PACT), legislation enacted in April 2010 to prevent tobacco smuggling and ensure the proper payment of all tobacco taxes. The methods most commonly used to import tobacco products without a permit and without payment of the appropriate taxes are internet and mail-order purchases. The PACT Act prohibits shipments of tobacco products via the U.S. Postal Service (USPS). In fiscal year 2011, TTB will coordinate with the USPS and other common carriers to provide enforcement assistance. Furthermore, under CHIPRA, all importers of processed tobacco are required to obtain an importers permit from TTB. In the year ahead, TTB will assess the number of legitimate importers of processed tobacco and ensure they apply for and obtain a permit or cease importations.

## Competitive Capital Markets

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

Robust supervision and regulation of financial firms, more comprehensive supervision of financial markets, provisions to protect consumers and investors from financial abuse, and establishment of viable government tools to manage financial crises are fundamental to a thriving and competitive financial system.

For a description of Treasury's initiatives associated with the maintenance of capital market stability, please refer to Management's Discussion and Analysis and the "Prevented and Mitigated Financial and Economic Crises" section.

# Free Trade and Investment

Open foreign and domestic markets for goods and services are vital for a robust, growing, and sustainable U.S. economy. Treasury continues to work with other agencies to fight protectionism and maintain open markets for American products and services. For fiscal year 2010, Treasury exceeded its performance targets for programs seeking to promote free trade and investment.

### Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of New Trade and Investment Negotiations Underway or Completed | DO | 15 | 6 | 13 | 216.7% | -13.3% | Exceeded | 6 | ▼ | ▼ |
| Number of specific new trade actions involving Treasury interagency participation in order to enact, implement and enforce U.S. trade law and international agreements | DO | 98 | 40 | 83 | 207.5% | -15.3% | Exceeded | 50 | ▼ | ▲ |

## Analysis of Performance Results

Performance for programs aimed at promoting free trade and investment greatly exceeded target levels for both measures. While actual results decreased from their 2009 levels, performance stayed well above operational targets for the year. This performance reflects the aggressive role Treasury is taking to strengthen international trade partnerships.

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

## Maintaining Attractiveness of Investment and Trade Environment

Maintaining the attractiveness of Investment and Trade environment in a global economy requires coordination with and the cooperation of international partners. In this area, Treasury worked with partners to improve joint stewardship of the global economy and has continued to play a leading role in advocating for a stronger and safer global financial system while fighting against protectionism.

- Treasury helped advance Strategic & Economic Dialogue (S&ED) trade issues with China, in particular indigenous innovation, government procurement, and investment liberalization, to ensure that U.S. invested companies and exports are treated fairly.
- Treasury supports trade liberalization and budget discipline through its role in negotiating, implementing, and policing international agreements to reduce official export subsidies. Treasury drastically reduced the number of subsidies that Organization for Economic Co-operation and Development (OECD) member governments can provide when financing national exports. The OECD agreements open markets and level the playing field for U.S. exporters and save U.S. taxpayers about $800 million annually.
- Treasury has actively engaged in interagency deliberations and decisions impacting more than 80 specific trade actions, including trade legislation (Generalized System of Preferences and Andean Trade Preferences Act extensions and enactment of the Haiti Economic Lift Program Act), trade disputes, review of country eligibility for preference programs, and review of specific trade petitions and recommendations.
- U.S initiatives to negotiate trade and investment agreements, particularly with regard to financial services and

financial transfers, were advanced by Treasury. Treasury participated in the launching, negotiation and, implementation of 13 trade and investment agreements. The centerpiece of the fiscal year 2010 trade agenda was the commencement of negotiations of the Trans-Pacific Partnership (TPP) Agreement, which includes Australia, New Zealand, Singapore, Chile, Peru, Brunei, Malaysia, and possibly Vietnam. Successful conclusion of the TPP Agreement, which could serve as a platform for economic integration across the Asia-Pacific region, can help America ensure its share of the job-creating economic opportunities this region has to offer.

- Efforts were made to further advance an ambitious and balanced Doha Round that would provide substantial new market access, and to address outstanding concerns with pending free trade agreements with Korea, Colombia, and Panama. Intensified engagement is expected to continue during the next fiscal year. In addition, several negotiations of Bilateral Investment Treaties are expected to continue.

## Conclusion

Improving trade and investment linkages with international partners is essential to sustaining the U.S. economy in a global market. To that end, Treasury exceeded its targets with regard to trade and investment negotiations, as well as trade actions. However, measures should be reassessed since results are heavily dependent on actions not necessarily within Treasury's control.

## Moving Forward

The Department will continue to play a critical role in advocating for free trade and preventing the effects of the global recession from leading to increased protectionism. In fiscal year 2011, Treasury is committed to moving forward with the pending free trade agreements with Korea, Columbia, and Panama as soon as possible. However, progress towards the Department's goals could be slowed if weaker economic conditions persist.

# Prevented or Mitigated Financial and Economic Crises

Treasury has been at the forefront of the U.S. Government's response to the financial crisis and economic recession. Through implementation of the *Dodd–Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act), *Housing and Economic Recovery Act of 2008* (HERA), *Emergency Economic Stabilization Act of 2008* (EESA), *American Recovery and Reinvestment Act of 2009* (Recovery Act), coordination with federal, state and international partners, Treasury's Housing Programs, regulation of national banks and thrifts, and various other initiatives, Treasury made concerted efforts in fiscal year 2010 to restore economic growth and create jobs. A description of some of these initiatives can be found in the Management Discussion and Analysis in Part I. Summary descriptions of these programs and their performance follows.

## Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Average days to close a FOIA case | DO | 67 | 64 | 95 | 51.6% | 41.8% | Unmet | 80 | ▼ | ▲ |
| Changes that result from project engagement (Impact) | DO | 3.1 | 3.1 | 3 | 96.8% | -3.2% | Unmet | 3.1 | ▶ | ▼ |
| Clean audit opinion on TARP financial statements | DO | 1 | 1 | 1 | 100.0% | 0.0% | Met | 1 | ▶ | ▶ |
| Percentage of Congressional correspondence responses drafted within 48 hours (%) | DO | 87 | 90 | 97 | 107.8% | 11.5% | Exceeded | 93 | ▲ | ▲ |
| Percentage of Customers Satisfied with FinancialStability.gov (%) | DO | 65 | 70 | 63 | 90.0% | -3.1% | Unmet | 65 | ▲ | ▼ |
| Percentage of SIGTARP and GAO oversight recommendations responded to on time | DO | 100 | 100 | 93 | 93.0% | -7.0% | Unmet | 100 | ▶ | ▼ |
| Scope and intensity of engagement (Traction) | DO | 3.7 | 3.6 | 3.5 | 97.2% | -5.4% | Unmet | 3.6 | ▶ | ▼ |
| Percent of national banks with composite CAMELS rating of 1 or 2 (%) | OCC | 82 | 90 | 70 | 77.8% | -14.6% | Unmet | 90 | ▶ | ▼ |
| Percentage of national banks that are categorized as well capitalized (%) | OCC | 86 | 95 | 90 | 94.7% | 4.7% | Unmet | 95 | ▶ | ▼ |
| Rehabilitated national banks as a percentage of problem national banks one year ago (CAMELS 3, 4 or 5) (%) | OCC | 29 | 40 | 23 | 57.5% | -20.7% | Unmet | 40 | ▶ | ▼ |
| Total OCC costs relative to every $100,000 in bank assets regulated ($) | OCC | $8.81 | $9.22 | $9.28* | 99.4% | 5.3% | Unmet | $9.22 | ▼ | ▲ |
| Percent of safety and soundness exams started as scheduled (%) | OTS | 94 | 90 | 97 | 107.8% | 3.2% | Exceeded | 90 | ▶ | ▲ |
| Percent of thrifts that are well capitalized (%) | OTS | 97 | 95 | 95 | 100.0% | -2.1% | Met | 95 | ▶ | ▼ |
| Percent of thrifts with composite CAMELS ratings of 1 or 2 (%) | OTS | 84 | 80 | 77 | 96.3% | -8.3% | Unmet | 80 | ▼ | ▼ |
| Total OTS costs relative to every $100,000 in savings association assets regulated ($) | OTS | $19.88 | $22.00 | $24.01 | 90.9% | 20.8% | Unmet | $24.00 | ▲ | ▲ |

*Estimated

| Legend | Symbol |
|---|---|
| Favorable upward trend | ▲ |
| Favorable downward trend | ▼ |
| Unfavorable upward trend | ▲ |
| Unfavorable downward trend | ▼ |

| Legend | Symbol |
|---|---|
| No change in trend, no effect | ▶ |
| No change in trend, favorable effect | ▶ |
| No change in trend, unfavorable effect | ▶ |
| Baseline | B |

## Analysis of Performance Results

Performance results for this outcome generally reflect the challenges associated with the slow economic recovery and still-weakened financial system. The performance measures for these programs are to a significant degree outcome-oriented, and their results will improve as the economy grows and the impact of the Department's programs mature. Target trends were generally level with 2009 results. Of the 11 measures that did not meet their targets, eight measures achieved 90 percent or higher of the target level.

Six new measures were baselined in fiscal year 2009 for OFS. The measures assess management of program operations and are intended to complement performance indicators used by the Department to track financial market conditions. In fiscal year 2010, OFS exceeded targets for 17 percent of these measures, met targets for 50 percent, and did not meet targets for 33 percent of measures. The widest gap between target and actual was for average days to process a FOIA request, which was 95 days rather than the target of 64. The result is associated with managing the most difficult legacy FOIA requests as the majority of FOIA cases on backlog were completed during the fiscal year.

OCC exceeded targets for 33 percent of its six measures and did not meet targets for 66 percent. OTS exceeded targets for 40 percent of its five measures, met targets for 20 percent, and did not meet targets for 40 percent.

## OFS Strategic and Operational Goals

The purpose of EESA was to provide the Secretary of the Treasury with the authorities and facilities necessary to restore liquidity and stability to the U.S. financial system. In addition, the Secretary was directed to ensure that such authorities were used in a manner that protects home values, college funds, retirement accounts, and life savings; preserves homeownership; promotes jobs and economic growth; maximizes overall returns to taxpayers; and provides public accountability. EESA also provided specific authority to take certain actions to prevent avoidable foreclosures.

In light of this statutory direction, Treasury established the following as its operational goals:

1. Ensure the overall stability and liquidity of the financial system
    a. Make capital available to viable institutions
    b. Provide targeted assistance as needed
    c. Increase liquidity and volume in securitization markets
2. Prevent avoidable foreclosures and help preserve homeownership
3. Protect taxpayer interests
4. Promote transparency

### *1. Ensure the Overall Stability and Liquidity of the Financial System*

To ensure the overall stability and liquidity of the financial system, Treasury developed several programs under TARP that were broadly available to financial institutions. Under the Capital Purchase Program (CPP), Treasury provided capital infusions directly to banks and insurance companies deemed viable by their regulators but in need of a stronger asset base to weather the crisis. The Capital Assistance Program (CAP) was developed to supplement the Supervisory Capital Assessment Program (SCAP), or "stress test" of the largest U.S. financial institutions. If these institutions were unable to raise adequate private funds to meet the SCAP requirements, Treasury stood ready to provide additional capital.

In addition, Treasury provided direct aid to certain financial industry participants through the Targeted Investment Program (TIP), the Asset Guarantee Program (AGP), and the AIG Investment Program. These programs were designed to mitigate the potential risks to the system as a whole from the difficulties facing these firms.

Similarly, the Automotive Industry Financing Program (AIFP) provided funding for General Motors Corporation (GM) and Chrysler LLC (Chrysler), as well as their financing affiliates, in order to prevent a significant disruption of the automotive industry that would have posed a systemic risk to financial markets and negatively affected economic growth and employment. Treasury's actions helped GM and Chrysler undertake massive and orderly restructurings through the bankruptcy courts that have resulted in leaner and stronger companies.

The Public-Private Investment Program (PPIP) was established to facilitate price discovery and liquidity in the markets for troubled real estate-related assets as well as the removal of such assets from the balance sheets of financial institutions. In addition to these initiatives, Treasury implemented the Consumer and Business Lending Initiative (CBLI) to enhance liquidity and restore the flow of credit to consumers and small businesses.

Treasury developed programs to revitalize asset-backed securities markets critical to restoring the flow of credit to consumers and small businesses. CBLI is composed of the Term Asset-Backed Securities Loan Facility, the SBA 7a Securities Purchase Program, and the Community Development Capital Initiative.

### *2. Prevent Avoidable Foreclosures and Help Preserve Homeownership*

To prevent avoidable foreclosures and preserve homeownership, Treasury launched the Making Home Affordable Program (MHA), which includes the Home Affordable Modification Program (HAMP). After 18 months, more than 1.3 million homeowners participating in HAMP have entered into trial modifications that reduced their mortgage payments to more affordable levels. This includes 619,000 homeowners with non-GSE loans. Nearly 500,000 homeowners participating in the HAMP Program have had their mortgage terms modified permanently, with over 220,000 of those participants in non-GSE loans that would be funded by the Department. HAMP participants (both GSE and non-GSE loans) collectively have experienced a 36 percent median reduction in their mortgage payments—more than $500 per month—amounting to a total, program-wide anticipated savings for homeowners of more than $3.2 billion. MHA has also spurred the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

In addition, Treasury launched the Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund, or HHF) to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines, and Treasury and the Department of Housing and Urban Development (HUD) enhanced the FHA Refinance Program by creating the FHA Short Refinance option to enable more homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages if their lenders agree to reduce principal by at least ten percent.

### *3. Protect Taxpayer Interests*

Federal government financial programs, including TARP, helped prevent the U.S. financial system from collapse, which could have resulted in a much more severe contraction in employment and production. The manner in which TARP was implemented is also designed to protect taxpayers and to compensate them for risk. For example, in exchange for capital injections, recipients of TARP funds have to adhere to corporate governance standards, limit executive pay, and provide additional reporting on lending activity. In addition, Treasury generally received preferred equity, which provides dividends. The dividend rates increase over time to encourage repayment.

Further, EESA stipulated that the taxpayer benefit as the institutions which received TARP funds recovered. In connection with most investments, Treasury also receives warrants for additional securities in the institutions. Under the broad programs described above, the Treasury has priority over existing shareholders of TARP recipients for which TARP holds equity investments. This gives taxpayers the ability to share in the potential upside along with existing shareholders.

Finally, Treasury seeks to achieve the goal of protecting the taxpayer through the effective management and disposition of all TARP investments.

### *4. Promote Transparency*

EESA requires transparency and accountability. Specifically, EESA requires Treasury to provide Congress with a variety of reports. These include a monthly report to Congress on TARP activity, and transaction reports posted within two days detailing every TARP transaction. In carrying out its operations, Treasury has sought to not only meet the statutory requirements but also to be creative and flexible with respect to additional transparency initiatives. Treasury proactively provides to the public monthly "Dividends and Interest Reports" reflecting dividends and interest paid to Treasury from TARP investments, loans, and asset guarantees, as well as monthly reports detailing the lending activity of participants in the CPP.

EESA also provided for extensive oversight of the TARP, including by the Congressional Oversight Panel, the Special Inspector General for the TARP, the Financial Stability Oversight Board (FSOB), and the GAO. In addition, Treasury officials frequently testify before Congress on the progress of TARP programs, and Treasury staff provide briefings to Congressional staff on programmatic developments.

### Troubled Asset Relief Program and the Office of Financial Stability

**Table 1: TARP Summary[1]**
**From TARP Inception through September 30, 2010**
**Dollars in billions**

| | Purchase Price or Guarantee Amounts | Total $ Disbursed | Investment Repayments | Outstanding Balance[2] | Received from Investments |
|---|---|---|---|---|---|
| Capital Purchase Program[3] | 204.9 | 204.9 | 152.5[4] | 49.8 | 19.8 |
| Targeted Investment Program | 40.0 | 40.0 | 40.0 | 0.0 | 4.2 |
| Asset Guarantee Program | 5.0 | 0.0 | 0.0 | 0.0 | 0.7 |
| American International Group Investment Program[5] | 69.8 | 47.6 | 0.0 | 47.6 | 0.0 |
| Consumer and Business Lending Initiative | 5.3 | 0.9[4] | — | 0.9 | — |
| Public Private Investment Program | 22.4 | 14.1 | 0.4 | 13.7 | 0.2 |
| Automotive Industry Financing Program | 81.8 | 79.7 | 11.2 | 67.2 | 2.9 |
| Treasury Housing Programs Under TARP | 45.6 | 0.5 | N/A | N/A | N/A |
| **Totals** | **474.8** | **387.7** | **204.1** | **179.2** | **27.8** |

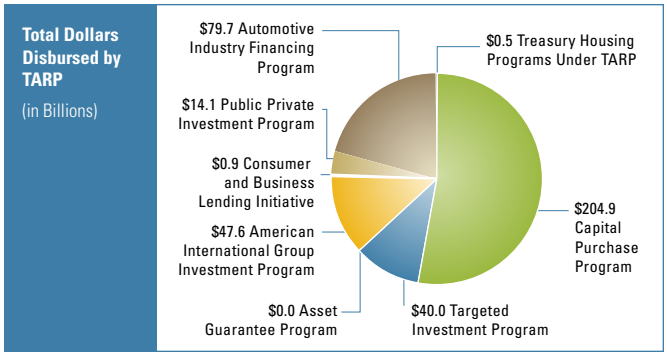
1 / This table shows the TARP activity for the period from inception through September 30, 2010, on a cash basis. Received from investments includes dividends and interest income reported in the Statement of Net Cost, and Proceeds from sale and repurchases of assets in excess of costs.

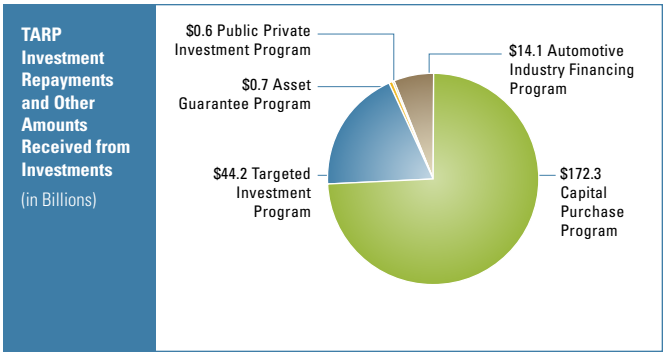
2 / Total disbursements less repayments do not equal the outstanding balance. Other transactions affecting the outstanding balance include Treasury housing program funding of $0.5 billion as repayments are not required (or expected). Also, the outstanding balance is affected by certain non-cash items including capitalized interest of $0.3 billion, write-offs totaling $3.9 billion, and losses on two preferred stock transactions of $0.2 billion.

3 / Treasury received $16.1 billion in proceeds from sales of Citigroup common stock, of which $13.1 billion is included at cost in investment repayments, and $3.0 billion of net proceeds in excess of cost is included in Received from Investments.

4 / Includes Community Development Capital Initiative exchange from CPP of $363 million.

5 / The disbursed amount is lower than purchase price because of the $29.8 billion facility available to AIG. During the periods ended September 30, 2010 and September 30, 2009, AIG drew $4.3 billion and $3.2 billion respectively from the facility, leaving an undrawn amount of $22.3 billion under this facility.




Additional information on the TARP program is available in the *Two-Year Retrospective Report on the Troubled Asset Relief Program* and OFS *Fiscal Year 2010 Agency Financial Report*, which can be found at *www.FinancialStability.gov*.

## Regulation of Banks and Thrifts

OCC and OTS are the primary regulators of national banks and thrifts, respectively. OCC and OTS work to streamline their licensing and supervisory procedures and to keep regulations current, clearly written, and supportive of an effective process that promotes competitive financial services, consistent with safety and soundness. Fiscal year 2010 activity focused on monitoring and responding to adverse conditions in the credit and financial markets, credit risk management, and national banks' and thrifts' loan portfolios. The Dodd-Frank Act calls for many of the duties of OTS to be transferred to OCC in July 2011, and for OTS to be abolished.

As the regulator of national banks, the OCC has established four strategic goals that help support a strong economy for the American public: 1) a safe and sound national banking system; 2) fair access to financial services and fair treatment of bank customers; 3) a flexible legal and regulatory framework that enables the national banking system to provide a full competitive array of financial services; and 4) an expert, highly motivated, and diverse workforce that makes effective use of OCC resources. To achieve the goals and objectives outlined in its strategic

plan, the OCC organizes its activities under three programs: Supervise, Regulate, and Charter.

As the supervisor of national banks, the OCC has various ways to influence the national banking system: policy guidance and regulations that set forth standards for sound banking practices; on-site examinations and ongoing off-site monitoring that enable OCC to assess compliance with those standards and to identify emerging risks or trends; and a variety of supervisory and enforcement tools—ranging from matters requiring boards' and managements' attention to informal and formal enforcement actions—that are used to obtain corrective action to remedy weaknesses, deficiencies, or violations.

As of June 30, 2010, OCC supervised 1,497 institutions with national bank charters and 51 federal branches, with assets totaling approximately $8.5 trillion. Ninety-one percent of national banks were classified as well capitalized. OTS supervised 753 private sector thrifts with assets of $931.2 billion. In addition, OTS supervised 441 holding company enterprises with approximately $4.1 trillion in U.S. domiciled consolidated assets. These enterprises owned 402 thrifts with total assets of $714 billion, or 77 percent of total thrift industry assets. A majority of thrifts, 95 percent, were classified as well-capitalized.

OCC's supervision ensures that the national banking system operates in a safe and sound manner while complying with consumer protection laws and regulations. As of September 30, 2010, 70 percent of national banks earned composite ratings of either 1 or 2 under the standard method of evaluating a bank's operations, to include Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk (CAMELS). The OCC's early identification and intervention with problem banks can lead to successful remediation of these banks.

The measure "Total OCC Costs Relative to Every $100,000 in Bank Assets Regulated" gauges the efficiency of OCC operations in meeting the supervisory demands of a growing, more complex national banking system. The measure supports the OCC's strategic goal of efficient use of agency resources. OCC's fiscal year 2010 cost relative to every $100,000 regulated was $9.28, while the target was $9.22. In fiscal year 2010, the OCC conducted a survey of national banks to assess the effectiveness of its supervisory policies. Over 75 percent of those who responded reported receiving the right amount of information for all subject areas. Bankers were also generally pleased with the overall quality of bulletins and handbooks.

OTS gauges efficiency through the measures "Percent of safety and soundness exams started as scheduled" and "Total OTS costs relative to every $100,000 in savings association assets regulated." In fiscal year 2010, targeted costs for regulating $100,000 in assets were $22.00, while actual costs were higher at $24.01. These costs are 21 percent higher than fiscal year 2009, largely due to the failure or merger of a number of larger thrifts. Ninety-seven percent of safety and soundness exams were started as scheduled in fiscal year 2010. This is an improvement over 94 percent in 2009 and surpasses the target of 90 percent.

## Promoting Credit Availability to Creditworthy Borrowers

Throughout the economic turmoil, the OCC has encouraged national banks to work constructively with borrowers who may be facing financial difficulty and to extend credit in a responsible and prudent manner. Ensuring that credit is extended in a responsible manner is especially important to the restoration of a healthy financial sector and strong economy.

- *Small Business Lending:* To help promote increased small business lending, the OCC and other federal banking agencies partnered with the Small Business Administration (SBA) and held seminars for bankers on small business lending issues and the SBA's loan programs. In February 2010, the OCC and other banking agencies issued an interagency statement on meeting the credit needs of creditworthy small business borrowers. The statement reiterates the agencies' policy that financial institutions that engage in prudent small business lending after performing a comprehensive review of a borrower's financial condition will not be subject to criticism for loans made on that basis.

  To improve the agencies' ability to monitor the credit available to households and businesses, the OCC and other federal banking agencies made several changes to the information that banks and thrifts must report in their Consolidated Reports of Condition and Income (Call Reports) and Thrift Financial Reports (TFR). Effective with their March 2010 filings, institutions have begun reporting small business loan data on a quarterly rather than annual basis. Institutions with $300 million or more in total assets or unused credit card commitments will also provide separately the amount of unused credit card lines for consumers and for other credit card borrowers. Additional breakdowns of other unused loan commitments will also be gathered.

This information will allow the agencies to better monitor credit flows throughout a business cycle.

- Residential Mortgage Modifications and Commercial Real Estate (CRE) Loan Work-outs: The OCC has also worked closely with Treasury on its various mortgage modification programs and efforts to help homeowners facing financial difficulty. The OCC has provided technical assistance on program design and implementation and has encouraged national banks to participate in those programs. In early 2009, Congress adopted the *Helping Families Save Their Homes Act of 2009*. Section 104 of this Act requires the OCC and OTS to submit the Mortgage Metrics Report to Congress on a quarterly basis and specifically requires the number of mortgage modifications made that resulted in lower payments and the number of modified mortgage that re-defaulted.

  In response to the growing number of residential mortgage modifications and CRE work-outs, in fiscal year 2010 the OCC provided additional supervisory guidance on accounting and classification issues associated with such activities. The OCC supervisory guidance to examiners on residential mortgage modifications stressed that the OCC expects mortgage modifications to be undertaken in a manner that improves the likelihood that borrowers can repay the restructured credit under modified terms and in accordance with a reasonable repayment schedule. In October 2009, the OCC and other banking agencies issued a joint policy statement on prudent CRE workout programs. The statement is intended to promote supervisory consistency, enhance the transparency of CRE workout transactions, and ensure that supervisory policies and actions do not inadvertently curtail the availability of credit to creditworthy borrowers. The statement includes a variety of examples to illustrate how examiners will apply the principles outlined in the guidance. The agencies hosted a seminar for the banking industry on the guidance in December 2009.

## Bank Secrecy Act/Anti-Money Laundering (BSA/AML)

Through on-site examination activities, the OCC and OTS examiners evaluate banks' and thrifts' compliance with BSA/AML requirements and, where weaknesses are noted, seek corrective action. The OCC has also developed a Money Laundering Risk System that provides community banks with succinct BSA/AML risk assessment information to enhance the effectiveness of BSA/AML supervision. The OCC, the OTS, and other Federal Financial Institutions Examination Council (FFIEC) member agencies issued a revised FFIEC BSA/AML Examination manual in April 2010 to incorporate regulatory changes and new supervisory guidance. In March 2010, the OCC and the OTS, along with the other federal banking agencies, FinCEN, SEC, and Commodity Futures Trading Commission (CFTC) issued interagency guidance on obtaining and retaining beneficial ownership information. The guidance clarifies and consolidates existing regulatory expectations for financial institutions obtaining beneficial ownership information for certain accounts and customer relationships.

## Fair Access to Financial Services and Fair Treatment of Bank Customers

The OCC fulfills its strategic goal of fair access to financial services and fair treatment of bank customers through its ongoing supervisory programs for national banks and their operating subsidiaries. These programs include ongoing supervisory examinations to ensure compliance with fair lending laws, the *Community Reinvestment Act* (CRA), section 5 of the *Federal Trade Commission Act* (prohibiting unfair or deceptive acts and practices), and other consumer laws and regulations. In addition to supervisory activities, the OCC issues guidance and handbooks, and offers training to bankers and bank directors to help them understand and meet their compliance and CRA obligations.

## Fair Lending

The OCC's and OTS's fair lending supervisory process is designed to assess and monitor the level of fair lending risk in every national bank and thrift. The OCC and the OTS assess compliance with fair lending laws and regulations; obtain corrective action when significant weaknesses or deficiencies are found in a bank's policies, procedures, and controls relating to fair lending; and ensure enforcement action is taken when warranted.

The OCC and the OTS responded to the mortgage crisis by encouraging national banks and thrifts to work with consumers, supporting private and public sector initiatives and programs that seek to assist these borrowers, and collecting and analyzing extensive mortgage lending and workout data from the largest national banks and thrifts. In January 2010, the OCC updated its Fair Lending examination handbook to more effectively address disparate treatment in loan pricing, broker activity redlining, and steering borrowers to higher cost loans. These updates were coordinated with the other federal banking agencies.

## Community Development

The OCC actively supports the efforts of national banks to engage in sound and successful community development activities and processes community development investment notices and proposals under title 12, Code of Federal Regulations Part 24. The OCC, the OTS, and other federal banking agencies, were co-sponsors of the 2010 National Interagency Community Reinvestment Conference. Through the first half of fiscal year 2010, national banks made $2.31 billion in Part 24 investments.

The OCC and the OTS also conduct outreach with a variety of organizations, including advocacy groups, research organizations, community development practitioners, and community development membership organizations whose constituencies include or affect low- and moderate-income consumers, distressed communities, and small and minority-owned businesses. During fiscal year 2010, the OCC identified and publicized strategies for stabilizing communities affected by foreclosure and resulting property vacancies and continued its support of financial literacy programs. The agency issued publications and partnered with the SBA to promote bank involvement in economic stimulus and recovery measures.

While maintaining its consumer help Web site, which was launched in 2007 (*www.helpwithmybank.gov*), the OCC continued to seek ways to work with the other federal financial regulatory agencies to better assist consumers when they have questions or need help in resolving issues with their banks.

## Consumer Protection

During fiscal year 2010, the OCC and the OTS continued their work with the other federal banking agencies to improve consumer protection. These efforts included an interagency initiative to design and test a more understandable financial privacy notice that is clear so that consumers can effectively exercise their preferences for information sharing. After conducting both quantitative and qualitative consumer research, the OCC, the OTS, and other federal agencies (including the CFTC, FTC, and SEC) finalized model privacy notice forms. In November 2009, the forms were provided to the industry through amendments to the rules that implement the financial privacy requirements of the Gramm-Leach-Bliley Act. In April 2010, the eight federal regulators released an Online Form Builder that financial institutions can download and use to develop and print customized versions of the model consumer privacy notice.

In December 2009, the OCC, the OTS, and other federal banking agencies issued for public comment proposed supervisory guidance on managing consumer compliance and reputation issues involved with reverse mortgages. The guidance discusses legal questions raised by reverse mortgages and stresses the need to provide adequate information to consumers about these products, provide qualified independent counseling to consumers considering them, and avoid potential conflicts of interests. The guidance also addresses related policies, procedures, internal controls, and third party risk management. Final guidance was issued in 2010. Effective with the December 31, 2010, Call Report and TFR filings, financial institutions will be required to provide information on the volume of reverse mortgages that they hold or have originated and sold during the year and on the volume of referrals they made to other lenders for a fee for such products.

The OCC is leading the interagency effort and OTS is participating along with other federal agencies in implementing the registration requirements of the *Secure and Fair Enforcement for Mortgage Licensing Act of 2008* (S.A.F.E. Act). In June 2009, the agencies issued a proposal that establishes the registration requirements for mortgage loan originators employed by agency-regulated institutions, as well as requirements for these institutions, including the adoption of policies and procedures to ensure compliance with the S.A.F.E. Act and final rule. The law also requires these mortgage loan originators to obtain a unique identifier through the Nationwide Mortgage Licensing System and Registry (Registry) that will remain with that originator, regardless of changes in employment. When the system is fully operational, consumers will be able to use the unique identifiers to access employment and other background information of registered mortgage loan originators. The final rule was issued in July 2010. Substantial progress also has been made in modifying the Registry to accommodate the registration of employees of agency-regulated institutions. The Registry is expected to be fully operational in January 2011.

In April 2010, OTS proposed Supplemental Overdraft Guidance, and in May, 2010, issued examination procedures for reviewing unfair or deceptive acts or practices under the Federal Trade Commission Act. OCC, OTS and the other federal banking regulators issued revised examination procedures for regulations incorporating consumer protections for credit cards, gift cards, and electronic transaction overdrafts in the *Credit Card Accountability, Responsibility and Disclosure Act of 2009.*

In addition to these interagency efforts, in fiscal year 2010 the OCC issued guidance on consumer protection and safety and soundness issues associated with tax refund anticipation loans, guidance to national banks on complying with provisions of the new opt-in requirements relating to overdraft protection programs, and provisions of the Credit CARD Act of 2009.

The OCC also worked with the other federal banking agencies to develop and issue examination procedures related to the Unlawful Internet Gambling Enforcement Act of 2006 and the Protecting Tenants at Foreclosure Act of 2009.

In 2010, the OCC continued the quarterly public service advertisement program, started in 2006, to promote awareness of banking issues and policies that affect consumers. The agency released print articles and 30-second radio spots in English and Spanish for use in local newspapers and radio stations. Topics covered in 2010 included gift cards, tenants in foreclosure, overdraft protection and refund anticipation loans. The spots ran more than 6,500 times in 44 states.

### Enforcement

As needed, the OCC uses its enforcement authority to address safety and soundness violations and noncompliance with laws and regulations. Through the first half of fiscal year 2010, the OCC issued 207 enforcement actions against national banks and 82 against institution-affiliated parties. The OCC assessed a $50 million civil money penalty against a national bank for violations of the Bank Secrecy Act (BSA) as part of a coordinated action with the DOJ, Financial Crimes Enforcement Network (FinCEN), and other federal agencies. The bank also agreed to forfeit $110 million to the U.S. under a deferred prosecution agreement with the U.S. Attorney's Office in the Southern District of Florida and the Department of Justice.

The OCC also entered into a Formal Agreement with a national bank to reimburse consumers harmed by the bank's credit card account closing practices; agreed-upon reimbursement totaled $775,000. In another action, a national bank was directed to make $5.1 million in restitution to over 60,000 consumers adversely affected by its relationships with a third party payment processor. The bank also received a $100,000 civil money penalty.

## Contributions of the Office of Economic Policy

Economic Policy continued to support the Secretary and other senior policy makers by providing technical analysis, economic forecasts, and policy guidance. The Office routinely provided economic intelligence on current and prospective economic developments in the United States. Throughout the fiscal year, staff monitored and analyzed a number of trends and economic developments, including the ongoing housing market correction, the pace of economic recovery, and developments in labor markets. Economic Policy continued to carry out its traditional role in the preparation of the President's budget and supported the Secretary of the Treasury in his roles as Chairman and Managing Trustee of the Social Security and Medicare Boards of Trustees. Specific examples of contributions are listed below:

- Economic Policy continued to play a key role in the development and operations of the HAMP component of the Making Home Affordable Initiative, which aims to provide relief to struggling homeowners and stabilize the housing market.
- Economic Policy conducted ongoing research on policies enacted to assist in the recovery of the economy. The research culminated in a series of reports to increase understanding of the impact of the policies and provide guidance on future policy development. Topics covered include the COBRA tax credit, the HIRE Act tax exemption, and Build America Bonds.
- Economic Policy has also been involved in the implementation of the Affordable Care Act, specifically in providing analysis and recommendations for the regulations that are being issued.

## Conclusion

Treasury supported key legislation, the Dodd-Frank Act and the Small Business Jobs Act, in its efforts to repair and reform the financial system and the economy. Treasury made a substantial contribution towards stabilizing the housing market through HAMP and Treasury Housing Programs; however, this critical sector of the economy remains fragile. Private capital has not yet returned to the market, and the GSEs and the government

continue to play an outsized, though necessary, role in ensuring the availability of mortgage credit. Roughly 95 percent of all mortgages are currently financed through either the GSEs, Ginnie Mae, the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or the Department of Agriculture (USDA).

Treasury seeks to exit investments as soon as practicable to remove Treasury as a shareholder, eliminate or reduce Treasury exposure, return TARP funds to reduce the federal debt, and encourage private capital formation to replace federal government investment. The desire to achieve such objectives must be balanced against a variety of other objectives, including avoiding further financial market or economic disruption and the potentially negative impact to the issuer's health or capital raising plans from Treasury's disposition. Treasury must also consider the limited ability to sell an investment to a third party due to the absence of a trading market or lack of investor demand, and the possibility of achieving potentially higher returns through a later disposition. An issuer typically needs the approval of its primary federal regulator in order to repay Treasury, and therefore regulatory approvals also affect how quickly an institution can repay.

## Moving Forward

Treasury's implementation of key financial reforms and efforts to support economic recovery will continue into fiscal year 2011. Implementation of Dodd-Frank Act and Small Business Jobs Act initiatives, continued implementation of Recovery Act programs, management of the wind-down of TARP, implementation of housing programs, and other efforts are essential to supporting the Department's goal of restoring financial strength and long-term stability.

In fiscal year 2011, Treasury will play a key role in facilitating development of a new system for housing finance, while being careful to maintain relative stability in the housing market through this difficult time. A stable, well-functioning market should achieve the following objectives:

- Widely available mortgage credit
- Housing affordability
- Consumer protection, including easy-to-understand mortgage products and honest practices
- Financial stability, meaning that credit and interest rate risk are spread in an efficient and transparent manner that does not generate excess volatility
- Alignment of incentives of issuers, originators, brokers, ratings agencies and insurers for long-term viability rather than short term gains
- Avoidance of privatized gains funded by public losses
- Strong regulation to ensure capital adequacy throughout the mortgage finance chain, enforce strict underwriting standards and protect borrowers from unfair, abusive or deceptive practices
- Standardization of mortgage products
- Support for affordable single and multifamily housing
- Diversified investor base and sources of funding
- Accurate and transparent pricing
- Secondary market liquidity
- Clear goals and objectives for institutions that have government support, charters, or mandates

In addition, in March 2010, the Obama Administration announced enhancements to an existing FHA program that will permit lenders to provide additional refinancing options to homeowners who owe more than their homes are worth because of large declines in home prices in their local markets. This FHA Short Refinance program will provide more opportunities for qualifying mortgage loans to be restructured and refinanced into FHA-insured loans. TARP funds will be made available up to approximately $8 billion in the aggregate to provide additional coverage to lenders for a share of potential losses on these loans and to provide incentives to support the write-downs of second liens and encourage participation by servicers.

Treasury is also planning studies and program evaluations. In order to understand what drives mortgage defaults, Treasury will link data on individual mortgages to administrative data on employment status and individual borrowers from credit bureaus. A more thorough understanding of what drives mortgage performance could expand the options available to the government to manage its exposure to mortgage risk, address the problem of

legacy assets in the financial system, and contribute to effective housing policies that strengthen the market.

Treasury will also ensure that OTS authorities, duties, employees, and property are transferred in an orderly fashion to OCC, Federal Reserve, and FDIC. OCC's priorities for fiscal years 2011-2012 will focus on strengthening the resiliency of the national banking system through our supervisory and regulatory programs and activities. Other supervisory priorities include identifying and resolving potential problem banks at the earliest possible stage; encouraging national banks to meet the needs of credit worthy borrowers, including appropriate and effective residential mortgage modification programs; and ensuring that national banks comply with CRA, the BSA/AML, and USA PATRIOT Act requirements; and further enhancing supervisory analytical tools. Many national banks will continue to have substantial volumes of troubled loans. In addition, the OCC expects the level of enforcement actions associated with problem banks and bank failures to continue through the next fiscal year.

# Decreased Gap in Global Standard of Living

A decreased gap in the global standard of living, associated with improved economic conditions in emerging markets, improves economic opportunity for Americans. For the two performance measures associated with decreasing the gap in the global standard of living, Treasury exceeded the 2010 performance target for one and the other was baselined. This performance reflects an improvement from 2009, when one target was not met.

### Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Monitor quality and enhance effectiveness of International Monetary Fund (IMF) lending through review of IMF country programs (%) | DO | | Baseline | 97 | 100.0% | NA | Met | 100 | B | B |
| Percentage of Grant and Loan Proposals Containing Satisfactory Frameworks for Results Measurement (%) | DO | 94 | 90 | 92.5 | 102.8% | -1.6% | Exceeded | 90 | ▶ | ▲ |

## Analysis of Performance Results

Performance for programs seeking to decrease the gap in the global standard of living exceeded one target and met the other. The measure related to IMF program effectiveness was baselined, and the previous measure was discontinued. For "Percentage of grant and loan proposals containing satisfactory frameworks for results measurement," the actual result exceeded the target but decreased from 2009 actuals. Given that actual results have exceeded targets for this measure for the last four years, it may be worth revising the target upward in the future.

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

## International Financial Institution Support

The Treasury Department provided critical support for U.S. efforts to foster a strong and sustainable global economic recovery through G-20 actions. Robust foreign growth, particularly robust foreign domestic demand growth, is extremely important to a vibrant U.S. economy and U.S. job creation. This is especially true at a time when Americans are re-building their personal finances and saving more. Recognizing the need for a balanced global economy in which foreign economies are more reliant on domestic sources of growth and U.S. growth is less skewed toward domestic demand, the U.S. proposed a Framework for Strong, Sustainable, and Balanced Growth, which was adopted at the Pittsburgh Summit by G-20 Leaders.

The Framework is essentially a commitment by the world's leading economies to monitor current and prospective economic developments and cooperate on implementing globally consistent policies. Achievements in the first year have focused on establishing five-year baseline forecasts for growth, demand, and the evolution of external balances and on developing baskets of policies that potentially could improve outcomes relative to the baseline. The key U.S. objectives within the G-20 macroeconomic dialogue are to ensure a strong recovery, create jobs, reduce unemployment, and foster durable, long-term growth through a more balanced global economy.

The Treasury Department continued to play a central role in efforts to build a stronger and safer global financial system. Through the G-20 process, the Financial Stability Board, and engagement with international standard setting bodies, Treasury

led efforts to ensure that reforms in the international financial system matched domestic regulatory reform initiatives. This will ensure that banks here and in foreign countries comply with high standards and are prevented from a "race to the bottom." In fiscal year 2010, the Treasury Department strongly supported international efforts to strengthen bank capital standards. These standards will require banks to hold enough capital so they can withstand losses similar to those sustained in the depths of the recession without turning to the taxpayer for help. Banks will be required to hold significantly more capital against the types of risky trading-related assets and obligations that caused so much unexpected financial damage during the crisis.

The Treasury Department's leadership in the International Monetary Fund (IMF) helped advance U.S. priorities of modernizing the IMF's governance structures to reflect global economic realities and enhancing the IMF's lending toolkit for more effective crisis prevention and response. With strong support from the U.S., the IMF membership is working to achieve a five percent shift in IMF quota share from overrepresented countries to underrepresented, dynamic emerging market and developing countries. In fiscal year 2010, the Treasury Department supported international efforts to strengthen the global financial safety net through enhancements to the IMF's Flexible Credit Line for the strongest performing members and the creation of a Precautionary Credit Line for emerging market members with sound policies and need for contingent financing to maintain market confidence.

## Provided financial and logistic support for Haiti earthquake relief

Immediately following the January 12 earthquake, Treasury officials facilitated the delivery of roughly $2 million in cash to a major Haitian microfinance institution to help survivors access savings and remittances, even while domestic banks remained closed. Treasury deployed a senior advisor within two weeks of the earthquake to assist in reconstructing the tax system database, recovering and protecting two hundred years' worth of land titles and official records of all bank loans, and participated in the post-disaster needs assessment team which supported the Haitian Government's presentation of a credible needs estimate to international donors in March. Furthermore, Treasury personnel led the global initiative to relieve Haiti's debt to the international financial institutions and worked extensively to help secure funding from Congress for a U.S. contribution of up to $120 million in reconstruction aid for the multi-donor Haitian Reconstruction Fund (HRF). At the request of the Government of Haiti, Treasury played an integral role in designing and negotiating a partial credit guarantee fund to assist banks in restructuring loans and extending new credit to small and medium-sized enterprises (SMEs) and credit cooperatives. The credit guarantee fund was subsequently supported by funding from the HRF trust fund, the World Bank, and the Inter-American Development Bank (IDB).

## Expanded access to financial services for consumers and small and medium-sized enterprises

Treasury worked with fellow G-20 co-chairs Canada and Korea to create and lead the G-20 Financial Inclusion Experts Group. The group worked in two tracks dedicated to expanding financial services for consumers and SMEs. The first track of experts surveyed best practices among national regulators and international standards-setting bodies to develop a list of policy principles to support expanding innovative approaches to financial service delivery and an action plan for implementing these principles around the world. The second track launched the SME Finance Challenge, in which G-20 leaders called on the private sector to provide innovative ideas for public initiatives to marshal private financing for SMEs, and on international financial institutions (IFIs) to support the winning entries. SMEs are key to economic growth and job creation, and the SME Finance Challenge will award effective and innovative ideas for financing SMEs with the resources to scale up implementation. Connecting poor households and businesses to resources for savings, credit, and insurance enables them to harness the power of entrepreneurship and create more stable, successful livelihoods.

## Conclusion

In the wake of the financial crisis, the IFIs provided expanded lending facilities and economic advice to merger countries, which helped foster global recovery. While the work done by these institutions has been instrumental in helping to rebuild the global economy, the two measures associated with this outcome do not adequately capture that work. Going forward, the Department will work to create measures that not only capture workload but also focus on broader outcomes that allow for the effective assessment of U.S. investments in these institutions.

## Moving Forward

Restoring normal growth in emerging markets will require increased commitments from global governments to provide funding that is currently unavailable from private markets. Having responded to the needs of borrowers in the wake of the financial crisis, the next step will be to ensure that the IFIs are adequately capitalized to meet the needs of members as their economies recover. Further, the Department will continue to push for reform at these institutions, leveraging U.S. commitments to secure greater performance and results management.

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

Continued trust and confidence in the integrity of United States currency and its acceptance as a secure medium of exchange in business transactions enables the free flow of domestic and global commerce and contributes to the security and stability of the world's monetary system. Worldwide circulation of U.S. currency notes is estimated to exceed $830 billion in value. As much as two-thirds of that circulates outside the borders of the United States. To instill a high degree of trust and confidence in the integrity of U.S. currency, the Department's currency products are designed to achieve the maximum possible levels of deterrence against counterfeiting, product quality, user acceptance, and cost-effectiveness. To achieve these levels, the Bureau of Engraving and Printing (BEP) and the United States Mint manufacture and deliver high-quality U.S. currency notes and coins to the United States Federal Reserve. The BEP also produces security documents for federal agencies, and the United States Mint also produces and sells investment-grade precious metal bullion coins as well as high-quality numismatic coin products to the public. In addition to producing coins, the United States Mint also secures the nation's precious metal reserves.

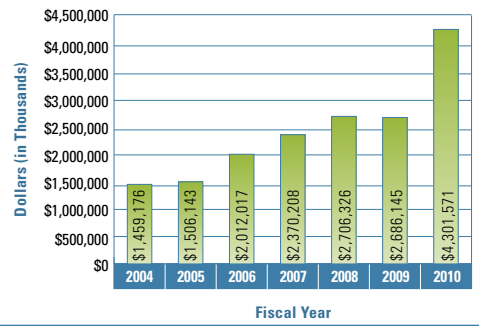
The bureaus and policy offices responsible for the achievement of this objective are:

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

Performance targets associated with this objective did not change from 2009 to 2010.

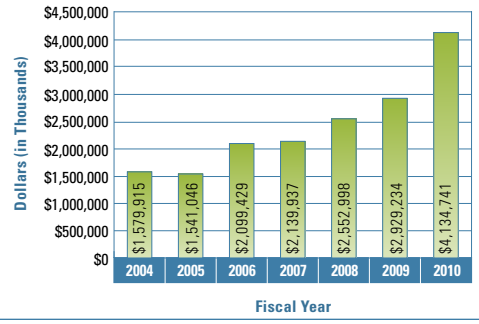
Budget Trend

**Trust and Confidence in U.S. Currency Worldwide**



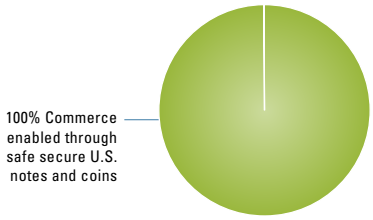

Performance Cost Trend

**Trust and Confidence in U.S. Currency Worldwide**




Performance Cost by Outcome

**Trust and Confidence in U.S. Currency Worldwide**



# Commerce Enabled Through Safe, Secure U.S. Notes and Coins

The performance measure results for this program were significantly impacted by two global economic trends: the slow economic recovery and increase in commodity costs. Large swings in currency note and coin orders increased production costs, metal prices pushed down seigniorage rates, and the slow economic recovery led to a smaller customer base for numismatic coins. Even with these trends, Treasury still managed to come within 10 percent of its targets for the majority of measures for which it did not meet its targets.

### Key Performance Measure Table

The following table contains key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Currency shipment discrepancies per million notes (%) | BEP | 0.00 | 0.01 | 0.00* | 100.0% | 0.00% | Exceeded | 0.01 | ▶ | ▼ |
| Manufacturing costs for currency (dollar costs per thousand notes produced) ($) | BEP | $32.77 | $37.00 | $44.85* | 78.8% | 36.9% | Unmet | $44.00 | ▲ | ▲ |
| Percent of currency notes delivered to the Federal Reserve that meet customer quality requirements (%) | BEP | 99.9 | 99.9 | 97.5* | 97.6% | -2.4% | Unmet | 99.9 | ▶ | ▼ |
| Circulating on-time delivery (%) | Mint | | Baseline | 99.8 | 100.0% | NA | Met | 88 | B | B |
| Customer Satisfaction Index - A measure of the satisfaction of customers with numismatic products (%) | Mint | 88.3 | 88 | 86.1 | 97.8% | -2.5% | Unmet | 88 | ▼ | ▼ |
| Numismatic Customer Base | Mint | 1.06 | 0.9 | 0.798 | 88.7% | -24.7% | Unmet | 1 | ▼ | ▼ |
| Safety Incident Recordable Rate | Mint | | Baseline | 2.29 | 100.0% | NA | Met | 3.34 | B | B |
| Seigniorage per Dollar Issued ($) | Mint | $0.55 | $0.53 | $0.49 | 92.5% | -10.9% | Unmet | $0.41 | ▼ | ▼ |

*Estimated

## Analysis of Performance Results

In fiscal year 2010, eight measures were reported for this objective, two of which were new measures. Of all eight measures, one measure (13 percent) exceeded the performance target. Five measures (62 percent) did not meet targets. A baseline was being established for two measures (25 percent), which count as having met their target. Eleven measures were discontinued during fiscal year 2010, and two measures were discontinued in fiscal year 2009. The search for new and more informative metrics to drive improved performance is a positive effort. However, a more stable way to measure success is needed.

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

## Bureau of Engraving and Printing

In fiscal year 2010, BEP delivered 6.4 billion currency notes to the Federal Reserve Board. This is an increase of 200 million units (three percent) over the 6.2 billion notes delivered in 2009. BEP failed to meet the Federal Reserve's quality standard due to a problem with the redesigned $100 note creasing during production. Productivity decreased in from 2009 to 2010 by 8.8 percent largely as a result of high spoilage and slower operating speeds as production of the newly redesigned $100 currency note commenced. BEP did not meet its performance target for "Cost per 1,000 Notes Produced" due to complexities encountered as production began on the new $100. BEP's manufacturing costs increased from $32.77 per thousand units in 2009 to $44.85 in 2010, a 37 percent increase. The jump in cost was largely driven by a marked increase in the cost of counterfeit

deterrent features added to the paper BEP uses to produce the new $100 note and problems encountered during production that significantly increased spoilage. Another driver of the increase was a continued trend in the 2010 Federal Reserve's currency order toward a proportionally greater amount of higher denomination notes, which are more costly to manufacture due to their enhanced counterfeit deterrent features. Unlike the U.S. Mint, BEP is fully-funded by the Federal Reserve, and any return made is paid by the Federal Reserve to the Treasury General Fund rather than by BEP.

The redesigned $100 note made its debut on April 21, 2010 during a ceremony at the Treasury. The redesign of the $100 note marked the completion of a multi-year initiative to implement the most ambitious currency redesign in United States history. The innovative security features in the new note are the work of more than a decade of research and development to protect U.S. currency from counterfeiting. The new notes have enhanced overt counterfeit deterrent features including a "3-D Security Ribbon" with shifting images and a "Bell in the Inkwell" that disappears and reappears when the note is tilted. The redesigned notes remain the same size and use the same portraits and historical images, which have been enhanced. The redesign includes an enlarged, high-contrast numeral to help the public, including persons with visual impairments, distinguish the denominations of notes. The unveiling of the new $100 note was the first step in a global public education program implemented by the Department of the Treasury, the Federal Reserve, and the U.S. Secret Service to educate those who use the $100 note about its changes before it begins circulating.

Rapid improvements in reprographic technologies and computer-driven printing pose increasing challenges to counterfeit deterrence. BEP continues to collaborate with other members of the Advanced Counterfeit Deterrent (ACD) Steering Committee (which includes representatives from BEP, the Department of the Treasury, the U.S. Secret Service, and the Federal Reserve) to determine the effectiveness of counterfeit deterrent features and to evaluate possible future currency designs. The ACD Committee also monitors the reliability of the BEP manufacturing process, the incorporation of new design features, and the effectiveness of those features during the course of daily cash transactions.

BEP efforts related to quality continued as measures of shipment accuracy met its targets and achieved less than 0.01 percent discrepancies in the currency shipment. In 2010, BEP reported 97.5 percent of the currency notes delivered to the Federal Reserve met the product quality requirements. As it has for the past eight years, in fiscal year 2010 BEP maintained ISO 9001 certification in its quality management system for currency production, indicating ongoing commitment to continuous process and quality improvement. In 2010, BEP also continued efforts to maintain ISO 14001 certification in its commitment to high-quality environmental stewardship and management.

Following court decisions in 2007 and 2008, the Department was ordered to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note.) The Court ordered such changes to be completed in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. The cost of implementing these changes will be incorporated into future currency redesign costs, and cannot be estimated at this time.

## United States Mint

The economic environment during fiscal year 2010 significantly impacted the United States Mint's financial results. Economic uncertainty intensified demand for bullion products while reducing demand for circulating coinage and numismatic products. Total revenue reached $3.89 billion in fiscal year 2010, up 33 percent from total revenue of $2.91 billion in fiscal year 2009. Record sales of bullion coins drove this revenue growth as both circulating and numismatic revenue declined from the prior fiscal year. Since the United States Mint manages the bullion program to a nominal net margin, revenue growth did not generate higher earnings in fiscal year 2010. The United States Mint returned $388 million to the Treasury General Fund in fiscal year 2010, down from $475 million (18 percent) from fiscal year 2009.

Weak economic conditions that reduced shipments and revenue in fiscal year 2009 continued through the first half of fiscal year 2010. This reversed midway through the fiscal year as retail activity recovered and Federal Reserve coin inventory fell. Overall, total circulating coins shipped to the Federal Reserve increased 4 percent to 5.4 billion pieces in fiscal year 2010 from 5.207 billion pieces in fiscal year 2009. While the total volume of circulating coins shipped to the Federal Reserve grew slightly, the composition of shipments ordered by the Federal Reserve shifted toward lower denomination coins, reducing the total

dollar value of circulating shipments to the Federal Reserve by 20 percent to $618.2 million from $777.6 million last year. At the start of fiscal year 2010, the prospect of continued low coin demand prompted the United States Mint to extend cost-saving measures begun in 2009. The bureau opted not to renew appointments for temporary personnel and instituted an organization-wide hiring freeze. The United States Mint also suspended all non-essential capital investments in circulating operations to cut cash outflow during a time of reduced cash inflow. Even with these measures, the costs of coin production continued to increase because of escalating metal market prices.

Base metal expenses and the mix of circulating coin denominations ordered by the Federal Reserve negatively affected total seigniorage and seigniorage per dollar issued. Market prices of copper, nickel, and zinc recovered from fiscal year 2009 lows and climbed back to pre-2009 levels. Rising metal prices increased total and per-unit expenses for fabricated blanks and strip. As a result, seigniorage generated from circulating coinage operations declined 30 percent to $300.9 million in fiscal year 2010 from $427.8 million in fiscal year 2009. Seigniorage per dollar issued declined to $0.49 in fiscal year 2010 from $0.55 (11 percent) in 2009. The per-unit cost for both one-cent and five-cent denominations remained above face value for the fifth consecutive fiscal year.

Demand appeared to ease along with precious metal market prices in the second quarter, but as the year went on, rising global fears over European sovereign debt caused demand to rebound as spot prices for gold and silver soared during the third and fourth quarters. The United States Mint sold 35.8 million ounces of bullion coins in fiscal year 2010, up 8.2 million ounces (29.7 percent) from the previous total sales record of 27.6 million in fiscal year 2009. The United States Mint sold this record volume to authorized purchasers at higher prices, reflecting the increased market value for gold and silver. The average spot price of gold and silver increased 29.2 percent and 40.1 percent, respectively, in fiscal year 2010 from fiscal year 2009. Accordingly, total bullion revenue reached a record high of nearly $2.9 billion in fiscal year 2010, up by around 70 percent from $1.7 billion in fiscal year 2009. Net income from bullion sales increased 69 percent to $55.2 million in fiscal year 2010 from $32.7 million in fiscal year 2009. The United States Mint expects demand for bullion coins to remain strong for a sustained period until economic conditions stabilize and investors are drawn toward alternative investments.

Fiscal year 2010 was a challenging year for the United States Mint's numismatic product line. The United States Mint was unable to offer some key products because blanks were diverted to the bullion program in accordance with statutory mandates to fulfill bullion demand. This negatively affected numismatic sales and customer acquisition and retention. Additionally, poor economic conditions may have suppressed some consumer spending on collectibles. Despite weakened demand, the composition of numismatic sales shifted toward high price and high margin products. While numismatic sales revenue fell six percent to $413.1 million from $440.1 million in 2009, numismatic net income increased nearly 21 percent to $49.8 million in fiscal year 2010 from $41.2 million last year.

The United States Mint is responsible for protecting over $320 billion in United States assets stored in its facilities. The Mint's Office of Protection (United States Mint Police) safeguards both Mint assets and non-Mint assets in its custody, including gold and silver bullion reserves, as well as the Mint's products, employees, facilities, and equipment.

## Conclusion

The BEP faced challenges related to the release of the new $100 note and related spoilage problems. The Mint faced challenges related to the price of base metals and the high demand for bullion products. The current suite of measures only partially gauges the success of the outcome and objective associated with coins and currency. Improved measures are needed to determine if commerce is effectively enabled for the nation. Proper demand management will minimize costs across the entire supply chain, including the costs of obsolescence and disposal.

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

in fiscal year 2011 that will measure the bureau's performance across a broader spectrum of operations.

The U.S. Mint faced challenges related to the price of base metals and the high demand for bullion products. The U.S. Mint is working to explore options that might help reduce the cost of materials used in producing the nation's coinage. The U.S. Mint baselined two new measures, discontinued four measures, and did not meet three measures.

## Moving Forward

### Bureau of Engraving and Printing

To improve efficiency, BEP is currently engaged in a multi-year project to retool its manufacturing processes to improve BEP's capabilities, increase its flexibility, and improve its response to product configuration changes. The project will include installation of new state-of-the-art equipment capable of producing 50-note currency sheets, achieving significantly greater production efficiency than the existing equipment, which produces 32-note sheets. The new equipment will include intaglio presses, electronic inspection systems, and finishing equipment. BEP continues to invest in new technologies such as its BEP Enterprise (BEN) manufacturing support system program (MSS), which will integrate, consolidate, and enable improved analysis of data from various disparate information technology systems, equipment, and software applications used at BEP. When completed, this effort will optimize the reliability, integration, and timely collection of online real-time performance data. Having this data on hand will enable program managers to proactively manage manufacturing overhead costs, production efficiency, and resource productivity.

In keeping with the commitment by BEP's management to maintain high-quality environmental management, BEP is investing in capital improvements that will enhance productivity and lessen the environmental impact of BEP operations on air emissions, wastewater discharge, and solid waste. The most significant project will enable waste water recycling to reduce water usage by several million gallons per year. The project will also reduce the required quantity of chemicals the BEP must use to make currency note wiping solution, which becomes wastewater. This project will both improve resource sustainability and reduce the cost and efficiency of currency note production. Other projects either already underway or currently in the planning stages include improvements in energy efficiency through replacement or upgrade of older assets with more energy efficient and environmentally responsible assets; decreased energy usage and cost savings from increased data center efficiency and consolidation from increased server virtualization and from decreased energy usage and IT operation costs; and savings from reduced material spoilage during the currency note production process, which should enable reductions in the quantity of currency paper and other materials purchased for use in manufacturing currency notes.

Other capital assets provide ongoing challenges for the Bureau, however. The age of BEP's Washington, D.C. facility poses some infrastructure challenges. Based on an earlier condition assessment, it was estimated that an investment of $250-$500 million would be needed to upgrade the main and annex buildings over the next 10 years. BEP had been delaying infrastructure improvements pending the outcome of a feasibility study that was completed at the end of July 2010. At the end of fiscal year 2010, the study was still under executive review but is expected to enable the BEP and the Department of the Treasury to strategically address facility issues going forward.

### United States Mint

Although the United States Mint has taken steps to reduce its manufacturing costs, base metal expenses continue to make up the greatest portion of the cost of circulating coin production. Changing the composition of circulating coinage to less expensive alternative materials could generate significant cost savings and mitigate further reductions in seigniorage if market prices for copper, nickel, and zinc increase. Base metal prices have trended upward during fiscal year 2010. The average daily spot price increased 57 percent for copper, 56 percent for nickel, and 52 percent for zinc between fiscal year 2009 and fiscal year 2010.

In fiscal year 2011, the United States Mint will remain focused on meeting demand for products as economic uncertainty continues. The United States Mint expects circulating volumes to increase from 2010. However, any volume increase will likely consist of lower denomination coins as Federal Reserve inventories of higher denominations remain sufficient to fulfill the majority of demand in upcoming years. Bullion demand looks to remain strong until economic conditions stabilize and investors are drawn toward alternative investments. For numismatic products, the Mint will focus on improving customers' experience by releasing core products earlier in the year and increasing the availability of precious metal products.

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

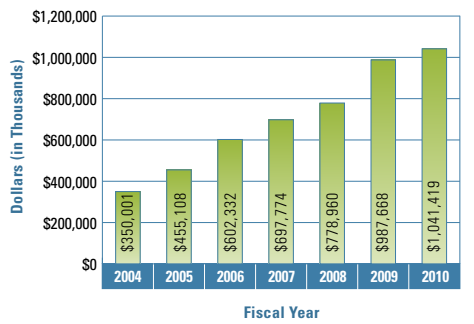
## STRATEGIC OBJECTIVE:
### Pre-empted and Neutralized Threats to the International Financial System and Enhanced U.S. National Security

The Office of Terrorism and Financial Intelligence (TFI) marshals the department's intelligence and enforcement functions with the twin aims of safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, weapons of mass destruction (WMD) proliferators, money launderers, drug kingpins, and other national security threats. The Office works to keep U.S. and world financial systems accessible to legitimate users and to avoid exploitation of these systems by unlawful users. Its unique capabilities leverage intelligence, law enforcement, sanctions, regulatory, and diplomatic tools to achieve Treasury's strategic objective. This is accomplished through four TFI offices, a division within the IRS, and a bureau:

- The Office of Foreign Assets Control (OFAC) administers and enforces economic and trade sanctions
- The Office of Terrorist Financing and Financial Crimes (TFFC) is the policy and outreach arm of TFI and provides expert analysis on terrorist financing, money laundering, financial crime, and sanctions issues
- The Office of Intelligence and Analysis (OIA) provides all-source intelligence analysis, leads the Department's integration into the larger intelligence community, and provides support to Department leadership on a full range of economic, political, and security issues

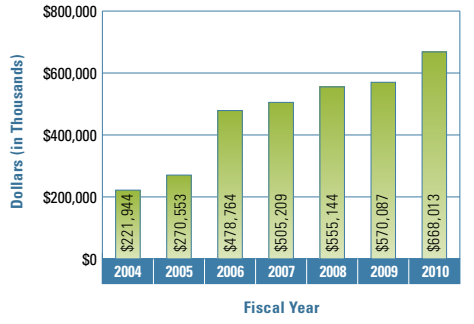
Budget Trend

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



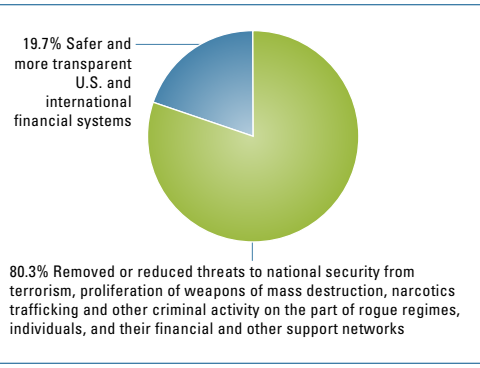

Performance Cost Trend

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




Performance Cost by Outcome

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



Performance measures associated with this objective had 35 percent more aggressive targets compared to 2009.

- The Treasury Executive Office of Asset Forfeiture (TEOAF) administers the Treasury Forfeiture Fund, which is the receipt account for the deposit of non-tax forfeitures
- The IRS Criminal Investigations division (IRS-CI) investigates potential criminal violations of the Internal Revenue Code and related financial crimes
- The Financial Crimes Enforcement Network (FinCEN) administers the Bank Secrecy Act (BSA), supports law enforcement investigations and prosecutions, shares BSA information domestically and with foreign financial intelligence units, and enhances anti-money laundering and counter-terrorist financing efforts domestically and internationally

The outcomes associated with this objective are:

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

# Removed or Reduced Threats to National Security from Terrorism, Proliferation of Weapons of Mass Destruction, Drug Trafficking and Other Criminal Activity on the Part of Rogue Regimes, Individuals, and Their Support Networks

This outcome is linked to Treasury's impact in policy making, outreach, and diplomacy; the impact of economic sanctions; and the impact of intelligence information and analysis. Treasury exceeded its targets in these focus areas.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Impact of TFI programs and activities | DO | 7.81 | 7.40 | 8.1 | 109.5% | 3.7% | Exceeded | 7.6 | ▶ | ▲ |
| Percent of forfeited cash proceeds resulting from high-impact cases (%) | Treasury Forfeiture Fund | 87.65 | 75 | 93.11 | 124.1% | 6.2% | Exceeded | 80 | ▶ | ▲ |

## Analysis of Performance Results

TFI uses a qualitative self-assessment of its four major areas of operations—policy, sanctions, intelligence, and money-laundering—to measure its performance. The "Impact of TFI programs and activites" measure is a composite score, which is the average rating of four performance goals. Each performance goal is linked to components within TFI and the Department's strategic goals. In fiscal year 2010, this metric achieved a 8.1 rating out of 10 possible points, exceeding the target and improving by 3.7 percent over the previous year.

Two TFI offices, OFAC and TFFC, share a combined performance goal, focusing on the impact of policy making, outreach and diplomacy and the impact of economic sanctions:

- "TFI U.S. Government effectively employed tools and authorities to further policy objectives and mitigate national security threats."

OIA has two separate performance goals that focus upon the impact of information, intelligence, and analysis on senior leadership and the intelligence community.

- "Support the formulation of Treasury policy and the execution of departmental authorities through all-source analysis of the global financial network"

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

- "Provide Treasury Department decision makers with timely, accurate, and relevant intelligence support on the full range of economic, political, and security issues"

User data surveys are conducted with financial intelligence users to gauge the impact and influence OIA has upon those which use its information.

The final performance goal relates to FinCEN.

- "Anti-money laundering and combating financing of terrorism regulations are administered effectively and efficiently."

This performance measure performed at 8.1, high impact, in fiscal year 2010 and was baselined in fiscal year 2009 with a value of 7.8, or medium impact. The fiscal year 2010 target was 7.4 and will be 7.6 in fiscal year 2011. The Treasury Forfeiture Fund achieved 93.11 percent of forfeiture cash proceeds resulting from

high-impact cases, performing above both the fiscal year 2010 target and 2009 actual.

The following sections describe efforts undertaken by TFI in 2010. These results are the basis for assessing TFI's impact and are reflected in their performance results.

## Combated Iran's Efforts to Acquire Proliferation-Related Materials

In June 2010, the United Nations (UN) adopted United Nations Security Council Resolution (UNSCR) 1929, broadening the existing UN sanctions framework. Shortly thereafter, Treasury announced new designations under EO 13382 targeting individuals and entities that facilitate Iranian proliferation activity. Most prominently, Treasury designated Post Bank, an Iranian state-owned bank for providing support to and acting on behalf of UN designee Bank Sepah. When Bank Sepah, one of Iran's largest state-owned banks, was sanctioned for financing proliferation, Iran began to use Post Bank to facilitate international trade. Treasury also designated five Islamic Republic of Iran Shipping Lines (IRISL) front companies and blocked 27 vessels due to their connection to IRISL. In August, Treasury announced a set of designations targeting the Government of Iran's support for terrorism and terrorist organizations, including Hizballah, Hamas, Palestinian Islamic Jihad, the Popular Front for the Liberation of Palestine-General Command, and the Taliban. From June to August, Treasury identified 43 entities in the banking, investment, mining, engineering, insurance, energy, petroleum, and petrochemical industries determined to be owned or controlled by the Government of Iran pursuant to the Iranian Transactions Regulations (ITR). Finally, Treasury issued an advisory to financial institutions about the financial provisions in UNSCR 1929.

The *Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010*, signed by President Obama in July, dramatically expands the tools available to the Treasury Department to combat Iran's efforts to acquire proliferation-related materials. In August, Treasury published the Iranian Financial Sanctions Regulations (IFSR) as a framework for implementing subsections 104(c) and 104(d) of the Act. Under the IFSR, the Secretary of the Treasury may prohibit or impose strict conditions on opening or maintaining accounts with foreign financial institutions that he finds knowingly engage in certain activities related to Iran. The IFSR also prohibits any person owned or controlled by a U.S. financial institution from knowingly engaging in transactions with or benefiting Iran's Revolutionary Guard Corps or any of its agents or affiliates whose property is blocked under the International Emergency Economic Powers Act.

Treasury officials have been actively engaging with our partners throughout the world to describe the U.S. Government's Iran sanctions programs and to encourage our partners to implement similar restrictions on Iran. As a result of this engagement, additional states have demonstrated to Iran the consequences of its failure to meet its international obligations. The European Union (EU), Australia, Canada, Norway, Japan, and South Korea have implemented sanctions. These actions strengthen international resolve to prevent proliferation and Iran's development of nuclear weapons and to press Iran to return to serious negotiations.

The financial measures the U.S. and others are implementing are imposing serious costs and constraints on Iran. Iran is effectively unable to access financial services from reputable banks and is increasingly unable to conduct major transactions in dollars or euros. Over the last several months alone, dozens of companies have announced publicly that they have curtailed or

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

eliminated their business ties to Iran. Iran is increasingly unable to secure needed foreign investment, financing, and technology to modernize its aging energy infrastructure, threatening its oil and gas production and export capacity.

Reports indicate that the regime is worried about the impact of these measures, especially on its banking system and on its prospects for economic growth. For instance, in September, former Iranian President Rafsanjani publicly warned leaders in Iran to take the sanctions seriously. He said that, "We have never had such intensified sanctions and they are getting more intensified every day. Whenever we find a loophole, they [the Western powers] block it." The strategy is creating leverage to enhance U.S. Government diplomatic options.

On September 29, 2010, President Obama signed an Executive Order that imposes sanctions on Iranian officials determined to be responsible for or complicit in serious human rights violations. President Obama identified eight individuals who share responsibility for the sustained and severe violation of human rights in Iran since the June 2009 disputed presidential election. As a result of this action, U.S. persons are prohibited from engaging in transactions with these individuals, and these individuals cannot access any property in the U.S. or in the possession or control of U.S. persons.

## Finalized Terrorist Finance Tracking Program Agreement

Treasury, in conjunction with the Departments of Justice and State, successfully led negotiations for a new Terrorist Finance Tracking Program Agreement (TFTP) with the EU. The Agreement was ratified by the European Parliament in July 2010. The new accord entered into force on August 1 and allows the Treasury Department to subpoena financial payment messaging data stored in the EU for use in U.S. counterterrorism investigations. With the resumption of the full functioning of the TFTP, the U.S. and the EU restored this highly valuable counterterrorism tool that has aided in the prevention of terrorist attacks and investigations.

After the terrorist attacks on September 11, 2001, the Department of the Treasury initiated the TFTP to identify, track, and pursue terrorists and their networks. The Treasury Department is uniquely positioned to track terrorist money flows and assist in U.S. Government efforts to uncover terrorist cells and map terrorist networks. Since the start of the program, the TFTP has provided thousands of valuable leads to U.S. Government agencies and other governments.

Privacy protections in the program specify that the data in the TFTP may only be searched in connection with a specific counterterrorism investigation and not for any other purpose. The TFTP data can be searched only if an independent basis exists to believe that the subject of a search is connected to terrorism or its financing. This independent evidentiary predicate must be recorded before any search in the TFTP data is conducted. To verify the TFTP's robust safeguards, an independent auditor reviews the program's physical security, ensures proper procedures are implemented, and confirms that no data mining occurs.

## Targeted Threats to the International Financial System Through Financial Sanctions

Treasury seeks to ensure that the financial networks of terrorists, WMD proliferators, and other criminals are degraded in order to undermine their illegitimate activities. OFAC continues to send the message that violations of U.S. economic sanctions will not be handled lightly. Since January 2010, Treasury has imposed penalties or entered into settlement agreements totaling over $200 million for alleged violations of the United States' economic sanctions targeting Iran, Sudan, Cuba, Burma, and designated narcotics traffickers. These penalties and settlements are from cases involving, among other things, the export of aircraft to Iran, the provision of shipping services to Iran and Sudan, and the use of vessels owned or managed by the IRISL. The figure also includes OFAC's most recent settlement with a major international bank, reached in conjunction with relevant state, federal, and international authorities, involving the manipulation of payment data which allowed sanctions targets to surreptitiously access the U.S. financial system for over two decades. The latest bank settlement brings the total amount in settlements for similar conduct to nearly $930 million.

Treasury designates foreign adversaries and networks of companies, other entities, and associated individuals pursuant to an EO or statute, and U.S. persons are prohibited from conducting transactions, providing services, and other associated dealings with those designated. The designations made this year varied across a range of sanctions programs and areas across the globe, including narcotics, WMD proliferation, terrorism, and the

Democratic Republic of the Congo. Key activities in fiscal year 2010 are described below.

- Treasury sustained a campaign of sanctions against Iran, its agents, and its front companies in response to Iran's continued defiance of various UNSCR. OFAC designated 23 individuals and entities involved in Iran's efforts to proliferate WMD under EO 13382; identified a subsidiary contributing to Iran's proliferation efforts; identified 27 new vessels and updated entries of 71 vessels; designated nine entities and individuals involved in Iran's support for terrorism under EO 13224; and identified 43 targets as acting for, acting on behalf of, being owned, or being controlled by the Government of Iran.
- Treasury designated 21 individuals and entities pursuant to EO 13224 with respect to terrorism, including the July 16, 2010 designation of Anwar al-Awlaki, a key leader for al-Qa'ida in the Arabian Peninsula; a Yemen-based terrorist group; and the July 22, 2010 designation of three key leaders and financiers for the Taliban and its affiliated group, the Haqqani Network.
- Treasury continued to support Mexican counter narcotics law enforcement. In August, 2010, OFAC Director Adam Szubin met with private and public sector officials in Mexico City to strengthen coordination and cooperation between Treasury and Mexican actions against cartels. During the year, Treasury has designated 49 individuals and 25 entities associated with Mexican drug cartels, enhanced information exchange with the Mexican financial intelligence unit (FIU), and improved coordination on a variety of counter narcotics initiatives targeting the Arellano Felix Organization, Beltran Leyva Organization, and the Sinaloa Cartel.
- Treasury designated 37 individuals and 37 entities pursuant to the Foreign Narcotics Kingpin Designation Act, and 42 individuals and 37 entities pursuant to EO 12978 targeting drug traffickers and their networks centered in Colombia.
- In April and June of 2010, Treasury designated six militia leaders involved in atrocities in the Democratic Republic of the Congo.
- In April 2010, the President issued an EO to address the conflict in Somalia. Shortly following the announcement, Treasury implemented a new sanctions program based on that EO and designated 12 persons identified by the President as contributing to the Somali conflict.

## Charitable Outreach

Outreach to the charitable sector represents a fundamental objective for Treasury in its broader campaign to combat terrorist financing. Treasury's ongoing engagement with the charitable community strives to protect charities from terrorist abuse and empower the sector to adopt and implement effective safeguards against terrorist exploitation. Treasury Department officials have continued their active engagement with donor communities and other components of the U.S. Government to help promote safe and transparent charitable giving, while protecting against terrorist financing.

This summer, the Treasury Department published a factsheet entitled "Protecting Charitable Giving: Frequently Asked Questions." This document provides substantial information about the Treasury Department's approach to combating terrorist abuse of charities and answers important questions raised by the charitable sector and the donor communities concerning charitable giving. The factsheet reflects significant dialogue with the charitable sector and also serves as a prime example of outreach to Muslim communities in the United States.

## Strengthened Intelligence to Counter Violent Extremism and Nuclear Proliferation

This year, Treasury strengthened its ability to shape intelligence analysis and drive collection on the global financial network. Treasury has provided analysis of terrorist groups including al-Qa'ida and its affiliates, the Taliban, Hamas, and Hizballah; WMD proliferation networks; violent extremism and corruption in Afghanistan and Pakistan; Iraqi insurgency support networks; and nation-states that challenge U.S. interests, such as Iran and North Korea.

## Countered Insurgency in Afghanistan

Treasury served a leading role in the establishment of the Afghanistan Threat Finance Cell (ATFC) this year. The ATFC is a Kabul-based task force charged to enhance the collection, exploitation, analysis, and dissemination of intelligence to combat funding and support for the Taliban and other terrorist and insurgent networks in Afghanistan. The ATFC provides threat finance expertise to U.S. civilian and military leaders and assists Afghan authorities in their investigations into insurgent finance, narcotics trafficking, and government corruption. Through this assistance, the ATFC has helped to build the

capacity of Afghan authorities to operate independently, a key U.S. policy goal in Afghanistan.

## Targeted Organized Crime in Mexico

Over the past year and in close collaboration with Mexican counterparts, Treasury increased efforts to combat money laundering and target the financial underpinnings of criminal organizations in Mexico. Treasury ramped up its technical assistance program in Mexico to address key money laundering vulnerabilities through courses on forensic accounting, financial investigations, and financial sector supervision.

## Prevented North Korean Proliferation and Other Illicit Activities

The U.S. Government has longstanding concerns regarding North Korea's involvement in a range of illicit activities conducted through government agencies and associated front companies. In August 2010, President Obama issued an EO freezing the assets of certain persons with respect to the Democratic People's Republic of Korea (North Korea). This new EO expands the scope of the national emergency declared in EO 13466 of June 26, 2008 and targets North Korean arms trafficking, luxury goods procurement, and illicit economic activities. The EO directs the Secretary of the Treasury, in consultation with the Secretary of State, to target for sanctions individuals and entities facilitating North Korean trafficking in arms and related materiel; procurement of luxury goods; and engagement in illicit economic activities, such as money laundering, the counterfeiting of goods and currency, bulk cash smuggling, and narcotics trafficking.

## Major Asset Seizures and Forfeitures

TEOAF's mission is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus from the Department of the Treasury and Justice to disrupt and dismantle criminal enterprises. The Treasury Forfeiture Fund had a uniquely robust year with over $1 billion in forfeitures and recoveries, including $134 million in the Credit Suisse case. IRS-CI and the Federal Bureau of Investigations jointly investigated the ABN-AMRO bank case. In May 2010, the former ABN-AMRO Bank N.V., now named Royal Bank of Scotland N.V., agreed to forfeit $500 million to the United States in connection with a conspiracy to defraud the United States, to violate the International Emergency Economic Powers Act (IEEPA), to violate the Trading with the Enemy Act (TWEA), and to violate the BSA. Of this amount, $250 million will be equitably shared with the Department of Justice forfeiture fund.

## Conclusion

TFI discontinued all of its previously reported performance measures and began applying its composite performance metric "Impact of TFI programs and activities" during fiscal year 2009. TFI met its targets for its two measures. TFI achieved a high impact for its measure "Impact of TFI programs and activities." The external review process for this performance metric still needs to be developed, but the implementation of this measure is a large step in the effort to measure performance for a policy office that also has operational responsibilities. TFI and the Department will continue to refine how the measure is rated and scored. In addition, TEOAF achieved 93 percent of forfeited cash proceeds resulted from high-impact cases, exceeding its target of 75 percent.

## Moving Forward

### Enforcing the New Iran Legislation

As part of Treasury's overall strategy with respect to Iran, OFAC will investigate foreign financial institutions whose dealings with Iran may subject them to special measures related to legislation passed by Congress on July 1. In addition to financial institutions, the focus on Iran will include cases involving shipping and the export of sensitive goods to Iran. OFAC intends to continue announcing major enforcement actions involving alleged violations of Iranian sanctions over the coming year. By working closely with our colleagues at other agencies, OFAC will increase the number of entities designated and enforcement cases resolved by OFAC and the Department of Justice or the Department of Commerce.

### Strengthening Economic Sanctions Against other Targets

The Treasury Department will work to implement a new sanctions program established by President Obama targeting North Korean illicit activity and will continue to implement pre-existing sanctions targeting North Korean proliferation activities. The new sanctions program, announced on August 30, enhances U.S. implementation of United Nations Security Council Resolutions 1718 and 1874 on North Korea, addresses

threats to U.S. national security, and protects the international financial system from North Korea's abuse.

Consistent with U.S. foreign policy priorities, OFAC will continue its strengthening of sanctions against targets such as Sudan, Zimbabwe, and Burma.

## Supporting the National Intelligence Strategy

Over the coming year, OIA will further develop analysis and collection to support the National Intelligence Strategy on economic issues such as illicit finance and global cyber threats to financial systems. OIA will also increase cooperation across the intelligence community on international financial issues and threats to global financial stability. OIA will provide expert intelligence analysis to support targeted financial measures against the networks that fund terrorist and insurgent groups and support nuclear weapons proliferation, such as al-Qa'ida and its affiliates, the Taliban, Hamas, and Hizballah.

## Combating Illicit Finance

Treasury will continue to work with interagency colleagues and international counterparts to promote strong controls and best practices for anti-money laundering and combating the financing of terrorism. This will guard against illicit finance in the formal financial sector.

## Supporting Efforts in Afghanistan

Treasury will deploy personnel to the ATFC to enhance the collection, analysis, and dissemination of timely and relevant financial intelligence to combat funding and support for terrorist and insurgent networks in Afghanistan. Treasury will continue to investigate bulk cash movements and illicit financial flows in and out of Afghanistan. Treasury will deploy personnel to the Attaché Office within the U.S. Embassy in Kabul to augment Treasury's efforts to bolster the regulatory and investigative capacity of the Afghan government to combat illicit finance.

## Supporting Southwest Border Efforts

In fiscal year 2011, TEOAF will focus its resources to enhance support of law enforcement's Southwest Border Strategy, National Money Laundering Strategy, and anti-terrorism financing efforts. TEOAF will provide support to enhance criminal investigations related to criminal activities on the Southwest Border to deprive criminal enterprises of their profits and enabling assets. TEOAF will also use its resources to strengthen outbound infrastructure at Ports of Entry in order to effectively target bulk currency that is smuggled across the border to fuel drug and human smuggling enterprises.

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

Five performance measures are associated with this outcome. Treasury exceed or met targets set for four of the five measures, and narrowly missed one. Overall 81 percent of the measures exceeded their targets, and some targets were exceeded by large margins.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Average time to process enforcement matters (in years) | FinCEN | 1 | 1 | 0.8 | 120.0% | -20.0% | Exceeded | 1 | ▶ | ▼ |
| Percent of federal and state regulatory agencies with memoranda of understanding/information sharing agreements (%) | FinCEN | 43 | 46 | 46 | 100.0% | 7.0% | Met | 50 | ▲ | ▲ |
| Percent of FinCEN's compliance MOU holders finding FinCEN's information exchange valuable to improve the BSA consistency and compliance of the financial system (%) | FinCEN | 82 | 68 | 86 | 126.5% | 4.9% | Exceeded | 86 | ▲ | ▲ |
| Percentage of bank examinations conducted by the Federal Banking Agencies indicating a systemic failure of the anti-money laundering program rule (%) | FinCEN | 2.1 | 5.2 | 1.6 | 169.2% | -23.8% | Exceeded | 5.2 | ▶ | ▼ |
| Percentage of customers satisfied with the BSA E-Filing (%) | FinCEN | 94 | 90 | 96 | 106.7% | 2.1% | Exceeded | 92 | ▶ | ▲ |
| Percentage of customers satisfied with direct access to BSA (%) | FinCEN | 74 | 74 | 74 | 100.0% | 0.0% | Met | 74 | ▼ | ▼ |
| Percentage of FinCEN's Regulatory Resource Center Customers rating the guidance received as understandable (%) | FinCEN | 94 | 90 | 92 | 102.2% | -2.1% | Exceeded | 90 | ▶ | ▶ |
| Share of BSA filings submitted electronically (%) | FinCEN | 82 | 71 | 83 | 116.9% | 1.2% | Exceeded | 73 | ▲ | ▲ |
| The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable (%) | FinCEN | 81 | 81 | 80 | 98.8% | -1.2% | Unmet | 80 | ▲ | ▼ |

## Analysis of Performance Results

FinCEN has 16 measures for fiscal year 2010, and 94 percent of its targets were achieved. Five measures are used to score the focus area, "impact of activities to create safer and more transparent financial systems" for the overall TFI measure. Those measures are:

- Average time to process enforcement matters
- Percentage of FinCEN's Regulatory Resource Center customers rating the guidance received as understandable
- Percentage of domestic law enforcement and foreign intelligence units finding FinCEN's analytic reports highly valuable
- Percentage of customers satisfied with the BSA E-filing
- Percentage of customers satisfied with direct access to BSA

FinCEN achieved a score of 7.8 out of 10 possible points.

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

In the regulatory area, FinCEN continues to increase activities to monitor financial institutions examined for BSA compliance by state and federal regulators through the establishment of MOUs to exchange compliance information. In 2010, FinCEN executed four additional MOUs and met its fiscal year 2010 target of 46 percent of federal/state regulatory agencies with MOUs. These MOUs help ensure effective application of the BSA regulations

across all regulated financial service industries by providing vital compliance data. FinCEN will continue collaborating with state insurance commissioners and other regulatory agencies to sign additional agreements to meet future targets.

FinCEN surveys its compliance MOU holders to determine the impact of the information exchange to improve the BSA consistency and compliance of the financial system. In fiscal year 2010, 86 percent of them rated the information exchange as valuable, and FinCEN exceeded its target. FinCEN will continue to facilitate valuable relationships with MOU holders to meet future targets.

FinCEN's goal to provide financial institutions with understandable guidance through the BSA Resource Center is critical to institutions establishing anti-money laundering programs that comply with the BSA. FinCEN met its target in fiscal year 2010 with 92 percent. To meet future targets, FinCEN will continue to strive for consistently high customer satisfaction levels.

FinCEN also works closely with its regulatory partners to take enforcement action against financial institutions that systemically and egregiously violate the provisions of the BSA, including through imposition of civil money penalties when appropriate. Enforcement action is essential to deter non-compliance with the BSA. In fiscal year 2010, FinCEN's target was to process enforcement matters in 1.0 year, and FinCEN exceeded the target at 0.8 years. FinCEN will continue to actively manage casework to meet future targets.

In the analytical area, FinCEN supports domestic law enforcement and international FIU partners by providing analyses of BSA and other financial information, and measures the percentage of customers finding FinCEN's analytic reports highly valuable. The measure closely ties to how BSA information is used by law enforcement and international FIUs to identify, investigate, and prevent abuse of the financial system. In fiscal year 2010, FinCEN achieved 80 percent, narrowly missing its target of 81 percent. FinCEN will continue its efforts to solicit input from customers on types of products they would like and possible ways to improve the structure of its reports to meet future targets.

In the efficient management, safeguarding, and use of BSA information, FinCEN conducts a survey of the users of the BSA E-Filing system to determine overall satisfaction and to identify where improvements are needed. FinCEN achieved 96 percent satisfaction level. FinCEN will continue outreach to E-filers and ensure the technology supports the demand.

The following sections describe efforts undertaken by FinCEN in 2010. These results are the basis for assessing FinCEN's impact and are reflected in their performance results.

## Leveraged Partnerships with U.S. Law Enforcement and Mexican Foreign Intelligence Unit

FinCEN continued to leverage partnerships with U.S. law enforcement and the Mexican FIU to support the detection, interdiction, and investigation of the flow of illicit proceeds from narcotics and human smuggling into U.S. and Mexican financial institutions. In support of these efforts, FinCEN completed a joint study with the Mexican FIU of U.S. dollar currency flows between the U.S and Mexico. The study provides a more accurate baseline of U.S. dollar currency activity in Mexico from which both countries can more effectively measure the scope of bulk cash smuggling into Mexico and the effectiveness of future AML and cash interdiction efforts. FinCEN dedicated a staff member to work with the Mexican FIU and undertook the following in support of U.S. and Mexican law enforcement efforts:

- Produced a joint intelligence advisory with the National Drug Intelligence Center (NDIC) on trends in Trade Based Money Laundering and Black Market Peso Exchange
- Initiated support to a newly-created Southwest Border Anti-Money Laundering Alliance through the analysis of wire remittance data
- Issued an advisory on a new Mexican regulation that may precipitate a significant change in recent cash smuggling trends and conducted studies on the impact of the new regulation on money from the region
- Developed suspected Mexican cartel money laundering targets and referred them to U.S. and Mexican law enforcement

FinCEN continues to coordinate investigative follow-up of these targets with U.S. law enforcement and to develop plans and processes for future targeting efforts.

## Collaborated with and Support to Foreign Intelligence Units

FinCEN completed its sponsorship of the Afghan FIU, known as FinTRACA, into the Egmont Group, the global organization of FIUs. FinTRACA became a member of the Egmont Group in June 2010, allowing it to engage with the other 119 FIUs that form the global network for sharing financial intelligence. FIUs in the Egmont Group share information relating to thousands of investigations per year. The multi-year sponsorship process culminated with FinCEN's on-site assessment of FinTRACA to ensure that the unit complied with Egmont Group standards. FinTRACA's membership in the Egmont Group will benefit law enforcement agencies in the United States and throughout the world by facilitating the exchange of information through FIU channels. FinCEN also placed a staff member to work with FinTRACA to foster tactical information sharing between the FIU and U.S. law enforcement.

FinCEN continued outreach and liaison activities to improve the quality and quantity of financial intelligence exchanged between FinCEN and foreign FIUs. FinCEN continued its leadership role in the Egmont Group to promote effective information sharing. FinCEN played a key role on Egmont Group projects on enterprise-wide suspicious transaction report (STR) sharing in the private sector and FIU issues relating to Financial Action Task Force (FATF) mutual evaluations. On behalf of the Egmont Group, FinCEN developed and managed the most comprehensive database on FIU information in the world. FinCEN created and disseminated tactical financial intelligence reports to Egmont Group FIUs and managed case exchange with FIUs on behalf of U.S. law enforcement and regulatory agencies. These intelligence products are integral to domestic and foreign investigations of money laundering, financial fraud, and terrorist financing around the world.

President Obama established the Financial Fraud Enforcement Task Force (FFETF) in November 2009. With more than 20 federal agencies, 94 U.S. Attorneys' Offices, and state and local partners, FFETF is the broadest coalition of law enforcement, investigative, and regulatory agencies ever assembled to combat financial fraud. FinCEN also undertook efforts to expand information sharing across the U.S. Government in a coordinated manner, worked to increase understanding of the value and utilization of BSA data for investigative purposes, and supported FFETF's events with analytical packages and demonstrations. FinCEN also participated in committees and other working groups of the FFETF, including acting, along with the Executive Office for the U.S. Attorneys, as co-chair of the Task Force's Training and Information Sharing Committee.

## Enhanced Mechanisms to Combat Mortgage and Loan Modification Fraud

FinCEN continued to combat mortgage fraud, foreclosure rescue scams, and loan modification fraud. FinCEN published an advanced notice of proposed rulemaking on the possible application of AML and suspicious activity reporting requirements to non-bank residential mortgage lenders and originators. The application of such rules would close a regulatory gap by requiring non-bank residential mortgage lenders and originators to guard against and report on illicit actors engaging in financial transactions.

In addition, FinCEN published its latest mortgage fraud-related analytic report in July 2010, the eighth in a series of products describing filing trends, evolving patterns, emerging typologies, as well as analysis of depository institution suspicious activity reports (SARs) that report mortgage fraud. The report contained information that may be beneficial to law enforcement, regulators, and the financial industries. In June 2010, FinCEN released a report specifically describing trends found in SARs reporting loan modification and foreclosure rescue scams. The relevant SARs increased from 28 reports filed by depository institutions and money services businesses in 2004, to over 3,000 SARs filed in 2009. The SARs in the sample dataset revealed that in the eight months between the issuance of an April 2009 FinCEN Advisory, filers increased reporting by over 100 percent during the entire five-year period. The April 2009 FinCEN Advisory provided indicators of loan modification and foreclosure rescue fraud and requested filers to report such activity in SARs.

FinCEN also continued to support U.S. Government efforts to combat mortgage fraud and to bring relief to America's housing market and homeowners by increasing its analytical support to investigations and prosecutions. FinCEN published an updated advisory to financial institutions on loan modification fraud in June 2010 and an advisory to financial institutions on fraud related to home equity conversion mortgages (HECMs) in April 2010. Through its involvement in the FFETF, FinCEN leveraged the relationships and techniques it developed in the mortgage fraud context to initiate similar efforts in the areas of health care fraud and securities fraud.

FinCEN was recognized by the DOJ for playing an important role in Operation Stolen Dreams, an effort over 3.5 months to take down mortgage fraud schemes across the country. The operation involved 1,215 criminal defendants nationwide who were allegedly responsible for more than $2.3 billion in losses.

## Collaborated to Detect Healthcare Fraud

FinCEN proposed to work closely with the Departments of Health and Human Services and Justice, and other federal and state law enforcement agencies to identify increasingly complex health care fraud schemes. FinCEN developed an initiative to use the BSA analytical assessments to identify the most egregious individual perpetrators and organized groups in health care fraud schemes. FinCEN is working with the Health Care Fraud Prevention and Enforcement Action Team (HEAT). HEAT brings investigators and prosecutors together in targeted geographical areas to target individuals and organizations who are defrauding the health care system. Through this analytical process, FinCEN will be able to provide the investigators with an overall assessment of the targeted jurisdictions, as well as the organizations and individuals that are suspected of being engaged in health care fraud schemes. FinCEN already provided assistance to the largest federal health care fraud takedown in U.S. history: 94 people in four cities were charged for allegedly participating in schemes to submit more than $251 million in false Medicare claims.

## Outreach to Increase the Use of BSA E-filing

FinCEN initiated an important outreach campaign to increase the use of its BSA E-Filing Program and thereby reduce the volume of paper BSA forms being processed. As a part of that effort, FinCEN published an article on BSA E-Filing in the October 2009 SAR Activity Review that outlined recent enhancements to the system and explained the benefits of filing electronically. FinCEN also developed and published an informational brochure highlighting the benefits of the BSA E-Filing Program. Using that brochure and in coordination with its Federal Government examination partners, FinCEN contacted the largest filers of paper Currency Transaction Reports (CTRs) to explain the benefits of filing electronically. As a result of these efforts, a growing number of contacted institutions have adopted the BSA E-Filing Program and the percentage of BSA filings filed electronically has increased from 71 percent in fiscal year 2008 to 83 percent in fiscal year 2010. FinCEN expects to continue and expand this promotional campaign into fiscal year 2011.

## Modernize BSA IT system

In May 2010, FinCEN launched the design phase of the BSA IT Modernization program. The modernization effort will enrich and standardize BSA data, evaluate and deploy analytical tools, establish more effective security technologies to enhance data confidentiality and integrity, and improve customer satisfaction with BSA systems. During the design phase FinCEN will begin defining the technology to support the business requirements for the new BSA system of record, basic and advanced analytic capabilities, enhanced E-Filing functionality, as well as improved customer relations capabilities. FinCEN has already completed the necessary planning efforts and established the foundation to guide all future activities.

## Regulatory Efforts

In the regulatory area, FinCEN's policy efforts focus on efficient and effective BSA administration. This includes ensuring the consistent application of BSA regulations to regulated financial institutions, providing guidance on regulatory expectations, and initiating enforcement actions when appropriate.

To enhance BSA compliance, FinCEN developed analysis criteria to more effectively leverage BSA data to identify potential non-compliant institutions. This strategy should enable FinCEN to enhance collaboration with law enforcement to identify sources of lead information and become even more proactive in identifying and taking action against non-compliant institutions, including targeted examination referrals and enforcement measures as warranted.

FinCEN issued a final rule enhancing domestic and international information sharing to thwart money laundering and terrorist finance. This rule conforms FinCEN's successful 314(a) program with the treaty agreements between the U.S. and the EU. The rule greatly benefits the U.S. by granting federal law enforcement agencies reciprocal rights to obtain information about suspect accounts in EU member states. The final rule also gives U.S. state and local law enforcement agencies access to the program and further clarifies that FinCEN and certain units of the Treasury Department can access the program to increase the quality of analytical support provided to law enforcement.

FinCEN published guidance on obtaining and retaining beneficial ownership information. Information on beneficial ownership in account relationships provides another tool for financial institutions to better understand and address money laundering and terrorist financing risks, protect themselves from criminal activity, and assist law enforcement with investigations and prosecutions. FinCEN worked closely with its regulatory partners to develop the guidance, which was issued jointly with the Federal Banking Agencies and the Securities and Exchange Commission.

FinCEN is close to finalizing rules strengthening the confidentiality of SARs and released guidance that permits certain affiliates of depository institutions, broker-dealers in securities, mutual funds, futures commission merchants, and introducing brokers in commodities to share SARs within a corporate organizational structure for purposes consistent with Title II of the BSA. The revised rules will help financial institutions better facilitate compliance with the applicable requirements of the BSA and more effectively implement enterprise-wide risk management, resulting in better risk assessment and better reporting quality.

FinCEN published an assessment of insurance SAR reporting, an assessment of the impact of streamlined CTR exemption rules, and a simplified, revised regulatory structure in the Federal Register to reorganize BSA regulations under Chapter X of the Code of Federal Regulations. The assessments provide valuable information to the industry, and the reorganization would ensure that financial institutions are able to identify BSA obligations in a more understandable manner when the structure becomes effective in fiscal year 2011.

In March 2010, FinCEN announced the assessment of a civil money penalty, $110 million, against Wachovia Bank. The action represents the largest penalty action to date against a financial institutions by FinCEN for violations of the BSA.

## Conclusion

FinCEN missed only one target this year compared to two last year. The one target not achieved, "The percentage of domestic law enforcement and foreign financial intelligence units finding FinCEN's analytical reports highly valuable," narrowly missed the target by one percentage point. Overall 81 percent of the measures exceeded their targets, and some targets were exceeded by large margins. Actual results for 37.5 percent of measures showed decreases from last year, while 50 percent saw increases and 12.5 percent saw no change. Fiscal year 2010 performance exceeded targets for 10 measures.

## Moving Forward

FinCEN's future plans in the regulatory area will improve its ability to strengthen financial system security and enhance U.S. national security. To ensure financial systems are resistant to abuse by money launderers, terrorists and other perpetrators of financial fraud and crimes, FinCEN will:

- Finalize regulations for non-bank residential mortgage lenders and originators that apply AML program and SAR requirements. This initiative will support efforts to prevent criminal actors from abusing the housing markets and help bring other participants in the loan and finance industry under the BSA;
- Finalize proposed amendments to clarify the scope of the money services business (MSB) definitions to the extent consistent with appropriately managing money laundering risks in this industry;
- Finalize proposed regulations to bring providers and certain sellers of prepaid access cards into more comprehensive BSA requirements, including the AML program, suspicious activity reporting, registration, and customer identification requirements;
- Continue to conduct analysis in support of regulatory initiatives (such as identity theft) and efforts to combat mortgage loan fraud. The analysis will identify emerging trends (such as commercial real estate fraud); and
- Continue to enhance proactive compliance and enforcement efforts, including targeted steps to increase money transmitter registration. FinCEN will also continue to strengthen oversight of recently-covered industries under the BSA by signing additional information sharing agreements with state insurance regulators and working cooperatively with the IRS and state regulators on consistent, risk-based examination procedures.

FinCEN's future plans in the analytical area will improve its ability to strengthen financial system security and enhance U.S. national security. To detect and deter financial fraud,

money laundering, terrorism financing, and other illicit activity, FinCEN will:

- Continue to work with law enforcement and financial and international partners to combat Mexican cartel-related drug, gun, and human smuggling operations in Mexico and along the Southwest border by improving the sharing and analysis of related financial information;
- Continue to work with the Southwest Border Anti-Money Laundering Alliance and other federal or state efforts to interdict and investigate illicit money laundering on the Southwest Border through the detection of trends, patterns, and significant criminal activity in wire remittance data. Under a state agreement, FinCEN will receive an estimated 100 million records associated with wire transfers to and from the Mexican border area from 2005 to 2013;
- Support federal law enforcement efforts to combat health care fraud by initiating a process to identify potential health care fraud perpetrators and by providing analytical support to investigations and prosecutions;
- Expand the range of analytical products and identify more efficiencies in case management of foreign FIU requests. FinCEN intends to dramatically increase the number of proactive intelligence reports sent to foreign counterpart FIUs. Proactive intelligence reports will enable foreign law enforcement agencies to develop new cases or enhance existing ones;
- Increase joint analytical projects with foreign FIU counterparts through intensified operational engagements with key strategic partner FIUs. For example, FinCEN plans to replicate with other foreign FIUs a current analytical initiative involving FinCEN, the Mexican FIU, and IRS-CI; and
- Enhance international information sharing through expanded collaboration with international bodies, including the Egmont Group, FATF, regional bodies, the World Bank, and the IMF.

FinCEN's future plans will improve its ability to strengthen financial system security and enhance U.S. national security. To ensure efficient management, safeguarding and use of BSA information, FinCEN will:

- Continue to modernize BSA information management and analysis
- Deploy the new advanced analytical tool on the current technical environment
- Establish disaster recovery infrastructure
- Deploy the Registered User Portal, which will provide a common user interface and authentication process for accessing BSA data
- Begin the development efforts to build the BSA new system of record and basic query capabilities
- Implement the ability to electronically enter select forms that are currently accepted only via paper filing

# STRATEGIC GOAL: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

## STRATEGIC OBJECTIVE: Enabled and Effective Treasury Department

The Department of the Treasury strives to maintain public trust and confidence through exemplary leadership and creating a culture of excellence, integrity, and teamwork. The Department is dedicated to serving the public interest and focused on delivering results that align with its strategic objectives. Management enables this through a strong institution that is citizen-centered, focused on achieving results, and is accountable and transparent to the American people.

Strategies to achieve this objective are improved acquisition practices, investing in people and technology, implementing quarterly performance and budget reviews, and aligning and managing resources. The Treasury Department is committed to planning and assessing performance, reviewing results, and working towards continuous improvement.

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

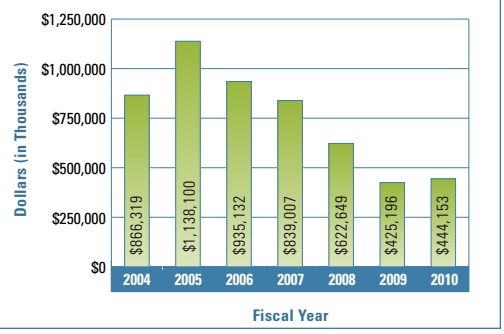
- Office of the Treasury Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) which includes the Deputy Chief Financial Officer (DCFO), Budget, Planning, Human Capital, Information Technology, Procurement, Privacy, and Operations
- Office of the Treasury Inspector General (OIG)
- The Treasury Inspector General for Tax Administration (TIGTA)
- Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)

The outcomes associated with this objective are:

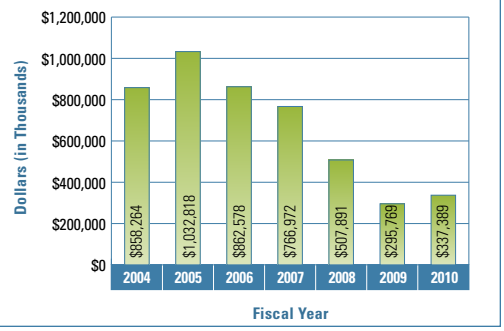
- A citizen-centered, results oriented and strategically aligned organization
- Exceptional accountability and transparency

Fifty percent of measures associated with this objective had targets that were more aggressive compared to 2009.

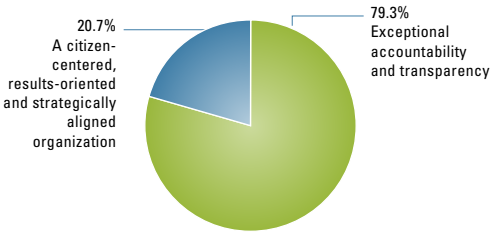
Budget Trend
**Enabled and Effective Treasury Department**




Performance Cost Trend
**Enabled and Effective Treasury Department**




Performance Cost by Outcome
**Enabled and Effective Treasury Department**



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

Based on performance results, Treasury succeeded in achieving this outcome for fiscal year 2010.

### Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Complete Investigations of EEO Complaints Within 180 Days (%) | DO | 65 | 65 | 86 | 132.3% | 32.3% | Exceeded | 65 | ▲ | ▲ |
| Percent of complainants informally contacting EEO (for the purpose of seeking counseling or filing a complaint) who participate in the ADR Process (%) | DO | 35 | 35 | 51 | 145.7% | 45.7% | Exceeded | 40 | ▲ | ▲ |
| Customer Satisfaction Index - Financial Mgmt Admin Support Services (%) | Treasury Franchise Fund | 89 | 80 | 81 | 101.3% | -9.0% | Exceeded | 80 | ▲ | ▲ |
| Operating expenses as a percentage of revenue--Financial Management Administrative Support (%) | Treasury Franchise Fund | 4.72 | 12 | 6 | 150.0% | 27.1% | Exceeded | DISC | ▶ | ▼ |

## Analysis of Performance Results

In 2010, Treasury exceeded all of its performance goals for this strategic outcome. Furthermore, all measures are now trending in a desirable direction. Treasury's Equal Employment Opportunity (EEO) results are particularly positive suggesting strengthening of the program. The data also suggests that while the Department successfully achieved goals for priorities related to this outcome, targets for these measures may not be sufficiently aggressive.

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

## Procurement

The Office of the Procurement Executive (OPE) is responsible for providing department-wide acquisition management, improving guidance for procurement programs and systems, bureau-level procurement operation evaluation, and facilitating strategic procurement. No performance goals for agency-wide procurement were included in Treasury's 2010 performance budget.

The Department executed its fiscal year 2010 plan to meet the OMB acquisition improvement mandate to deliver 3.5 percent in procurement savings in fiscal year 2010 (and fiscal year 2011) and to achieve a ten percent reduction in high risk contracting in fiscal year 2010. As of September, Treasury had exceeded both goals, documenting in excess of $241.9 million in savings vs. the goal of $158.4 million, and $129.4 million in high risk contracting reduction versus the goal of $48.8 million. The Department has already taken steps to ensure achievement of the required savings of 3.5 percent in fiscal year 2011 ($158 million) and additional reduction in use of high risk contracting authorities. While OMB has not mandated a fiscal year 2011 high risk reduction goal, Treasury elected to continue actively transitioning to lower risk contracting strategies. Treasury will achieve its targets through active management of acquisition operations and increased examination of high dollar/risk contracts.

The Department plan includes specific strategic sourcing activities that were initiated in both fiscal year 2009 and fiscal year 2010. Treasury mandated agency-wide use of the General Services Administration (GSA) Federal Strategic Sourcing Initiative (FSSI) for Office Supplies 2 (OS2) and Domestic Delivery Services 2 (DDS2). The Department also has initiated several Treasury-wide strategic sourcing initiatives, which include consolidation of software (Adobe/Symantec) and subscription services.

To promote collaboration and make the Department more efficient, Treasury held the first ever Joint Bureau Chief Procurement Officer (BCPO)/ Chief Financial Officer (CFO) / Chief Information Officer (CIO) Council meeting focused on Acquisition reform. Later, Chief Human Capital Officers (CHCOs) were included in the governance model. This "Quad Council" identified teams to develop and lead Treasury-wide acquisition improvement initiatives supporting use of strategic sourcing concepts, demand management, commodity councils, common technology for visibility and access of data, and improved governance. Analysis of research is ongoing with future actions to be determined based on findings and corporate potential.

As required by the *National Defense Authorization Act* for fiscal year 2009 and the Office of Federal Procurement Policy (OFPP), Treasury developed an Acquisition Human Capital Plan to be used to guide the growth in capacity and capability of its acquisition workforce over the next five years. The Plan was submitted to OFPP in March 2010 and will be updated annually. The Plan will serve as a component of the agency's budget preparation beginning with the fiscal year 2012 budget cycle.

## Information Technology (IT)

The Office of the Chief Information Officer is responsible for all areas of information and technology management. With an annual IT budget of over $3 billion dollars, the Department is focused on enabling innovation in support of the Department's expanding financial and economic missions while also increasing the operational efficiency and effectiveness of IT assets. No performance goals for agency-wide IT were included as part of Treasury's fiscal year 2010 performance budget. In light of the dynamic environment within which Treasury operates, Treasury's IT program is focused on the following areas.

### Using taxpayer funding wisely by leveraging IT investments

Treasury is actively using the Federal IT Dashboard to monitor and assess its key IT investments.

While the results for cost and schedule variance in fiscal year 2009 showed marked improvement from 2008, they were not indicative of Treasury's performance due to the way in which data was being captured. Going forward OCIO is reviewing options on what statistics act as best indicators of performance. These metrics are annual snapshots and don't reflect performance throughout the year. Ideally, future measures and benchmarks will be consistent with data used by the IT Dashboard. The project manager qualification measure will be reviewed by OCIO for follow-up action. The measure requires a longer term personnel development and training solution.

| Measure | Fiscal Year 2008 | Fiscal Year 2009 | Fiscal Year 2010 | Change |
|---|---|---|---|---|
| Percent of IT investments reported as "red" for cost variance (greater than 10% variance from target) | 40.33% | 1.7% | 26% | 24.3% |
| Percent of IT investments reported as "red" for schedule variance (greater than 10% variance from target) | 19.4% | 0% | 9% | 9% |
| Percent investments reported that the Project Manager was validated, according to 1) Federal Acquisition Certification for Program and Project Managers or 2) Defense Acquisition Workforce Improvement Act criteria, as qualified | 77.42% | 83.05 | 69% | -14.05% |

Additionally, Treasury is actively engaged in data center consolidation efforts in support of Green IT and Real Property Management. In August 2010, the Department submitted its strategy for reducing the number of Treasury data centers to OMB. In support of this strategy, the Treasury CIO Council approved proposals of specific initiatives to consolidate and optimize the Department's data centers. It is anticipated that the Department can increase the efficiency of its data centers in support of energy reduction and release of real property.

One specific initiative is the Fiscal IT consolidation. FMS and BPD initiated a project to consolidate the data centers across the two bureaus to help achieve the Secretary's objective of increasing the utilization and efficiency of combined IT assets, while reducing technology costs. The Fiscal IT effort includes

consolidation of five data centers into two shared by both bureaus, creation of a single corporate governing body, in-sourcing of select contracted functions, and consolidation of application development methodologies and associated infrastructure, all leading to a more "green" approach to delivery of IT services. Both FMS and BPD anticipate savings due to reductions in energy consumption, equipment, software, and staff.

### Enabling an information centric organization

Treasury investments such as Enterprise Content Management, the Internal Revenue Service's Customer Account Data Engine II, and FinCEN's IT Modernization are demonstrably focused on improving mission performance. Effective use of IT will also enable Treasury to rapidly begin operations as assigned by the Dodd–Frank Act. In addition to business capabilities, Treasury IT will enable greater public access to data by increasing the amount of public data that are readily accessible and in machine readable formats.

To provide timely reporting and monitoring of select cyber security metrics, Treasury developed and deployed a Web-based dashboard that provides real time analysis and an indexed cyber security posture. This dashboard can be easily updated to reflect changes in metrics reported to OMB and to meet evolving cyber security status monitoring and trend analysis requirements.

### Controlling and protecting Treasury information assets

Within an enterprise as interconnected as Treasury, security is not only essential for protecting information assets, but is more importantly a key enabler for many elements of Treasury's business mission. Two of Treasury's strategic security objectives include the Department-wide use of Homeland Security Presidential Directive-12 (HSPD-12) based credentials for logical access to business applications, and the enterprise-wide use of data loss prevention tools to monitor for and prevent the accidental leakage of information.

To further protect the Department's sensitive business information, Treasury is deploying the capability to monitor the use of illegal and unauthorized software in its networks and systems. This capability will help prevent software piracy and the introduction of hostile software which would put Treasury's IT-based business processes and information at risk of theft, compromise, and disruption.

### Providing reliable and robust computing, information and communication services

Treasury operates one of the largest civilian wide-area networks in the United States. With a significant percentage of its workforce being mobile, Treasury demands a ubiquitous, full-featured, and cost effective communications service. Treasury will continue to provide high performing, elastic services by building on fiscal year 2010 successes in migrating to a common, more cost effective wide-area network.

The Department is currently modernizing several web sites including Treas.gov to increase transparency, accessibility, navigability, and usability. To date, Treasury has completed an assessment of the current Treas.gov website and is in the process of developing the new design. Treasury is moving from an office-based design approach to one which responds to user interests. The Treas.gov website will be the first federal website rated at the *Federal Information Security Management Act* (FISMA) moderate level to be hosted on the Amazon cloud computing platform. Additionally, Treasury deployed *MyMoney.gov* to provide financial education to the general public one month ahead of schedule in fiscal year 2010. Finally, Treasury also deployed web applications that will transform the way the Department attracts and retains job candidates by providing the information and functionality needed to decide on a career with Treasury.

## Management and Budget

The Office of the Deputy Assistant Secretary for Management and Budget (DASMB) is responsible for strategic planning and performance management, budget formulation and execution, program evaluation, and special projects, such as Recovery Act coordination for the Department. No performance goals related to DASMB are included in Treasury's 2010 performance budget.

In fiscal year 2010, the Department's fiscal year 2012 budget submission was meticulously reviewed and prepared to establish funding based on key priorities. Treasury also worked to realize savings during this fiscal year by only funding top priority needs and reallocated savings towards programs aligned with Treasury's and the President's priorities.

During the fiscal year, the Deputy Secretary held quarterly performance and budget reviews with bureaus and policy offices. These reviews are structured after the "STAT" model developed by police departments to generate data-driven decisions. During these sessions, bureau mission statements and performance measures are re-evaluated, and then performance results are reviewed. Budget discussions were also included in the reviews.

## Operations

The Office of the Deputy Assistant Secretary for Departmental Offices Operations provides management and administrative support for the offices and employees in Treasury's departmental, or headquarters, offices. No performance goals related to Departmental Operations are included in Treasury's 2010 performance budget.

Key Departmental Operations accomplishments for fiscal year 2010 are:

- Coordination with GSA for the location planning for the stand-up of the Consumer Financial Protection Bureau
- Establishing and maintaining "all green" on the Environment and Energy Scorecard for two reporting periods covering six months each
- Complete HSPD-12 Physical Access Control implementation for all Departmental Office owned and leased locations

## Human Capital

The Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer is responsible for all areas of human capital management.

### Effectively managing and utilizing human resources

In fiscal year 2010, Treasury implemented several changes to the Senior Executive Service (SES) performance management process to clarify performance expectations and support more meaningful distinctions in ratings and rewards, and assessment of those changes will continue in fiscal year 2011. Because SES ratings reform has been identified as a major priority of the President's Management Council, Treasury plans to pursue additional initiatives in fiscal year 2011 related to performance, hiring, and executive development.

Treasury worked to address administration guidance on improving labor management relationships and managing a multi-sector workforce. It established new labor management forums in cooperation with the National Treasury Employees Union and benchmarked contractor and federal employee performance within a key Treasury data-center against 80 similar facilities.

The Department also began implementation of human capital efforts related to the Dodd-Frank Act, such as new classifications and pay systems for new offices and bureaus.

### Developing and retaining Treasury's workforce

During fiscal year 2010, Treasury implemented action plans that focused on areas for improvement as identified in the 2008 Federal Human Capital Survey. These efforts paid off with improved scores on the 2010 Employee Viewpoint Survey (now renamed the FedView Survey). The Department increased positive responses in each area, or index, of the survey by at least two percent. Treasury efforts to improve scores on the survey and across various indices based on the survey results will continue into the future. Additional detail on the survey methodology is available at the Office of Personnel Management (OPM) website: *http://www.opm.gov/surveys/results/Employee/2010Employee SurveyResults.asp*

### Broadening and diversifying Treasury's talent pool

Treasury continued to create effective recruitment strategies and utilize available flexibilities to attract a diverse pool of highly qualified candidates, both external and internal, sufficient to ensure that the Department fulfills its mission requirements. Fiscal year 2010 marked the second successful year of the Hamilton fellows program. A total of 42 new fellows were hired Treasury-wide compared to 16 in fiscal year 2009. The Department developed a new hiring strategy for mid-career professionals during the fiscal year. Finally, Treasury also continued to recruit finalists from the OPM sponsored Presidential Management Fellowship program.

The Department's fiscal year 2010 progress was consistent with government-wide human capital initiatives including hiring reform, veterans hiring, hiring persons with disabilities, and expanding of benefits to same sex domestic partners. Treasury made significant progress in addressing the presidential memorandum on improving the federal hiring process by

strengthening communication with applicants, streamlining and standardizing vacancy announcements, providing more information to managers, and process mapping departmental hiring efforts. Treasury retained its multi-year record as the cabinet level agency with the highest employment of individuals with targeted disabilities. Further, Treasury created a steering committee which has substantially improved the process for hiring veterans.

## High Priority Performance Goal: Significantly Increase the Number of Paperless Transactions with the Public

In addition to greatly reducing costs, enhancing customer service and minimizing Treasury's environmental impact, the move from paper to electronic transactions will increase reliability, safety, and security for benefit recipients and taxpayers. The initiative is expected to save more than $400 million and 12 million pounds of paper in the first five years alone while delivering safe and secure payments in an efficient and reliable manner.

In 2010 Treasury began implementing paperless initiatives. First, Treasury expects individuals receiving Social Security, Supplemental Security Income, Veterans, Railroad Retirement, and OPM benefits to receive payments electronically. Individuals will be able to receive benefits either through direct deposit into a bank account or Treasury's Direct Express debit card. Today, one million Americans are receiving their benefit payments through Direct Express and they have found the card safe, convenient, and easy to use. The requirement will apply to new enrollees beginning on March 1, 2011 and to existing check recipients beginning on March 1, 2013. Currently, 85 percent of federal benefit recipients receive their payments electronically. Moving all recipients of these benefits to electronic payments is expected to save upwards of $300 million in the first five years.

Second, businesses currently permitted to use paper Federal Tax Deposit coupons will have to make those deposits electronically beginning in 2011 with a few exceptions, primarily businesses with $2,500 or less in quarterly tax liabilities that pay when filing their returns. Currently, nearly 98 percent of all business tax dollars are paid electronically through Treasury's free EFTPS. IRS research has shown that businesses using EFTPS are 31 times less likely to make an error. This change will save an estimated $65 million in the first five years.

Finally, Treasury eliminated the option to purchase paper savings bonds through payroll deductions for federal employees on September 30, 2010 and will eliminate it for the private sector by January 1, 2011. This policy covers only paper savings bonds purchased through payroll sales; individuals will still be able to purchase paper savings bonds at financial institutions for themselves and as gifts. Payroll savers will be encouraged to continue their purchases through TreasuryDirect, a web-based system that allows investors to buy and hold electronic Treasury securities. Transitioning employees to electronic payroll purchases saves employers administrative costs and allows employees to manage their own bond accounts. This is estimated to save nearly $50 million in the first five years.

Treasury has made substantial progress consistent with this effort. FMS exceeded its target for percentage collected electronically of Total Dollar Amount of Federal Government Receipts, reaching 85 percent. BPD has been conducting a public awareness campaign to inform its customers about the elimination of paper payroll savings bonds and the alternative of purchasing electronic securities in TreasuryDirect. The data demonstrates that BPD has been successful in moving its customers to electronic securities. In the fourth quarter of fiscal year 2010, new TreasuryDirect accounts increased 268 percent to 47,508 compared to 12,902 new accounts in the fourth quarter of fiscal year 2009. Also, in the fourth quarter of fiscal year 2010 dollar sales of electronic savings bonds rose 54 percent to $23,150,292 compared to $15,031,333 in the fourth quarter 2009. During the same period, sales of paper savings bonds decreased from $386,179,000 in the fourth quarter of 2009 to $383,115,000 in the fourth quarter of 2010. Additionally, the Office of the Fiscal Assistant Secretary (OFAS) has led an interagency work group to publish proposed regulations to solve the growing problem of garnishment of exempt federal benefits which will in turn facilitate additional electronic benefits payments rather than payment by check.

## Conclusion

The Department exceeded its targets for its strategic outcome: "A Citizen Centered, Results Oriented, and Strategically Aligned Organization" for fiscal year 2010. The Department's initiatives are moving towards improved management across programs.

## Moving Forward

- During fiscal year 2011, Treasury will institutionalize its quarterly performance and budget reviews. Treasury will continue to work to formalize performance metrics in all management functions.
- Data for Treasury's greenhouse gas emissions are not available annually, however Treasury is still committed to reducing greenhouse gas emissions by 33 percent by 2020. The Department will continue to work towards reducing emissions and reporting when possible.
- The Department will continue to implement hiring reform, including decreasing the time to hire, improving the pipeline of candidates, and supporting veterans and those with disabilities.
- The 2011 goals of the Paperless initiative include increasing electronic payment, collections, tax filing, and savings bonds transactions by 33 percent by the end of fiscal year 2011 and increasing the individual E-file rate to 74.7 percent.

# Exceptional Accountability and Transparency

Achieving and maintaining exemplary accountability and transparency is critical for the Treasury Department as the primary financial agency for the U.S. Government. The Department follows proper internal controls that serve to deter and eliminate fraud, waste, and abuse, while increasing efficiency and effectiveness.

## Key Performance Measure Table

The following table contains only key performance measures associated with this outcome. Actual and target trends represent four years of data where available. The full suite of measures with detailed explanations is available at *http://www.treasury.gov/offices/management/dcfo/accountability-reports*.

| Key Performance Measure | Bureau | 2009 Actual | 2010 Target | 2010 Actual | Percent of Target Achieved | Percent Change in Actual | Performance Rating | 2011 Target | 4-year Target Trend | 4-year Actual Trend |
|---|---|---|---|---|---|---|---|---|---|---|
| Percentage of timely completed Planned Corrective Actions (PCAs) (%) | DO | 85.6 | 87.5 | 88.4 | 101.0% | 3.3% | Exceeded | 90 | ▲ | ▲ |
| Number of completed audit products | SIGTARP | 3 | 12 | 9 | 75.0% | 200.0% | Unmet | 12 | ▲ | ▲ |
| Percent of recommendations implemented (%) | SIGTARP | 100 | 70 | 43 | 61.4% | -57.0% | Unmet | 70 | ▼ | ▼ |
| Congressional requests for testimony completed | SIGTARP | 9 | 4 | 7 | 175.0% | -22.2% | Exceeded | 4 | ▼ | ▼ |
| Percentage of investigations accepted by prosecutors (%) | SIGTARP | 95 | 50 | 100 | 200.0% | 5.3% | Exceeded | 55 | ▼ | ▲ |
| Percentage of preliminary investigations that are converted into full investigations (%) | SIGTARP | 50 | 35 | 80 | 228.6% | 60.0% | Exceeded | 40 | ▼ | ▲ |
| Percentage of all cases that are joint agency/task force investigations (%) | SIGTARP | 60 | 30 | 50 | 166.7% | -16.7% | Exceeded | 35 | ▼ | ▼ |
| Percentage of hotline complaints referred for investigation or to OFS within 14 days of receipt (%) | SIGTARP | 77 | 60 | 74 | 123.3% | -3.9% | Exceeded | 65 | ▼ | ▼ |
| Number of completed audit products | OIG | 68 | 62 | 68 | 109.7% | 0.0% | Exceeded | 62 | ▲ | ▲ |
| Percent of statutory audits completed by the required date (%) | OIG | 100 | 100 | 50 | 50.0% | -50.0% | Unmet | 100 | ▶ | ▼ |
| Percentage of all cases closed during fiscal year that were referred for criminal/civil prosecution or Treasury Administrative action (%) | OIG | 100 | 70 | 93 | 132.9% | -7.0% | Exceeded | 70 | ▼ | ▼ |
| Percentage of all cases that were accepted by prosecutors, referred for agency action, or closed during fiscal year and were completed within 18 months of case initiation (%) | OIG | 92 | 70 | 66 | 94.3% | -28.3% | Unmet | 70 | ▼ | ▼ |
| Percentage of audit products delivered when promised to stakeholders (%) | TIGTA | 81 | 65 | 76 | 116.9% | -6.2% | Exceeded | 70 | ▼ | ▲ |
| Percentage of recommendations made that have been implemented (%) | TIGTA | 91 | 83 | 95 | 114.5% | 4.4% | Exceeded | 85 | ▼ | ▲ |
| Percentage of results from investigative activities (%) | TIGTA | 83 | 79 | 87 | 110.1% | 4.8% | Exceeded | 80 | ▲ | ▲ |

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

## Analysis of Performance Results

The Department exceeded targets for 73 percent of performance measures in this section. Of the four measures (27 percent) that did not meet the target, the average percent of target achieved was 70 percent. Treasury discontinued two measures: one in fiscal year 2010 and one in fiscal year 2009. Results suggest that Treasury has room for improvement in this area and that challenging targets have been set. OIG's audit completion metrics were substantially affected by material loss review work for failed banks. OIG's ability to meet this metric in fiscal year 2011 will depend largely on the number and sizes of future bank failures compared to available OIG audit resources. TIGTA exceeded targets for all of its measures by at least 11 percent. TIGTA should consider setting more aggressive targets for measures related to audit products delivered and recommendations implemented as both also had undesirable target trends. SIGTARP's completed audit product measure target may have been overly aggressive. Although SIGTARP did not reach its goal of producing 12 audit products in fiscal year 2010, it did exhibit a 200 percent increase in completed audits (from three to nine). SIGTARP did not meet its implementation rate measure; it anticipated a higher implementation rate by OFS, but it was not fully met. OFS is working on implementing the recommendations, and planned corrective action dates extend into fiscal 2011. SIGTARP will continue to monitor the implementation of these recommendations.

## Privacy, Transparency and Records

The Office of the Deputy Assistant Secretary for Privacy, Transparency, and Records (DASPTR) exists to strengthen privacy and disclosure. Civil liberties functions have been included to take advantage of existing privacy processes, and the records, library, and orders and directives programs are included because they are significantly interrelated with the privacy and disclosure programs. DASPTR sets the standard for the protection, access, and appropriate disclosure of Treasury's information, and provides support for these activities so that program offices may concentrate on their core functions.

In April 2010, the Department of the Treasury published its first Open Government Plan, which represents the beginning of the Department's formal implementation of the Open Government Directive. OMB validated that the plan met every directive requirement. An Open Government Steering Committee has been convened with representatives from each of Treasury's bureaus to develop guidance and provide leadership on these activities across the Department. The Department released 84 data sets to date, completed a number of stakeholder outreach efforts, and began a more focused approach to tracking reduction in the Freedom of Information Act (FOIA) request backlog. In addition, DASPTR identified cost savings from Open Government initiatives, developing a cost-benefit matrix and tracking the impact of proactive information disclosure on *FinancialStability.gov* on the number of FOIA requests for OFS.

The Department of the Treasury received a Leading Practices Award for Participation and Collaboration for achievement above and beyond the requirements of the Directive. This award recognized Treasury as an agency that outlined the best and most innovative strategies for promoting open government over the next two years. Treasury was only one of eight agencies to receive an award.

The Office of Disclosure Services submitted the final version of the Chief FOIA Officer's Report in March 2010 to meet the requirement of submission to the Attorney General by March 15, 2010. The requirement supports the principles of transparency and openness in government. Agencies report on the steps taken to apply the presumption of disclosure, including proactive disclosure activities, to greater utilization of technology, and steps taken to reduce backlogs and improve timeliness in responding to FOIA requests.

In January 2010, DASPTR launched a Lean Six Sigma study for FOIA requests processing. The objective was to analyze FOIA processes within Departmental Offices. The plan was to enable the Department of the Treasury to promptly respond to FOIA requests within statutory requirements, increase proactive disclosure of information, eliminate the FOIA requests backlog, and ensure sensitive or complex FOIA requests are processed properly. This will result in disclosure of information more efficiently, accurately, and rapidly to the American public to promote public trust and government accountability through increased openness and transparency.

The DASPTR was designated as lead for Treasury's Department-wide the Enterprise Content Management (ECM) initiative during fiscal year 2010. ECM will enable the Department of Treasury to create structure for managing information and complying with FOIA requests. In the long term, Treasury expects that the project will improve productivity, increase cost

savings, provide user satisfaction, and improve response time to FOIA requests.

The Department of the Treasury has embraced digitization in another effort to make information more readily available to the public through the internet. Treasury's library maintains several unique specialized collections. The Department has began digitizing those collections with a goal to digitize 20 percent of the collection in fiscal year 2010 and 20 percent within the following four years. Converting these materials to high quality digital format will provide historical preservation of the materials. The materials to be digitized include legislative histories of laws relevant to the Treasury Department compiled by the Library staff over the last 50 years, Treasury press releases from the 1930s forward, the Treasury Annual reports from 1789, and studies conducted by the Treasury Department.

In accordance with Sec. 522 of the *Consolidated Appropriations Act*, the Department is required to have a full accounting of its Personally Identifiable Information (PII) holdings. The Office of Privacy and Civil Liberties (OPCL) met this requirement by completing a survey of PII holdings in Departmental Offices and the bureaus and submitting a report on the results on time. This survey captured all systems, paper and electronic, that contain PII.

## Office of the Deputy Chief Financial Officer

DCFO tracks the closure of PCAs addressing recommendations in OIG, GAO, TIGTA, and SIGTARP audit reports. The timeliness of PCA completion goal for fiscal year 2010 was 87.5 percent. Treasury exceeded the goal for fiscal year 2010 and closed out the year with a rate of 88.4 percent. The prior two fiscal year's timeliness of PCA completions were 83 percent in fiscal year 2008 and 85.6 percent in fiscal year 2009.

## Office of the Inspector General

The OIG performs audits and investigations of non-IRS and non-TARP Treasury programs and operations. OIG audits result in recommendations to improve the effectiveness, efficiency, and integrity of Treasury programs and operations. OIG investigators conduct a variety of investigations covering financial, corruption, and other crimes, as well as serious employee misconduct.

The OIG dedicated nearly all audit resources to mandated work primarily related to material loss reviews of failed banks during the fiscal year. With the unprecedented number of Treasury-regulated bank failures requiring a review, the OIG was unable to meet the performance goal of completing 100 percent of those audits by the statutory deadline. During fiscal year 2010, 53 Treasury-regulated banks failed of which 30 were supervised by OCC and 23 by OTS. By comparison, 27 Treasury-regulated banks failed during fiscal year 2009. For fiscal year 2010, OIG had 18 required material loss reviews in progress at the start of the year, initiated 20 new material loss reviews during the year; and completed ten material loss reviews. Through most of the fiscal year, material loss reviews were required when the bank failure caused a loss to the Deposit Insurance Fund of $25 million or more. This threshold was recently increased to $200 million. As a new requirement, however, the OIG must perform a review of failures with losses under the threshold that is limited to determining (1) the grounds identified by OCC or OTS for appointing the FDIC as receiver and (2) whether any unusual circumstances exist that might warrant an in-depth review of the loss. For fiscal year 2010, the OIG initiated 33 such reviews and completed six of them. For three of the six completed reviews, the OIG determined that there were unusual circumstances warranting in-depth reviews; those reviews were in progress at fiscal year end. For the other three reviews, the OIG determined that there were no unusual circumstances and therefore an in-depth review will not be performed. In addition, the Office of Investigations initiated four criminal investigations of failed Treasury banks as a result the Office of Audit's findings.

The OIG reported on a number of trends from its failed bank reviews. With respect to the causes of the failures, the OIG found overly aggressive growth strategies fueled by volatile and costly wholesale funding (e.g., brokered deposits, Federal Home Loan Bank loans, etc.); risky lending products such as option adjustable rate mortgages; unsound underwriting; high asset concentrations including high concentrations in CRE loans; and inadequate bank risk management systems. The economic recession and the decline in the real estate market was also found to be a major factor in most failures. With respect to Treasury's supervision of the failed banks, the OIG found that regular and timely examinations were conducted and operational problems identified, but the regulators were slow to take timely and aggressive enforcement action. The OIG made numerous recommendations to both OCC and OTS to strengthen their bank supervision and examination programs. Both OCC and OTS took timely and responsive actions to address the recommendations.

Although limited due to the OIG's mandated workload, the OIG continued to provide oversight of Treasury's more than $20 billion of non-IRS programs under the Recovery Act. These Recovery Act programs provide: (1) cash payments to businesses for partial reimbursement of energy projects; (2) funding to states for the development of low income housing; and (3) grants and tax credits for economic development activities administered through the CDFI Fund. During fiscal year 2010, the OIG completed two reviews that were part of the Recovery Accountability and Transparency Board coordinated government-wide reviews. In the first review, the OIG identified potential weaknesses in the data prepared by the Department on staffing levels, qualifications, and training. In the second review, the OIG identified potential weaknesses in Treasury's processes for reviewing recipient data. For both reviews, the Department took responsive action to the OIG recommendations for improvement.

In fiscal year 2010, the Office of Investigations opened 100 new investigations and closed 74 investigations. OI also referred 100 percent of investigations that substantiated administrative violations against a Treasury employee to the appropriate regulated bureau for appropriate action. In addition, the Office of Investigations referred 19 investigations for criminal prosecution to the Department of Justice.

## Treasury Inspector General for Tax Administration

During fiscal year 2010, TIGTA exceeded all of its performance measure targets. TIGTA was responsible for successful investigations of entities and individuals who threatened the nation's tax system and issued many high-profile audit reports that received considerable coverage by the media and others. Cumulatively, these efforts resulted in $11.46 billion in potential financial benefits from audit recommendations and $230 million in potential savings from investigative recoveries in embezzlements, thefts, court order fines, penalties, and restitution.

TIGTA strives to protect the integrity of America's tax system. TIGTA's audits focus on the economy, efficiency, and effectiveness of tax administration. Overall, TIGTA's Office of Audit (OA) issued 129 reports (including 16 Defense Contract Audit Agency reports), identifying over $11.46 billion in total potential financial benefits. These benefits included $2.8 billion in cost savings recommendations, $8.6 billion in potential increased revenue/revenue protected recommendations, $198 thousand in taxpayer rights and entitlements recommendations, and $36 million in recommendations related to inefficient use of resources. These reports also included recommendations impacting over two million taxpayer accounts.

TIGTA Office of Investigations (OI) investigates threats to America's tax system, which could impede collection of tax revenue and reduce public confidence. Overall, TIGTA OI processed 9,513 complaints, resulting in 3,857 opened investigations. Vigilant work against extortion, bribery, contractor fraud and misconduct, theft, taxpayer abuses, false statements and financial fraud, and other criminal activity resulted in potential savings of over $230 million. Eighty-seven percent of the 3,675 final closed investigations generated 1,625 cases of employee misconduct referred for action and 235 cases accepted for criminal prosecution. Furthermore, since the April 1, 2009, inception of the Armed Escort Program, TIGTA has conducted 62 armed escorts.

### Recovery Act Audits

The Recovery Act provided TIGTA with $7 million for oversight and audits of IRS activities. TIGTA has performed audits to ensure that IRS's systems and programs are operating effectively, efficiently, and economically in their activities related to this legislation. TIGTA's fiscal year 2010 Recovery Act Oversight Plan and final Recovery Act reports are posted to the TIGTA area of the *Recovery.Gov* website.

### Security Clearance Modernization and Reporting Act of 2009

TIGTA reviewed the *Security Clearance Modernization and Reporting Act of 2009*, which would make changes to security clearance and suitability determination reporting and create a Security Clearance and Suitability Performance Accountability Council. The bill specifies that membership of the Council shall include a senior officer from the Office of the Director of National Intelligence, the Department of Defense, and OPM, in addition to other members. TIGTA provided comments on the bill, suggesting that the draft bill include a member of the IG community on the Council. TIGTA will continue to monitor this bill for changes that may have an impact on its mission.

### Audit Related Accomplishments

The mission of TIGTA OA is to promote the sound administration of the nation's tax laws by conducting comprehensive audits that advise Congress, the Secretary of the Treasury, and IRS management of high-risk issues, problems, and deficiencies

related to the administration of IRS programs and operations. Fiscal year 2010 audit work resulted in significant recommendations to improve areas such as systems modernization, security maintenance, tax compliance, and operations, resulting in potential financial benefits.

### Inspections and Evaluations–Related Accomplishments

During fiscal year 2010, TIGTA's Office of Inspections and Evaluations (I&E) provided responsive, timely, and cost-effective inspections and evaluations of IRS challenge areas including Recovery Act implementation, pandemic influenza preparedness, and implementation of the *Restructuring and Reform Act*. The I&E staff also provided TIGTA with additional flexibility and capability to provide value-added products and services for improving tax administration.

## Special Inspector General for the Troubled Asset Relief Program

SIGTARP advances economic stability by promoting efficiency and effectiveness in Treasury's management of TARP through transparency, coordinated oversight, and robust enforcement against those who waste, steal, or abuse TARP funds.

The American taxpayers have been asked to provide hundreds of billions of dollars to stabilize the financial system and promote economic recovery. In this context, they have a right to know how their money is being spent. Moreover, this same transparency is a powerful tool to ensure that all those managing TARP funds act appropriately, consistent with the law, and in the best interests of the country. SIGTARP's primary tools for informing taxpayers about TARP are audit and quarterly reports, which are available for inspection at *www.sigtarp.gov*.

Additionally, SIGTARP ensures that members of Congress are kept adequately and promptly informed of developments in TARP initiatives and of SIGTARP's oversight activities. In that regard, the Special Inspector General (SIG) and his staff regularly meet with and brief members of Congress and their staff. SIGTARP also advises TARP managers concerning internal controls and the effectiveness of TARP activities, and makes recommendations for improvements in TARP management.

SIGTARP closely coordinates its oversight activities with other TARP oversight bodies to ensure maximum coverage while avoiding redundancy and undue burden. In coordination with other oversight agencies, SIGTARP's Audit Division (AD) conducts and supervises performance audits and evaluations with respect to Treasury's operation of TARP; recipients' compliance with their obligations under relevant law and contracts; and TARP policies and procedures. Since its inception, SIGTARP has commenced 22 distinct audits and has issued 11 audit reports covering such topics as the use of TARP funds, external influence of programmatic decision-making, oversight of AIG's compensation of executives, and Treasury's role in the decision to reduce the number of GM and Chrysler dealerships. Furthermore, among the policies and procedures that AD has reviewed and commented upon are TARP agreements and warrants, the Public-Private Investment Program, the Capital Assistance Program, and the Home Affordable Modification Program.

SIGTARP's Investigation Division (ID) supervises and conducts criminal and civil investigations into those persons and entities, inside or outside of government, who waste, steal, or abuse TARP funds. ID is comprised of experienced financial and corporate fraud investigators, special agents, forensic analysts and attorney advisors. This structure provides SIGTARP with a broad array of expertise and perspectives in developing sophisticated investigations. ID leverages its resources by coordinating closely with other law enforcement agencies and forming law enforcement partnerships and task force relationships across the Federal government. ID has over 104 ongoing major criminal and civil investigations, and to date has prevented over $553 million of TARP funds from being disbursed on the basis of fraudulent representations, and caused indictments of individuals for, among other offenses, bribery, embezzlement, bank fraud, mail fraud, wire fraud, and money laundering. ID also manages the SIGTARP Hotline, which abides by all applicable whistleblower protections in processing complaints via telephone, e-mail, website, and in-person. ID has received and processed more than 14,000 Hotline contacts since February 2009.

## Conclusion

While over half of the measures for this goal were exceeded, 27 percent of measures for this strategic goal were not met. Treasury has opportunities for improving accountability and transparency across the organization and will continue to set aggressive targets for measures.

## Moving Forward

Treasury's three inspectors general will continue to provide oversight of the Department's programs and operations.

In fiscal year 2011, even with the increase to the threshold triggering a mandated review, OIG anticipates that it will be necessary to devote substantial resources to its statutory obligations related to the failures of Treasury-regulated banks. OIG will also undertake work on new mandates such as those in the Dodd-Frank Act, such as overseeing the transfer OTS's functions to other banking regulators, as well as work required by the *Improper Payments Elimination and Recovery Act of 2010*. Other high-priority areas where the OIG plans to focus its resources are on Treasury's non-IRS Recovery Act programs, the TFTP, and significant capital investments like BSA modernization. OIG will also investigate (1) criminal matters involving Recovery Act funds, (2) matters where there was a subversion of the bank examination process by an OTS or OCC regulated bank, and (3) claims made against the FMS, Check Forgery Insurance Fund.

TIGTA's audits, investigations, inspections and evaluations priorities include:

- Overseeing the IRS's efforts to administer tax provisions of the Recovery Act
- Developing a multi-year oversight plan covering the IRS's efforts to implement the various tax-related and health coverage tax credit-related provisions of the ACA
- Conducting comprehensive audits, inspections, and evaluations that include recommendations for monetary benefits and enhancing the IRS's service to taxpayers
- Adapting to the IRS's continually evolving operations and mitigating intensified risks associated with modernization, security, addressing the tax gap, and human capital challenges facing the IRS in domestic and international operations
- Responding to domestic and international threats and attacks against IRS employees, property, and sensitive information
- Improving the integrity of IRS operations by detecting and deterring fraud, waste, abuse, and misconduct by IRS employees
- Informing the public, Congress, and the Secretary of the Treasury of problems and progress made to resolve identified issues

SIGTARP intends to focus on increasing staff for field operations and to address increased workload in audits and investigations. The bureau will continue to promote transparency and prevent abuse in the TARP program.

DASPTR will use leverage Treasury's ECM efforts towards its long term goal of improving productivity, increasing cost savings, providing user satisfaction, and improving response time to FOIA requests.