The Department of the Treasury

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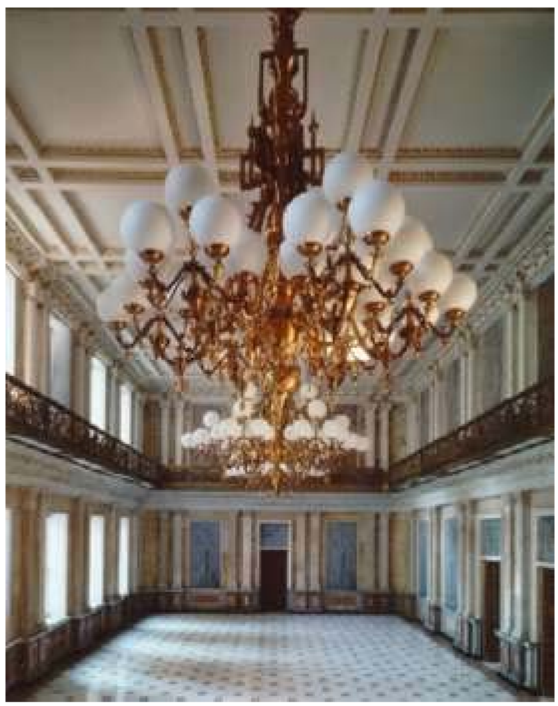

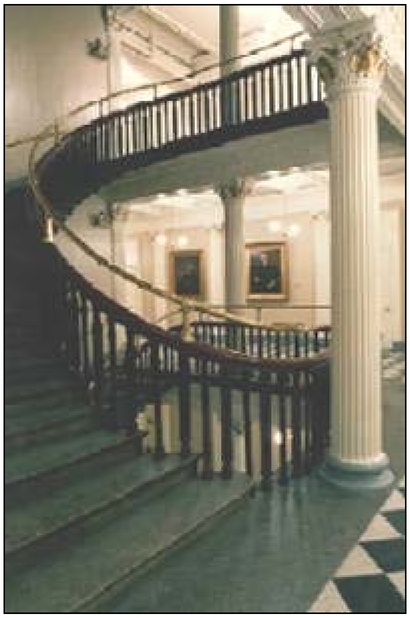

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1.1 Introduction

The Department of the Treasury promotes the nation's economic well-being, manages the government's finances and ensures the integrity of financial information both inside and outside of the government. Many bureaus and offices within the Department's auspices carry out its role as chief manager of the nation's finances.

As times have changed and continue to present new challenges, the Treasury Department has not stagnated. It is proud to confront these challenges, especially by fighting terrorism. Under guidance from the Department's Strategic Plan and the President's Management Agenda (PMA), the Department has grasped tangible results in managing the nation's finances, taking advantage of new opportunities and opposing threats. The Department is committed to defining desired results for each area and managing to achieve them, at acceptable cost levels.

The PMA is a "bold strategy for improving the management and performance of the federal government." As President George W. Bush has stated, "We are not here to mark time, but to make progress, to achieve results and to leave a record of excellence." The Treasury Department is an organization about results. This document is an opportunity to reflect on several positive accomplishments and acknowledge the many contributions of the Department's workforce.

1.2 Treasury's Workforce

The Department has succeeded at uniting people and performance. Treasury believes "mission first, people always." The Department is proud of the team of over 100,000 qualified professionals that comprise Treasury's workforce. These employees are committed to helping citizens and promoting the legacy of the world's most open trade system.

Treasury is diverse in structure and size. Although the majority of Treasury employees are involved in the business of revenue collection, other Treasury employees do equally important work such as currency production, budgeting, economic policy development, bank regulation, disbursement of government payments and monitoring the public debt. Treasury employees working in over nine hundred locations worldwide affect citizens across the country and the world. Although the missions and organization structures vary, the bureaus are unified under the Treasury mission and common human capital strategic goals and business drivers.

The Department is improving organizational effectiveness by aligning top leadership performance expectations with organizational goals and then cascading them to lower organizational levels to include managers and front-line employees. The use of compensation and performance management systems creates strategic alignments between and among the Department's mission, the bureaus' individual missions and the employees' responsibilities. These alignments focus on rewarding mission-related contributions, thereby creating a results-oriented performance culture.

The Department is also working to improve employee retention and satisfaction. To do this, individuals who specifically demonstrate qualities associated with leading high-performance teams are being identified and rewarded. In addition, managers are matching employees to projects which will allow them to fully utilize their individual talents. By ensuring that employees understand what is expected of them they can perform better. Leaders also perform better as they are provided with retention-related insights, metrics, training and top executive support. When employees in an organization find themselves in a high performing environment, they are more likely to be satisfied and remain dedicated to the Department.

Treasury seeks to enhance the capabilities of its workforce. Human resource offices, business units, and information technology (IT) offices work together to identify current and planned technology, required skills, and current and anticipated skill gaps. This information establishes the platform for long-term plans for closing skill gaps and maintaining business-appropriate skill levels. Enhancing the capabilities of the workforce also requires the implementation of a comprehensive, multidimensional and integrated technology learning strategy. Technology investment review and approval processes ensure that knowledge, skill, and training needs are addressed in technology proposals and implementation plans.

By uniting people, performance and technology, the Department delivers products and services effectively and efficiently and maximizes the performance of its workforce.

1.3 War on Terror

In compliance with the Homeland Security Act, several bureaus and agencies were divested from the Treasury Department and acquired by the Departments of Homeland Security and Justice, strengthening the nation's ability to fight the war on terror. The Treasury Department transferred over $10 billion in assets, $6.2 billion in budget authority and over 34,000 employees. The Treasury Department retains its protection capacity, even after the divestiture of resources.

The Department has much to safeguard. In addition to sheltering $100 billion in precious metals and protecting the nation's money supply, the Department is limiting the means by which terror networks may cause destruction and ensuring no disruptions to daily commerce.

The Department works with law enforcement and regulatory partners, as well as the private sector, to combat terrorist financing. The Department's Financial Crimes Enforcement Network (FinCEN), the delegated administrator of the Bank Secrecy Act, has extended anti-money laundering requirements beyond depository institutions to include money services businesses, casinos, broker-dealers, credit card operators, mutual funds and futures commission merchants. As mandated under section 314 of the Patriot Act, an electronic information exchange system has been developed to allow law enforcement agencies to rapidly query U.S. financial institutions about suspects, businesses and accounts in major money laundering and counter terrorism investigations. To facilitate and enhance the processing and quality control of Bank Secrecy Act filings, an e-filing system has also been created to enable institutions to file Bank Secrecy Act reports electronically. In addition, a hotline is operational 24/7 to enable financial institutions to immediately report suspicious activity relating to terrorism. These hotline "tips" are expeditiously referred to law enforcement authorities and simultaneously analyzed on a fast track basis within FinCEN. The global network of financial intelligence units from 94 jurisdictions is chaired by FinCEN's Deputy Director and actively used by FinCEN as an effective channel for assisting U.S. law enforcement entities in obtaining and exchanging information relating to terrorism and major money laundering cases.

The Assistant Secretary for Intelligence position, authorized in the Intelligence Authorization Act of 2003, is now in place under the Office of Terrorism and Financial Intelligence (TFI). This integrated structure will allow Treasury to implement its authorities fully and effectively, and apply a strategic, consolidated and comprehensive approach to the war on terrorist financing.

In its role safeguarding the financial systems both home and abroad, the Treasury Department utilizes numerous capabilities. Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime, including E.O. 13224 and Section 311 of the Patriot Act. Since September 11, 2001, 384 individuals and entities have been designated and nearly $142 million in terrorist-related assets has been frozen as a result of efforts by the United States and its allies. Additionally, the Treasury Department has employed Section 311 against foreign financial institutions in Burma and Syria.

The Office of Foreign Assets Control (OFAC) has been given the responsibility to administer and enforce United States economic sanctions programs on behalf of Treasury and to do so against targeted foreign countries, and groups and individuals, including terrorists and terrorist organizations and narcotic traffickers, which pose a threat to the national security, foreign policy or economy of the United States. As delegated by the Department, OFAC currently administers and enforces 29 economic sanctions programs pursuant to Presidential and Congressional mandates. These programs are a crucial element in preserving and advancing the foreign policy and national security objectives of the United States, and are usually taken in conjunction with diplomatic, law enforcement and occasionally military action.

The Treasury Department is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, the G8, and various multilateral development banks. In addition, Treasury is the critical facilitator for the international relationship between financial intelligence units organized through the Egmont Group. By working with our international partners, ninety-four countries and jurisdictions now have financial intelligence units that are members of the Egmont group, an increase of 36 since September 11, 2001. Additionally, since that time over 100 countries have strengthened their existing terrorist financing laws or implemented new terrorist financing laws.

As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private sector. Through such outreach programs as the Bank Secrecy Act Advisory Group (BSAAG) and other regulatory and educational seminars and programs, Treasury works maintains a close relationship with U.S. financial institutions to ensure a smooth exchange of information related to money laundering and terrorist financing. Treasury also maintains a close dialogue with the charitable sector to help it address its vulnerabilities to terrorist financing.

In addition to these security endeavors, the Office of the General Counsel (OGC) has aided this effort. The OGC played a leading role in the interagency efforts to disrupt terrorist financing including, at one point, serving as chair of the interagency policy coordinating committee. The OGC also has worked with the Justice Department to successfully defend lawsuits that challenged the Treasury Department's aggressive designation of terrorism-supporting groups; these included significant victories in litigation with the Holy Land Foundation for Relief and Development, Global Relief Foundation and Benevolence International.

The OGC also handled significant legal issues before, during and after the conflict in Iraq. The OGC drafted the executive orders that authorized the President and the Secretary of the Treasury to confiscate over $2 billion in Iraqi assets, and, with others in the Department and the Executive Branch, strived to implement these orders and expedite the use of the funds to benefit the Iraqi people. The Office drafted other executive orders to protect the Development Fund for Iraq, to target supporters of the former Saddam Hussein regime, to implement U.N. Security Council resolutions and handled the regulatory implementation of these orders.

Finally, the Office of Critical Infrastructure Protection and Compliance Policy (OCIP), in the Office of Financial Institutions, leads efforts to safeguard the financial infrastructure and to ensure that no disruption, be it a cyber attack or a terrorist attack, will result in the shut down of the U.S. financial services sector. OCIP, working in close cooperation with the Department of Homeland Security, other federal and state agencies, and the private sector, has greatly improved the security and resiliency of the U.S. financial system in many ways including: arranging for critical financial institutions to have access to priority telecommunications services to help their voice and data communications transmit successfully during times of crisis; assisting in coordinating the protective response of state and local authorities with critical financial institutions; establishing systems and procedures that enable the federal financial regulators to communicate among themselves and with the private sector during times of crisis as well as in advancing efforts to mitigate risks to the financial infrastructure; and, promoting industry measures that maintain crucial financial communications among private sector participants.

OCIP's efforts were tested on August 14, 2003, when electrical power was lost across much of the Northeastern region of the United States. Recognizing the potential impact to the financial services sector, OCIP quickly activated the emergency communications protocols. As power was gradually restored throughout the afternoon, the OCIP stayed in contact with the financial sector to obtain reports regarding the sectors' recovery from the blackout and to address any concerns about being able to open for business the following morning. As a result of the coordinated efforts of the private and public sectors, the American public did not panic and the impacted financial institutions were able to resume normal business.

By helping to coordinate the efforts of the U.S. financial sector with those of federal, state and local law enforcement, the OCIP also has been instrumental in leading the fight against one of the fastest growing crimes in America—identity theft. Operating across state and national borders, identity thieves cost U.S. business and finance nearly $50 billion a year in fraudulent transactions. Additionally, the OCIP has worked hard to educate American consumers and businesses about the different ways to protect themselves against this growing crime.

1.4 The Business of Treasury

Collections & Tax Administration

One primary function of the Department is to collect the financial resources in order for the government to operate and provide services to the American people. The Department will collect $2.2 trillion in FY 2004, process 220 million tax-related documents and collect nearly $3 billion in delinquent non-tax debt.

Filing season 2004 was a banner year for the IRS as electronic filing set a record of 60 million returns, an increase of more than 15 percent over last year. Individuals also used their home computers in record numbers to prepare and E-file tax returns--over 14 million returns, a 21.7 percent increase. Tax professionals using e-filing jumped over 15 percent, with 41.7 million filing electronically. In its second year, "Free File," the public-private partnership between the IRS and a consortium of tax software companies, was utilized by 3.4 million taxpayers, a 26 percent increase from last year. These trends will help IRS move towards its goal of 80 percent of individual returns filed electronically by 2007.

For the FY 2004 Filing Season, the IRS processed over 121.4 million individual returns, issued approximately 90 million refunds totaling $184.2 billion, and representatives answered over 22.1 million telephone calls. Fewer taxpayers heard busy signals and proceeded directly into the system–the average wait time is down 30 percent from 2002. For the 2004 filing season, taxpayers received correct responses to 79 percent of tax law questions and 88 percent of account questions.

Customer service continues to be a key focus of the IRS. Customers are using e-filing, up 26% in two years, and taking advantage of the toll free service, up 28%, as demonstrated in the following table.

Taxpayer Service Measure	FY 2002	FY 2004	Change
Toll Free Level of Service	68 %	86 % *	26 %
Individual Returns Filed Electronically	36 %	46 %**	28 %

* Year-To-Date ** Projected

The automated under reporter program annually reviews 3 million returns, matching Forms 1040 against third party reported information such as Forms W-2 and 1099. Closures in the matching program are running 14 percent higher through April 2004 than in the same period one year ago, and would increase substantially in FY 2005 under the FY 2005 President's Budget. Criminal investigations are running 16 percent ahead of the prior year and will trend higher through FY 2005. Compliance contacts with tax exempt and government entities are 3 percent ahead of FY 2003, and will trend significantly higher in FY 2005 with process improvements and additional resources.

Enforcement Measure	FY 2002	FY 2004**	Change
High Income Individual Audit Coverage Rate	0.86 %	1.07 %	24 %
Delinquent Balance Due Cases Closed	1,675,126	2,128,000	27 %
Criminal Investigation Cases Closed	3,201	3,842	20 %

** Projected

Each year, more taxpayers choose to pay their federal taxes electronically using the Electronic Federal Tax Payment System (EFTPS), a joint project of the IRS and FMS. EFTPS offers businesses and individuals the convenience of making federal tax payments electronically 24 hours a day, seven days a week, using internet, software or telephone to check and schedule payments throughout the year. Paying taxes using EFTPS is 19 times more accurate than the paper system, cutting down on filing problems later on. Currently, 4.7 million Taxpayers are enrolled and using the system. Such systems not only allow IRS employees to address other matters; but, they also improve accuracy as the data does not need to be re-keyed into the system.

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

Community-based partners and coalitions form one of the key components of the IRS' outreach strategy. These groups include the United States Armed Service, the United Way, numerous city and state governments, and local organizations. Nearly two million tax returns for low-income families were prepared in 2004. In addition, the Department made more than 74 million taxpayer contacts with Earned Income Tax Credit educational products and messages.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the maximum child tax credit and directed that taxpayers receive the increase in the credit during the summer of 2003, rather than waiting until they filed their 2003 returns. In 2003, the Department issued nearly 24 million child tax credit checks totaling over $14 billion. 23 million of the child tax credit payments were concentrated in a three week period with no disruption to the annual check disbursing workload of nearly 930 million payments in 2003.

Over the past nine months as part of its Business Systems Modernization program, the IRS has been introducing a number of E-Gov services on the Internet for tax practitioners and other tax advisors known collectively as E-Services. Specifically, these services include application for E-Services, Electronic Return Originator application, Disclosure Authorization application, Preparer Tax Identification application, Electronic Account Resolution, Taxpayer Identification Matching, and Transcript Delivery. These services were initially developed to encourage e-filing from the practitioner community as there is a requirement that a practitioner file at least 100 returns electronically to be eligible. E-Services also serves to integrate all information about external E-filers across the IRS. This serves as a platform for the modernized E-file project.

The Department achieved major milestones in its strategy to curb abusive tax shelters. The IRS and Treasury have addressed 31 abusive transactions in formal guidance, and have put in place regulations that significantly improve the IRS information about potentially abusive transactions and those that promote them. The IRS has dramatically increased civil and criminal investigations of the professional firms and individuals who promote tax shelters or inappropriately provide legal opinions on the merits of these shelters. The IRS has also worked with the Department of Justice on summons enforcement actions to obtain investor lists for follow-on examinations and successfully challenged inappropriate claims of attorney-client privilege. In addition, the Office of Professional Responsibility has been doubled in size and strong new leadership has been put in place. The IRS has administered four global resolution strategies, most recently related to the "Son of Boss" tax shelter. Finally, to more aggressively address abusive cross border activities, the tax commissioners of Australia, Canada, the United Kingdom and the United States have created a Joint International Tax Shelter Information Center (JITSIC) which will begin operations in Washington, D.C. in October.

In reviewing the 2002 tax filing season, the Treasury Inspector General for Tax Administration (TIGTA) identified over 600,000 taxpayers who appeared eligible for, but did not claim, over $230 million in Additional Child Tax Credits. The names were given to the IRS, who notified the affected taxpayers; the following year 78 percent of them took advantage of these credits. In FY 2003 alone, TIGTA's audit work identified cost savings of almost $2 billion and $7.2 billion in increased or protected revenue, and positively impacted over 47 million taxpayer accounts. Essentially, these regulation efforts ensure savings to both the government and the public.

TIGTA investigates misconduct and criminal activities to ensure the integrity of the IRS. In FY 2003, over 36 percent of IRS employees were briefed on employee integrity issues, surpassing the goal of 33 percent. Also in FY 2003, investigative casework resulted in financial recoveries of $33 million.

Disbursements

In addition to such massive collection operations and their oversight, the Department will make more than 950 million payments totaling $1.7 trillion (non-defense) in FY 2004. These payments take many forms, including the more than 110 million special tax checks issued by Financial Management Service (FMS) and $10 billion in state fiscal relief payments made by that same division.

In 2001, FMS issued more than 86 million advance tax checks totaling more than $36 billion, with more than 84 million checks issued during a 10-week period from July to September. These advance tax payments were made as part of the Economic Growth and Tax Relief Reconciliation Act of 2001. The 86 million checks represented about one-third of FMS' annual check disbursing workload. FMS issued these advance tax checks while continuing to issue social security, supplemental security income, veterans' benefits, railroad retirement and vendor payments accurately and on time. By effectively and efficiently managing government payments, many government services continue to be delivered. This is in accordance with President Bush's principle that government should be citizen-centered, not bureaucracy-centered.

Tax refunds are another major source of payments. Refunds may now be tracked by taxpayers who are set to receive them. A new "Where's My Refund" internet-based service was added for taxpayers to check the status of their refunds on-line. As of June 3, 2004 13.6 million customers have successfully received their refund information through the "Where's My Refund" web site. This is a 25.4% increase over the same period in 2003.

In 2003, FMS issued nearly 24 million child tax credit checks totaling $14.2 billion. Like the advance tax payments, 23 million of the child tax credit payments were concentrated in a three week period with no disruption to the annual check disbursing workload of nearly 930 million payments in 2003.

In 2003, FMS also issued $10 billion in fiscal relief payments to the 50 states, the District of Columbia and five commonwealths and territories. A total of $10 billion was disbursed in FY 2003 and FY 2004. The states were to use the funds for essential government services or to cover the costs of complying with federal intergovernmental mandates.

The Office of D.C. Pensions developed and implemented the first two of three major components of the System to Administer Retirement (STAR), a pension payroll system to improve processing time and accurately determine Federal benefit payments. The Office of D.C. Pensions completed several major benefit administration projects to correct District errors in benefits administration and to implement legislative changes. This includes the application of statutory purchase of service provisions for judges; post-1956 military service and minimum survivor annuity provisions for police and firefighters; and a survivor benefit election provision for teachers. The Office also completed, and distributed to annuitants and active employees, comprehensive rewrites of Summary Plan Descriptions (SPD's) containing up-to-date, accurate and comprehensive information on plan benefits for each of the three retirement programs.

Cost Control

With so much activity in collecting and disbursing financial resources, it is important that the Treasury Department controls and minimizes costs. Maximizing taxpayer dollars by reducing duplicative administrative functions and promoting efficiencies in the delivery of administrative products and services is partly accomplished through the Franchise Fund. Using the Administrative Resource Center (ARC), a Treasury Franchise Fund business, the Department has consolidated ten Department entities including accounting, procurement, human resources and travel, into one platform. Simply by avoiding the development and maintenance of multiple accounting systems the Department realizes a $50 million savings, based on conservative estimates. To date, ARC has consolidated platforms for over 26 total entities across the government.

In addition to the financial savings, there are many compliance improvements and efficiencies that the Department has achieved with assistance from the Franchise Fund. Prior to the consolidation, many systems were not Joint Financial Management Improvement Program (JFMIP) compliant, integrated or web-based. Today, each of these entities stays compliant. These entities can now meet accuracy and timeliness reporting standards. In addition to the Franchise Fund's own seven straight clean audit opinions, ARC has helped achieve 34 other clean audit opinions for its customers over the last six years.

Production

Another major business within the Treasury Department is the production of money. The Department oversees the two bureaus that make money: The U.S. Mint and the Bureau of Engraving and Printing (BEP). The operations of these two entities are quite involved.

The U.S. Mint is reinvigorating coinage as a messenger of national values and as objects of national pride both at home and aboard. They are pervasive reminders of America's identity.

In the spring of 2004, the U.S. Mint introduced the first redesigned nickel in 66 years to commemorate the Lewis and Clark expedition and the Louisiana Purchase. The U.S. Mint is also continuing its ten year 50 State Commemorative Quarter program, issuing new obverse designs every ten weeks to honor each state. Coin redesign is a primary objective under the U.S. Mint's goal to design, sell and deliver quality products. Coin redesign of the quarter and the nickel has substantially increased production and revenues. Nickel production is expected to be 50 percent above historic levels during the Westward Journey Nickel Series as the public collects this circulating commemorative coin. Current forecast is 2.2 billion and 1.6 billion nickels for FY 2005 and FY 2006, respectively, an 800 million-unit increase from historic levels. The increased demand will generate an additional $40 million in revenue.

Another new initiative for the U.S. Mint is their partnership with the National Endowment for the Arts (NEA), the first time the two have collaborated. The partnership has created a pool of 20 accomplished artists and 20 college-level artists who will be invited to submit drawings for new designs for selected projects, and continue the U.S. Mint's efforts to give coinage a new look for the 21st Century.

The U.S. Mint is transforming its operations to world-class status through lean manufacturing and improved strategies to increase efficiency and cut costs. In two years, the U.S. Mint has reduced its cycle time to 92 days, a 363 day improvement, nearly doubled inventory turns to 2.5 per year and reduced direct production costs by 18 percent.

The U.S. Mint has also achieved customer satisfaction. The American Customer Satisfaction Index (ACSI) score of 89 for the U.S. Mint in 2003 was the highest of any government agency and second highest of all entities evaluated, both public and private. The high score reflects world class customer service, rapid order delivery and high product quality.

The Bureau of Engraving and Printing (BEP), a sister agency to the U.S. Mint, also makes money, in the form of paper currency. In FY 2003, the BEP made eight billion paper notes.

BEP has been running presses since 1861, and now the face of paper currency is changing. Recently, the BEP introduced a new, multicolor $20 note. This new design incorporates a state of the art anti-digital counterfeiting system. Efforts such as this allow the BEP to follow its mission to serve as the government's most secure and efficient source of vital government securities.

The $20 note began circulating on October 9, 2003, as part of the government's ongoing effort to stay ahead of counterfeiting and maintain worldwide confidence and trust in U.S. currency. The redesigned $20 bill was the first in the Series 2004 currency designs, which include enhanced security features and subtle background colors. The next note in the series, the $50 note, was unveiled at the BEP's Western Currency Facility in Fort Worth, Texas on April 26, 2004, and will be issued later this year. It will be followed by a redesigned $100 note.

The end-products of the BEP circulate daily throughout the nation. Yet, behind it all is an intense design and manufacturing process comprised of 65 separate and distinct steps. To ensure quality, BEP has obtained ISO-9001 Quality certification. ISO, the International Organization for Standardization, is a non-governmental organization which implements standards to ensure quality, safety and reliability in manufacturing.

Debt Management

Debt management is yet another essential responsibility of the Treasury Department. Integrating innovative technology and sound debt management, the Department seeks to borrow the funds needed to operate the government at the lowest cost.

The Bureau of the Public Debt (BPD) conducts the federal government's borrowing operations by selling Treasury bills, notes, and bonds, as well as U.S. Savings Bonds; paying interest to investors; and, when the time comes to pay back the loans, redeeming investors' securities. BPD conducts approximately 200 debt auctions annually and sells U.S. savings bonds through its internet-accessed TreasuryDirect system and at most financial institutions across the country.

In addition, through leveraging new electronic commerce technology, BPD implemented significant auction automation improvements, resulting in the consistent release of securities auction results within two minutes after the close of an auction. This change substantially reduces the period of uncertainty for bidders and produces more aggressive bidding, lowering the Department's borrowing costs. Auction automation improvements also enable all bidders to submit their bids via the internet.

Financial Management

The Treasury Department manages the financial affairs of the entire government. It tracks how the government receives and spends its resources and prepares government-wide financial statements that are accurate, reliable and timely.

The published information is based on data submitted by Federal Reserve Banks, Treasury Regional Financial Centers, Internal Revenue Service Centers, the Bureau of the Public Debt and various electronic systems. Financial Management Services (FMS) performs this function. On a daily basis, FMS keeps record of the Treasury Department's financial position and prepares a Treasury Statement. This document summarizes the Department's cash and debt operations for the government.

The Treasury Department, through the Office of the Fiscal Assistant Secretary (OFAS), has issued the Financial Report of the United States Government on time every year since it was first required in 1997. In 2003, the Department issued the report in February, one month earlier than in previous years. Significant enhancements have been made to the quality of the report including a much improved Management Discussion and Analysis section. This section includes a government-wide summary of all significant liabilities and commitments currently identified by accounting standards, such as future commitments of major social insurance programs. In addition, a new preparation process is nearing completion which should help resolve several audit findings including the material weakness relating to consistency of agency reported amounts with the consolidated report.

The Treasury Department has participated in setting government-wide accounting standards. One new standard required that National Defense Assets be recorded as fixed assets. This resulted in the capitalization of over $1.1 trillion in military hardware.

Oversight & Policy

The Treasury Department instills confidence among stakeholders in the American banking system by overseeing financial institutions and ensuring that they abide by applicable regulations. The system is credible, in large part, thanks to the Department's efforts.

The Office of Financial Institutions Policy (OFIP) is responsible for promoting and developing policies that impact all aspects of the operations and regulation of financial institutions. Recently, the OFIP played an instrumental role in encouraging the government sponsored enterprises to commit to providing enhanced disclosure to their regulators as well as the American public.

As of March 31, the Office of the Comptroller of the Currency (OCC) supervises 2,060 national banks and $4.4 trillion in total assets, and 51 federal branches of foreign banks in the U.S. and $83.5 million in total assets. Working with the Department of Defense and the Federal Reserve, the OCC developed a process to pay Iraqi civil servants, pensioners and essential personnel in cash (U.S. dollars) using Iraqi assets. The vested assets were deposited in an account at the Federal Reserve Bank of New York, and payments from this account helped to support the Iraqi economy. Through October 2003, nine cash shipments of vested assets totaling approximately $1 billion were made from the U. S. to Iraq; over 1.5 million pensioners, civil servants and essential workers received emergency and salary payments.

Another bureau under the Treasury Department, the Office of Thrift Supervision (OTS), oversees 923 thrifts and $1.16 trillion in total assets. OTS also supervises over 900 savings and loan holding companies in 500 corporate structures.

OTS strives to provide timely and efficient technological assistance and solutions to examiners and the industry to meet regulatory responsibilities and enhance communication channels. The OTS web site includes a free service that provides subscribers with an e-mail alert when new material is posted to the site. OTS also offers the web site bulletins and handbooks on a compact disk as an annual subscription. OTS has installed virtual private network software on the examiners' notebook computers to enable them to securely access OTS Systems and data over high-speed, broadband connections from OTS-regulated institutions or other locations. In May 2004, OTS implemented a service to enable the exchange of encrypted messages and documents directly with institutions. The OTS Secure Messaging Center service meets the industry standards for secure electronic data exchange and facilitates the timely transmission of sensitive data and information.

In FY 2003, Office of the Inspector General (OIG) issued 116 audit and evaluation reports, which identified monetary benefits totaling $5.1 billion, including $1.5 billion related to divested programs and $3.6 billion related to programs remaining with the Treasury Department. This represents the highest monetary benefits resulting from audits in the history of the OIG and represents a return on investment of over 140:1. Additionally, OIG issued the audit report on the Department's FY 2002 consolidated financial statements on November 15, 2002, which was two and one-half months ahead of the financial reporting deadline established by OMB. This audit was recognized with the Alexander Hamilton Award, the highest form of recognition by the President's Council for Efficiency and Integrity.

From FY 2003 to present, OIG has adjudicated 3,104 hotline complaints, initiated and concluded 402 cases and successfully prosecuted 40 individuals and companies. From a crime prevention perspective, OIG has delivered fraud and integrity awareness briefings to deter wrong-doing. Finally, OIG has conducted several quality assurance reviews or spot checks achieving not only compliance with applicable policy and procedures, but revised new practices that mitigate or remove operational vulnerabilities.

2.0 PMA Results

2.1 Human Capital

Current Status: Red

Progress in Implementation: Green

The Department published its first Human Capital Strategic Plan (HCSP). One objective of this plan is to ensure workforce planning at the Department level. Workforce planning is seen as a key element in aligning the workforce with new and changing business needs. The Department will build a workforce profile and workforce supply by identifying products and services, job series needed to provide them and critical competencies needed by employees. Additionally, the Department will determine current and future occupation demand and business requirements, conduct workforce gap analysis and close the gaps. These efforts should ensure that workforce planning is an ever-present component of the Human Capital Strategic Plan.

To manage human capital, the Department has examined business drivers, such as the modernization and innovation in technology, which requires new competencies within the workforce. For example, the overhaul of the tax system will require changes in both the culture and skill requirements of IRS employees. Another business driver is the need to ensure superior customer service in order to withstand public scrutiny. Employees must perform their jobs with integrity and ethical behavior, which in turn instills confidence among citizens and stake-holders. Yet another business driver is efficiency and accountability as the Department aims to continuously improve internal business operations. The HCSP will be used to measure progress toward meeting human capital goals and ensure the effectiveness and efficiency of human capital programs across the Department. Treasury has a need for increased agility in recruiting and training to confront new product and service needs generated by changing market conditions, evolutions in the national banking industry, industry consolidation and legislation.

The Department’s Senior Executive Service (SES) performance management system ensures that individual executive performance plans align to strategic and business plans, differentiate between levels of performance and provide consequences for high and low performers. In the near future, teams will formulate a project plan to develop a performance management system that cascades qualities of the SES performance management system to managers at the GS-14/15 levels. The Department has completed a draft Human Capital system for accountability, which is a companion document to the HCSP, and anticipates finalizing and publishing that document by the end of FY 2004.

Integrating E-Government initiatives and human capital objectives, a plethora of information is now available to managers and directors within the Department. Available on-line are a Knowledge Management Tool, guidance on Workforce and Succession Planning and a matrix of executive learning programs aligned with executive core qualifications from the Office of Personnel Management (OPM). A guide on human capital hiring flexibilities has also been distributed. These systems are helping the Department to manage people well.

One step in managing people well is to manage the right people. CareerConnector, a paperless recruitment system, aids the Treasury Department in attracting the brightest and best people. All people have unique characteristics, qualities, skills and abilities. The comprehensive Treasury Diversity Strategy ensures that the workforce is a heterogeneous combination of Americans.

Within the Department's bureaus there have been Human Capital successes as well. In 2003, TIGTA was awarded the Commuter Connections Employer Recognition Award for its Telework program. In fact, 89 percent of TIGTA employees participate in the program. In the employee survey on the "Best Places to Work in the Federal Government," TIGTA ranked number two in the Work/Life Balance category and number nine in the Family Culture and Benefits category.

These human capital efforts and accomplishments progress towards the vision of making the Treasury Department an exciting and attractive place to work by offering employees the opportunity to use their full potential in support of the Department's stewardship of the U.S. economy.

Treasury's challenge of moving to green is linking performance appraisals to results and better differentiating between levels of performance. Treasury is carefully implementing a strategy to overcome this challenge, ensuring compliance with Title Five and working with union representatives. Other challenges include workforce planning and accountability; the solution is largely the implementation of the Human Capital Strategic Plan.

2.2 Competitive Sourcing

Current Status: Yellow

Progress in Implementation: Green

The Treasury Department is strengthening its commercial operations and the productivity of its work environment through the smart application of competitive sourcing (i.e., public-private competition).

Success has been realized as the IRS, for example, developed a methodology to assess which commercial activities have the potential to create significant business process improvements and a sizeable return on investment. IRS crosswalks data in its Federal Activities Inventory Reform (FAIR) Act inventory with personnel staffing data to identify logical groupings of commercial functions within or across business divisions. Business case analyses are presented to the Strategy and Resources Committee, headed by the Deputy Commissioner of Operations, which then decides what activities are effective candidates for public-private competition. Competitions have successfully been conducted, or are being pursued, for activities such as tax form distribution, tax records processing and storage, information technology support, and building operations and maintenance. IRS' strategic approach to competition has been cited as a best practice in reports by the Government Accountability Office (GAO) and the University of Maryland.

The primary challenge in achieving green is completing studies in a timely manner. Treasury typically studies very large entities, such as the IRS. This complexity means studies take approximately 18 months to complete. However, as Treasury becomes more experienced at doing competitive sourcing, and as the learning curve levels and efficiencies are gained, Treasury will be able to shorten the time-to-completion.

2.3 Financial Integrity and Performance

Current Status: Red

Progress in Implementation: Yellow

On its way to meeting the PMA, Treasury has received a "clean" opinion on its consolidated Department-wide financial statements for the past four years. Significantly, during this period, every bureau subject to a stand-alone financial statement audit also received a clean opinion. This performance validates the integrity of financial information. It is important to note that the Department received a disclaimer of opinion on the Financial Report of the United States Government.

Behind the scenes but equally important, for the second year the IRS met the Secretary's objective of completing its financial statement audit within 45 days after the close of the fiscal year for the FY 2003 audit, three and one-half months earlier than the previous year, and retained its "clean" audit opinion. The Treasury Department and IRS achieved the goal two years ahead of OMB's mandate to do so by closing the monthly books correctly within three days after the end of the month, rather than the 16 days it had previously taken.

The successful three-day close, at the end of each month, makes the information the Department publishes timely and useful to decision makers. For the past two years, the Department has met OMB's accelerated deadline of November 15 for submitting both its audited financial statements and its consolidated Performance and Accountability Report (PAR). Through extensive coordination with auditors, bureau representatives and other parties, the Department has reduced the year-end reporting process from five months to six weeks, ensuring that management's decision-making is based on current financial information and therefore able to face challenges as they arrive.

The Treasury Department has been equally successful in reducing the inventory of material weaknesses. Material weaknesses are management and operational shortcomings of sufficient magnitude to threaten the organization's ability to accomplish its mission effectively or to capture and accurately report program and performance information. The Department established a baseline of 60 material weaknesses at the end of FY 1998, and this had been reduced to nine weaknesses at the end of FY 2003. Significantly, the closures of material weaknesses at the end of FY 2003 included one on property management at the IRS, which had been on the books since 1983. Moreover, for the first time since 1984, the Department reported no new weaknesses at the end of FY 2003. This latter accomplishment is indicative of a change in the corporate control culture, whereby small problems are being resolved before they can evolve into larger ones. The high level of accuracy and reliability in financial information is attributable to senior officials' support, accountable managers and a strong management control environment.

The main challenge is reaching compliance with the Federal Managers' Financial Integrity Act (FMFIA), as the Department currently needs to address nine material weaknesses. Overcoming material weaknesses entails implementing the Custodial Accounting Project (CAP), an information technology solution, planned for October 1, 2007. Unlike other agencies, Treasury collects nearly $2 trillion per year on behalf of government, which is known as custodial accounting. A complex information technology solution is required, so it is important for the Department to cautiously approach this goal. On balance, financial information is very reliable. The 3-day close enables Treasury to make timely decisions with financial information and identify problems and remedy them.

2.4 Budget and Performance Integration

Current Status: Red

Progress in Implementation: Yellow

The Treasury Department has integrated budget and performance information. The inception of its strategic plan in September, 2003, has allowed this to take place. All budget performance information is aligned to the strategic plan, using proper measures to gauge success. The performance information is then used to make decisions on a regular basis. The Department has been successful with the Performance Assessment Rating Tool (PART), which has been developed by OMB in an effort to assess the effectiveness of federal programs and keep management informed. For FY 2005, the Department submitted a fully integrated performance budget with PART information and action items to Congress. Combining this information enables the Department to better justify requests and therefore, improve service. In addition, the Department has used its FY 2003 Performance and Accountability Report, completed on November 14, 2003, to help measure successes and guide the Department into the future.

One endeavor is the development of a new budget structure that will facilitate performance-based budgeting at the IRS. The new structure relates to the IRS mission and strategic goals. Employees throughout the IRS provided input during the restructuring process, giving all of IRS a sense of ownership on this project. This team approach accomplished three objectives: the system is effective for all, easy to transition to and maintain, and supports the PMA.

Budget and performance integration is highly important. It allows the Department to monitor its status and keep executives abreast of the Department's current situation. The Department is able to see if it is following its strategic plan and ultimately, if it is meeting the financial needs of the United States.

Improving the performance appraisal system, discussed in the Human Capital section, is a recurring issue for this agenda item, contributing to the red score. Treasury's other challenges on achieving green include coming to a workable agreement on the IRS budget structure that will enable Treasury to report the full cost of achieving performance goals, and working to ensure that the appropriate senior managers are reviewing key performance information to make decisions.

2.5 E-Government Initiatives

Current Status: Red

Progress in Implementation: Yellow

Throughout the Department's operations and within each of the other PMA initiative are examples of e-government initiatives, demonstrating the Department's commitment to using advanced technology to improve processes.

In support of the Department's strategic goal of managing the U.S. Government's finances effectively, BPD has introduced innovative technology that has improved operational efficiency and lowered the costs of managing the nation's borrowing activities. A highly successful process of rapid application development is enabling BPD to offer the public a paperless way to invest in Treasury securities through TreasuryDirect, an internet-based investment account system that was launched in 2002. Investors can already purchase bonds and establish investor accounts online, granting customers 24-hour, instant access to their account information. Later this year, BPD plans to expand TreasuryDirect services to allow investors to convert existing paper savings bonds to electronic form, which will ease portfolio management. By reducing paper transactions and servicing customers directly instead of through other agents, TreasuryDirect is making government investments more simple and citizen-centered.

The Treasury Department and FMS continue to be government leaders in E-Commerce, bringing about new collection technologies to aid the taxpayer. Pay.gov is a government payment portal that allows citizens, businesses and federal agencies to conduct business over the internet, and has processed more than 743,000 transactions and collected $11.6 billion between October 2000, and the end of May 2004. Paper Check Conversion (PCC) has processed more than one million transactions valued at $740 million, and has reduced the government's collection costs by converting at point of sale tens of millions of paper checks into electronic collections, eliminating paper processing and check deposits, and accelerating the process of receiving payments.

In May 2003, the Alcohol and Tobacco Tax and Trade Bureau (TTB) launched Certificate of Label Approval (COLA's) Online. COLAs Online is a TTB electronic-government initiative system that lets users electronically file applications (eApplications) for Certificates of Label Approval. TTB is currently processing over 100,000 label applications per year. The COLAs Online system provides industry members with a streamlined, expedient and paperless means to obtain a COLA and provides a means for TTB to review applications electronically.

The Department is currently working on various projects to work towards full implementation of the PMA. One example is the training of managers on IT security. Additionally, Treasury is working on a Critical Infrastructure Protection Plan and a plan to meet Chief Information Officer IT project manager guidance.

The Department is on-track to meet the long-term goals established for the e-government initiative. Certification and accreditation is a federally mandated standard process to insure that information systems meet and maintain documented security requirements throughout their system life cycle. The Department is working to obtain certification and accreditation of 80 percent of IT systems; currently 79 percent of systems are at this level and the goal should be accomplished by September 30. Current efforts are intended to exceed 90 percent certification and accreditation by next year. One primary challenge in this area is the need to improve business cases for new IT investments.

3.0 Future Results

The Department of the Treasury aims to continue its trend of setting goals and meeting them in the future.

BPD, for example, is taking steps to achieve an all-electronic securities environment. Systems and transactions involving marketable debt instruments have been automated for years, but savings bonds are still issued in paper form. In the early days of the program, bond issue, record keeping and redemption activity was entirely dependent on paper. Over the years, the Department has employed successive generations of automated technologies to streamline processing to control administrative costs. Moving to an electronic platform for savings bonds will allow the Department to reposition them within their family of retail products to respond to investors' needs and to achieve our goal of financing the needs of the federal government at the lowest cost over time.

The IRS seeks to improve taxpayer service by helping people understand their tax obligations and making it easier for them to participate in the tax system. IRS also wants to ensure taxpayers meet their tax obligations, so that when Americans pay their taxes, they can be confident their neighbors and competitors are also doing the same.

To achieve these strategic goals, IRS must re-center to provide the proper balance of service and enforcement and be poised to meet customer expectations and respond quickly to technological and demographic changes.
FMS is focusing on the continued use of the Electronic Federal Tax Payment System (EFTPS) and other electronic collection mechanisms to increase electronic collections and reporting.

These efforts improve service to payment recipients and reduce government program costs by decreasing the number of paper checks issued and minimizing costs associated with postage, and the re-issuance of lost, stolen, and misplaced checks, and inefficiencies associated with the non-electronic delivery of benefits.

FMS is focusing on incorporating all non-Treasury disbursed salary and vendor payments into FMS' offset programs for collecting delinquent debt; continuing to roll out Debt Check, FMS' program to help agencies bar delinquent debtors from obtaining new loans or loan guarantees; continuing development of a single interface to FMS systems which will include replacing the existing cross-servicing system; and continuing enhancements to mission-critical systems to provide better service to agencies that refer debts for collection.

In FY 2006, a key strategic issue for TTB is reducing the taxpayer burden through the pursuit of electronic government initiatives. The bureau's "Collect the Revenue" strategy recognizes the effectiveness that can be obtained by providing the option of electronically filing tax returns, reports, applications, claims and other related forms and documents. Also key to collecting all the revenue rightfully due is a field audit and investigations program, which encourages voluntary compliance by taxpayers. Having a balanced field approach that uses analysis to target non-compliant industry members and that involves an identifiable presence before all industry members, from time to time, helps ensure voluntary compliance. Another key tactic supporting the "Collect the Revenue" strategy includes the application of statistically validated and state-of-the-art methods to measure and analyze compliance with tax law, and to identify any gaps in tax payment. These include implementation of electronic means to file tax returns, make payments and submit operational reports through Pay.gov. These systems will also allow for both online and hardcopy reconciliations using Discoverer software. Successful analysis, evaluation and monitoring will allow for a more effective and efficient use of the limited field resources.

Also at TTB, the Federal Excise Tax sampling and risk assessment strategies will target the audit staff resources on those taxpayers based on size of taxpayer collections (large taxpayer), high-risk assessments and sound application of statistical sampling techniques. The large taxpayers, roughly 400, account for 95 percent of the Federal excise tax collections. The objective is to audit this entire group of taxpayers on a four to five year cycle. The large taxpayer audits will take place in the following industries: Distilled Spirits Plants, Breweries, Wineries, Tobacco Products Manufacturers, and Firearms and Ammunition. The remaining taxpayers who account for roughly five percent of the Federal excise tax collections will be selected for audit on the basis of risk and random sampling.

These endeavors will lead the Department to meet success in the future, just as it is currently doing.

4.0 Conclusion

The many functions of the Department of the Treasury have been well-established and demonstrate its accomplishments in promoting the nation's economic well-being, managing the government's finances and ensuring the integrity of financial information. Supporting the conditions for prosperity and stability in the United States and the rest of the world, the Department serves as the steward of U.S. economic and financial systems. All Americans, as well as many of the world's citizens, are affected by its efforts. Since 1789, the Treasury Department has been serving the financial needs of this great nation and intends to do so into the future.

Working with the President's Management Agenda has allowed the Treasury Department to achieve success and its employees to be proud of the work they do.